This sector briefing is one of the ways that we see as supporting you and your organisation in an environment that is constantly changing and evolving. It covers issues which may have an impact on your organisation, the health sector and the audits that we undertake.

The public sector audit specialists in EY’s national Government and Public Sector (GPS) team have extensive public sector knowledge which is supported by the wider expertise across EY’s UK and international business. This briefing reflects this, bringing together both technical accounting issues relevant to the health sector and wider matters of potential interest to you and your organisation.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing, as well as some examples of areas where EY can provide support to new and existing NHS bodies.

We hope that you find the briefing informative and should this raise any issues that you would like to discuss further, please do contact your local engagement team.
Government and economic news

EY Item Club forecast

In its latest quarterly forecast (Winter) the EY Item Club highlights that what it terms the UK consumer’s ‘holiday’ from inflation and austerity in 2015 is expected to continue well into 2016, aided by the sharp fall in oil and other commodity prices, and the Chancellor’s change of heart on working tax credits.

Whilst the global situation is clearly fragile, the UK is seen to be well placed to ride out the storms. Growth is expected to increase from the revised 2.2% in 2015 to 2.6% this year, being supported by low inflation and interest rates. The CPI is forecast to increase by just 0.7% and they do not expect the Bank of England Monetary Policy Committee to increase bank rate until late in the year.

Looking further forward, the forecast is for inflation and austerity to return, with GDP growth of 2.3% in 2017 and 2.2% in 2018 and consumer spending growth dropping from 2.8% in 2016 of 2.1% in 2017 and 1.7% in 2018. Highlighted as impacting on this are the increasing taxes and levies on consumers and companies, and the roll-out of Universal Credit (which will claw back this Autumn’s concessions to low earners). Inflation is expected to increase to 1.8% by 2018, remaining below the MPC target until 2019.

Continuing uncertainty over the EU Referendum could potentially hit business investment this year, as businesses wait to see the result, but momentum in the UK and other economies is seen as supporting capital spending this year.

Spending Review and Autumn Statement 2015

The government’s spending review on 25 November 2015 included several announcements relevant to health as follows:

► Providing the NHS in England with £10bn per year more in real terms in 2020–21 compared to 2014–15, with £6bn a year from the first year so that the Five Year Forward View is fully funded, thus enabling it to deliver services seven days a week

► Replacing direct funding for nursing training places with loans, allowing universities to provide up to 10,000 additional nursing training places within the current Parliament

► An extra £1.5bn in the Better Care Fund through local authorities, with the aim of delivering an integrated, local led, health and social care system by 2020

► Local councils being given the power to increase social care funding through a new 2% Council Tax precept

► Investment of £5bn in health research and development, as well as up to £150mn to launch a Dementia Institute

Sustainability of small English hospitals

EY has recently released a report called ‘Survive, strive or thrive?’ that discussed the financial sustainability of England’s small hospitals, where we have defined a small hospital as one whose annual revenue is less than £200mn. The analysis uses publicly available information as at 11 December 2015 and excludes specialist trusts, community trusts and mental health trusts.

As noted in the last audit committee briefing it is forecast the NHS will post a deficit of £2bn for 2015-16. This has since been increased to £2.2bn. Roughly 12% of this deficit comes from small English hospitals despite these hospitals only being responsible
for 8% of NHS revenue. This is because it is forecast that all small English hospitals will end 2015–16 in a deficit position. Only 60% of small English trusts posted deficits in 2014–15 so this is a significant increase.

It is clear in the report that the issues faced by England’s 20 small hospitals are consistent across all regions. Each region is predicting a 2015–16 deficit that is between 108% and 145% greater than the audited deficit of 2014–15. The average deficit per hospital has increased from £11.8mn to £13.7mn. However, whilst the average has only risen 14%, the total forecast deficit for 2015–16 of £273.3mn is nearly double the £141.7mn deficit of 2014–15.

Overall this draws into question the long term sustainability of small English hospitals. The consistency between all small hospitals across England implies that there is potentially very little management could do to prevent having a year-end deficit. It is therefore important to take a holistic approach across England to think how the issue could be resolved. This could range from larger allocations of funding to merging with larger, local Trusts.

Our report includes five central principles that Trusts could adopt to help improve their financial performance. Each principle is then followed by questions that managers should be asking themselves when taking decisions. The principles are:

► Each service must be assessed on its own merit and proven to be clinically safe as well as affordable
► Moving any single service away from the current locality must be specifically justified. Wherever possible, services should be retained locally
► The organisation should work with commissioners to assess how feasible it is to change or develop existing services
► Where change is being considered, its impact on the whole local system must also be considered. Where the impact is judged to be detrimental, a clear mitigation plan must be outlined
► Do not discount short term investment if it will deliver longer term benefits for the local population

Finally we have proposed a five step model for Trusts to consider when contemplating long term sustainability. These are:

► Conduct a full needs-based assessment of the case for change and necessary interventions
► Ensure IT and workforce transformation is considered as a central part of any change programme
► Develop local governance which unites partners around a common goal
► Build a broad consensus around the new model of care before developing specific service delivery options
► Engage national bodies, early, on potential partnering arrangements and changes to organisational form

For further information or for the contact information of those who prepared the report please contact your Engagement Lead.

Digital proposals for the NHS

Following a commission from Health Secretary Jeremy Hunt who asked her to look at ways in which there can be more digital inclusion across the NHS, Martha Lane Fox has made a number of recommendations in a bid to increase take-up of internet enabled services in health and care.

The four key recommendations to the National Information Board were:

► Improving the basic digital skills of the NHS workforce to ensure that they all have the digital skills needed to support people’s health needs

► Reaching the ‘furthest first’ – making sure those with the greatest health and social care needs are included first in any new digital tools being used across the NHS, these are often those least likely to be online

► An ambitious target that by 2017 at least 10% of registered patients in each GP practice should be using a digital service such as online appointment booking, repeat prescriptions and access to records by 2017

► Free Wi-Fi in every NHS building. This is seen as being important to help patients staying in hospital to stay in contact with family, friends and social networks that can provide support. Additionally, it is envisaged that patients will be able to self-monitor their conditions using apps

Digital health tools and information are seen as a way to help people to better manage their health and avoid unnecessary GP visits and hospital admissions. Older people generally lack computer confidence, but have high health and social care needs. For example, it is estimated that 33% of those with registered disabilities have never used the internet.

As well as the benefits to patients, free Wi-Fi is also seen as helping to reduce the administrative burden on healthcare staff (currently estimated to take up to 70% of a junior doctor’s day), freeing up more time to be spent with patients. Furthermore, it is envisaged that it will enable safer working practices, such as e-prescribing which is known to reduce medication errors by 50%.

Public Sector Exit Payment Recovery Regulations

The government is consulting on draft regulations that will give effect to the powers enacted in the Small Business, Enterprise and Employment Act 2015. These regulations allow for the recovery of exit payments following the return of a high earner to the public sector within a year of their initial departure.

Changes made to the policy since the previous consultation include:

► The minimum earnings threshold for individuals subject to the recovery provisions has been lowered from £100,000 to £80,000
The policy has been extended to include qualifying returns to any part of the public sector, rather than only to the same part of the public sector.

Introduction of a tapered recovery period for 12 months from the exit date.

Recovery will now include employer funded pension ‘top up’ payments made under the Local Government Pension Scheme (where applicable).

Public sector organisations that are in scope and those that are proposed to be exempt are included in the draft regulations.

Following this consultation, the regulations will go through Parliamentary scrutiny, and the intention is that the policy will take effect from April 2016.

Value for Money guidance

The National Audit Office (NAO) prepares and publishes Auditor Guidance Notes (AGNs) on behalf of the Comptroller and Auditor General (C&AG). Schedule 6, paragraph 9 of the Local Audit and Accountability Act 2014 (the Act) gives the C&AG power to issue guidance to auditors. All AGNs are publically available on the NAO website. See https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/

AGN 03 was published in November 2015 following a consultation period. It confirms the changes to auditors’ work on Value for Money (VfM) Arrangements starting with 2015/16 audits.

The most notable change in AGN 03 is the removal of a separate conclusion where auditors have not identified weaknesses that are required to be reported. Auditors are still required to carry out sufficient work to satisfy themselves that proper arrangements are in place, but matters will be reported by exception only.

AGN 03 has also changed the criteria that auditors are required to consider when performing their work on the VfM conclusion.

Auditors now have one overall criterion to consider rather than the previous two set by the Audit Commission: ‘In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people’.

To assist auditors the NAO provide three sub-criteria that are intended to guide auditors in reaching their overall judgement:

► Informed decision making
► Sustainable resource deployment
► Working with partners and other third parties

However, these are not separate and auditors are not required to reach a judgement against each one.

Full information on all of the above can be found within AGN 03. See https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/

Better Care Fund: Six months on

The Healthcare Financial Management Association (HFMA) and the Chartered Institute of Public Finance and Accountancy (CIPFA) have published a report ‘The Better Care Fund – Six Months On’, based on the results of a joint survey of finance staff from NHS bodies and local authorities representing almost a third of BCF sites.

The main findings were that:

The new arrangements have been positively embraced by Health and social care communities, with around half of them pooling more money through the BCF than the minimum required. It highlights the positive impacts of BCF in producing improved
working relationships between local public services and NHS bodies, and it is seen to have led to investment in innovative ways that respondents felt would not have taken place otherwise.

Positive responses were countered by some negative feedback; specifically focusing on complicated governance and what was seen by respondents as unrealistic Government expectations of what can be achieved. In respect of governance, arrangements were seen to be complicated due to the number and variety of bodies involved and no one preferred method of setting up and accounting for the flow of funds has emerged.

HFMA and CIPFA have called upon the Government to:
- Simplify and streamline the administrative and monitoring arrangements of the BCF prior to the start of the next financial year
- Ensure maximum interaction between BCF and the emerging programme of devolution — this being seen as likely to prove the most sustainable model for taking forward large scale integration
- Use the lessons learnt from the BCF in plans for full integration of health and social care to be implemented in 2020


Diversity in the NHS

Recent research demonstrates that very little progress has been made in the past 20 years to address discrimination against black and minority ethnic (BME) staff in the NHS. There is evidence too of discrimination experienced by many other groups including women, lesbian, gay, bisexual and transgender (LGBT) staff, people with disabilities and religious groups.

As a result of this research, the King’s Fund was commissioned by NHS England to assess the scale of the discrimination problem within the NHS. Their research uses data from the 2014 NHS Staff Survey and draws on wider work on climates of inclusion to suggest strategies for change.

Overall, levels of reported discrimination in the NHS Staff Survey vary significantly by type of trust, location, gender, age, ethnicity, sexual orientation, religion and disability status, but some highlighted trends were:
- Staff with disabilities report very high levels of discrimination, levels being higher than any other of the protected characteristics groups
- People from all religions report experiencing discrimination on the basis of their faith, (but reporting is by far the highest amongst Muslims)
- All non-white groups are far more likely to report experiencing discrimination than white employees
There are obvious caveats in that the results are based on a staff survey with only a 42% response rate, and some staff chose not to respond to some of the questions, particularly those relating to sexual orientation and religion. Nevertheless, the authors see the results to be a good indication of reality in the NHS.

The report outlines highlights key areas for attention at all levels from the Individual to National that need to be in place at all levels, such as:

- **Individual** – training programmes in which participants agree a number of specific goals for their behaviour and attitudes and behaviours, with associated review of progress, have better results than those that focus on simply educating participants

- **Teams** – most discrimination is seen to occur within teams, and this is the level where the opportunities to bring about change are seen as being most effective. The approaches likely to have the greatest benefit are those that encourage inclusion and value different perspectives

- **Organisations** – it is seen as vital that effective diversity management policies, practices and procedures are in place; the report highlights how this can develop and reinforce equal employment via approaches to areas such as recruitment, promotion, appraisals, etc

- **National** – the report suggests that the NHS should set national standards around developing cultures of diversity and inclusion for all health and social care organisations

The report highlights that experience of discrimination damages the health, well-being and quality of work life of those staff affected. Research also shows that staff who are demotivated or demoralised will influence the care experience for patients. Furthermore, if staff experience discrimination as a result of their identity, it is seen as highly likely that patients from these groups will similarly experience discrimination.

In November 2015 Monitor, the TDA and NHS England released a draft consultation called ‘Freedom to speak: whistleblowing policy for the NHS’. The aim is to create a single, national whistleblowing policy for all NHS organisations in England. This is why it has been prepared collectively by the three bodies. Responses needed to be received by 8 January.

It follows the review of whistleblowing in the NHS by Sir Robert Francis QC; one of his recommendations was for a single national whistleblowing policy to help normalise the raising of concerns. The Department of Health and its arms-length bodies have accepted this and the other recommendations in principle.

The proposed policy takes a holistic approach and seeks to widen what staff and patients should consider reporting. A few examples include, but are not limited to.

- Concerns about unsafe patient care
- Unsafe working conditions
- Inadequate induction or training for staff
- A bullying culture

Furthermore the policy aims to clearly emphasise ‘if in doubt, please raise it’. Concerns should be raised even before proof is obtained. There should be no repercussions even if the whistle-blower is mistaken provided they are genuinely troubled.

All raised concerns will be treated confidentially and there is the option to raise concerns anonymously. The policy confirms, as expected, that whistle-blowers will not lose their job or suffer any reprisal as the result of raising a concern.

The policy will apply to anyone who currently or previously works for the NHS both directly and indirectly such as agency workers, temporary workers, students and volunteers.

Alternatively, concerns can be raised outside the organisation with:

- Monitor for concerns about:
  - NHS foundation trusts
  - Other providers licensed by Monitor
  - NHS procurement, choice and competition
  - The national tariff
- NHS Trust Development Authority for concerns about non-foundation NHS trusts
- Care Quality Commission for quality and safety concerns
- NHS England for concerns about:
  - Primary medical services (general practice)
  - Primary dental services
  - Primary ophthalmic services
  - Local pharmaceutical services
- Health Education England for education and training in the NHS

Cancer Drugs Fund consultation

The National Institute for Health and Care Excellence (NICE) and NHS England are currently running a consultation on its draft proposals for the Cancer Drugs Fund (CDF). This includes giving patients access to new treatments that, whilst they can’t yet be recommended for routine use, have genuine promise, whilst evidence is collected on how well the drugs work in practice.

Under the proposals, from April 2016 all new cancer drugs will be referred to NICE for appraisal. After initial appraisal, NICE will make a recommendation in one of the following three categories:

► Recommended for routine use
► Not recommended for routine use
► Recommended for use within the CDF

At the end of the period for use within the CDF, the drug will go through a short NICE appraisal, using the additional real world evidence gathered on how well the drugs work in practice.

The drug will then attract either a NICE positive recommendation (allowing it to move out of the CDF into routine commissioning) or a negative recommendation, meaning it would move out of the CDF (becoming available only on the basis of individual patient funding requests).

The consultation runs until 11 February 2016 and more details can be found at:

Key questions for the audit committee

What questions should the Audit Committee ask itself?

Has the CCG considered how the use of technology can be used to drive improvements in both efficiency and digital inclusion?

Are arrangements in place to ensure that accounting requirements in respect of the Better Care Fund are reflected in the 2015–16 final accounts?

Does the CCG have appropriate arrangements to monitor discrimination and what steps has it taken or can it take to promote diversity?

Do you understand what changes your CCG is planning to make in response to any new NHS-wide whistleblowing policy?

Has the CCG considered and responded to the Cancer Drugs Fund consultation?
Find out more

**EY Item Club Autumn Forecast**

**Spending Review and Autumn Statement 2015**

**Sustainability of small English hospitals**

**Digital proposals for the NHS**
For more information about the proposals set out by Martha Lane Fox, see [https://www.england.nhs.uk/2015/12/08/martha-lane-fox/](https://www.england.nhs.uk/2015/12/08/martha-lane-fox/)

**Public Sector Exit Payment Recovery Regulations**

**Value for Money guidance**

**Better Care Fund – Six months on**

**Diversity in the NHS**

**NHS 2015-16 Q2 results**


**Whistleblowing**

**Cancer Drugs Fund consultation**
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