

hfma GP FINANCE

BRIEFING

Contributing to the debate on NHS finance
October 2013

Getting to grips with finance

Ten questions for governing body members to ask their chief finance officer

Foreword

The Healthcare Financial Management Association (HFMA) is the representative body for finance staff in healthcare. With a long and established history, the association has a track record in providing independent and objective advice, issuing authoritative guidance, delivering training, and helping to spread best practice in financial management and governance.

As the eighth in the *GP Finance* series, this briefing is designed to help all those involved with clinical commissioning groups (CCGs) as they become more established and plan for their second year.

In our view, it is vital that governing body members ask probing and challenging questions of themselves and their colleagues, including the chief finance officer. By seeking further assurance and identifying if an appropriate approach has been taken, the chance of clinical and financial success of the CCG is greatly improved.

Particularly helpful for the members of governing bodies, the briefing covers 10 questions to ask the chief finance officer in relation to the day-to-day running of the CCG or when making more significant decisions about changes to healthcare services within the CCG area.

The HFMA is active at national and local level in raising the awareness of how NHS finance and governance works, influencing policy development and raising the skill base of those involved in financial management.

We support NHS organisations and individuals in improving financial management and governance through periods of challenge and change as the new architecture of the NHS becomes established.

We hope this briefing will be helpful to GPs, lay members, managers and others, and we would be delighted to hear your feedback.

We would also welcome any suggestions you may have for ways that we might further support your practice and the development of clinical commissioning groups in the future.

Dawn Scrafield, chair of the HFMA Commissioning Faculty Technical Group

For more details see www.hfma.org.uk/gp and send your feedback to info@hfma.org.uk



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Introduction

Members of governing bodies and their associated committees are presented with a wealth of information both financial and non-financial, which is used to provide assurance that the organisation is well run and meeting its objectives. It also provides the context for decisions about change and improvements to healthcare services.

Changing and improving services is undertaken for a variety of reasons, driven by the need to improve the quality of services, cope with demographic change and join up services to respond to changing clinical practice. For many organisations, change is also expected to lead to financial savings.

So, how do governing body members make sure they have the right financial information, ask the right questions (of themselves and their colleagues), provide appropriate challenge and support the clinical commissioning group (CCG) to take well-informed and robust decisions – both in relation to the day-to-day running of the organisation and when more dramatic change is needed? How do they assure themselves that the organisation is performing as it should in financial terms and that organisational objectives will be delivered?

A good place to start is to ask the 10 questions set out in this briefing. The first four questions focus on the day-to-day running of the CCG; the rest are relevant when the CCG is considering a service change or improvement project. The questions are designed to provide:

- An indication of the key areas to consider
- Practical areas for debate and discussion within the governing body, with the chief finance officer and wider finance team
- A starting point for further dialogue through the inclusion of supplementary questions.

The key questions

DAY-TO-DAY RUNNING OF THE CCG

1. How is the governing body assured that the financial position is accurate and well understood?
2. How are the clinical strategy and the financial strategy linked?
3. How is the governing body assured that



financial savings targets are evidence-based and appropriately linked to clinical plans?

4. How do we ensure that contracts and contract management lead to the results/outcomes that business cases indicate are achievable?

WHEN CONSIDERING A SERVICE CHANGE AND/OR IMPROVEMENT

5. What evidence is there that the finance team is positively engaged with every improvement project?

6. How would collaboration and integration help with the transformation agenda?

7. How do we know we are looking in the best places for improvement?

8. How are we assured that there is in place an effective business process for service change?

9. What information/evidence does the chief finance officer require in order to agree and sign off proposed schemes?

10. How can we be assured that proposed improvements had the desired impact?

FOOTNOTES

¹ A profile presents the likely pattern of income, expenditure, savings or cash during the time period covered by the report.

² The performance for the year to date extrapolated for the remaining months of the financial year.

³ The likely year-end position.

⁴ Demographic peers are helpful when assessing the standard of care for a local population. In order for a CCG to know whether a particular type of care can be better for their population and therefore whether to look there for improvement, it is important to compare the local population with others of similar demographic make-up. For example, an inner city area may be geographically located next to affluent suburbs and have a different population make-up as a result. Rather than compare these populations, it would be more relevant to compare one inner city with another that has a similar demographic make-up.

⁵ Programme budgeting analyses spending across 23 different areas of healthcare such as cancer, mental health and cardiovascular diseases.

Practical considerations

DAY-TO-DAY RUNNING OF THE CCG

1 How is the governing body assured that the financial position is accurate and well understood?

Members of the governing body receive a wealth of financial information that is presented in different ways and appears in a number of different contexts. In particular, it is used as the basis for decision-making and therefore, it is vital that it is accurate, easily understood, clear, concise and timely. As a governing body member, it is also important to understand the financial risks to which the organisation is exposed.

To be assured that the financial position is well understood, further examination of the following can be helpful:

- What is the bottom line financial position of the organisation?
- Are programme and running costs separately identified and considered?
- How has financial performance changed since last month? What are the main reasons for the change?
- Does the finance report correlate with other performance reports?
- Does the cash profile¹ reconcile to operating performance?
- What are the key risks this month and have they changed since the last report? Are problems building up?
- How comprehensive is the financial picture? Is information available on the following:
 - How actual performance to date compares against the plan
 - Run-rate² – what trends are emerging? Are they good or bad?
 - Anticipated (or forecast³) position at the end of the financial year – what key estimates are used? Are they sound?
 - Areas where performance is deteriorating and where escalation (consideration at a higher level) may be needed
 - The profile of savings delivered and still to be achieved
 - Anticipated performance against key statutory and financial duties – revenue and capital resource limits, running costs, cash levels
 - Delivery of Quality, Innovation, Productivity and Prevention (QIPP) schemes in the context of:

- Allocations and projected expenditure
- The robustness of underlying assumptions
- The forecast for the year-end
- A risk assessment of the plans – for example, are the schemes rated red, amber or green to highlight risk of deliverability?
- Early warnings of slippage
- Does every element of the report count or is some information superfluous?

2 How are the clinical strategy and the financial strategy linked?

The members of a governing body must have a commitment to securing high-quality care for patients and value for money against a backdrop of needing to ensure that public money is used wisely.

Although it is the accountable officer (the organisation's chief officer) who has ultimate responsibility here, the role of the governing body (delegated to it by the Council of Members in a CCG) is to set the strategy and objectives of the organisation, monitor their achievement and look for potential problems and risks that might prevent them being achieved. In this context it can be helpful to consider the following:

- Is there a clear and credible financial plan, for this year and the medium term?
- Have all budget holders signed up to the financial plan?
- Are clinical priorities driving the financial plan over the medium to long term?
- Is quality improvement weaved into the financial plan?
- How does it align with wider system circumstances and the environment?
- What are the key assumptions and their bases?
- Are resources directed and aligned to agreed priorities?
- What are the key risks?
- Is there variation in the outcomes for patients when the locality is considered against a demographic peer⁴ or a programme budgeting peer⁵?
- What is the relevant peer group and what can we learn from it?
- How do we identify variation and whether or not it is unwarranted?



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3 How is the governing body assured that financial savings targets are evidence-based and appropriately linked to clinical plans?

Delivering increased quality and improved value for patients is a growing challenge for all NHS organisations. With a finite amount of money available and given the ever-increasing demands on the services provided, the NHS must deliver more for less money each year.

In the current financial climate, required efficiency savings amount to around 4% a year on average. Savings on this scale will not be realised by traditional approaches. Instead, the NHS needs to design new, more cost-effective pathways of care that deliver high-quality outcomes and meet patient demands. Therefore, it can be helpful for members of the governing body to consider the following questions:

- Is the CCG and its governing body clear and in agreement on how much financial efficiency needs to be achieved through savings schemes?
- How have the quality implications been identified and assessed?
- What evidence has been used to underpin the assumptions behind each proposed savings scheme?
- What is the relevant baseline activity and savings against which the proposed changes are being implemented?
- How are savings schemes going to be measured, particularly where these impact on provider activity levels?
- How are the expected savings profiled to make sure there is no unrealistic pressure to deliver?
- Are member practices clear on what changes they need to make to deliver this programme?
- Has a responsible officer and finance lead been identified?
- Is progress regularly reported to the governing body and finance committee (or equivalent) along with any risks to achievement of the plan?
- Are contingency schemes being developed to mitigate any slippage?
- After implementation of a savings scheme:
 - Has a sustained improvement in quality been achieved?
 - Have sustained savings been achieved?
 - What evidence is used to support this?

4 How do we ensure that contracts and contract management help to deliver the results/outcomes that business cases indicate are achievable?

The CCG negotiates agreements with service providers (in the NHS, private and voluntary sectors) to meet the health needs of a particular population, agreeing and holding contracts for the provision of both clinical and non-clinical services.

Success in securing the best outcomes for patients that deliver value for money for the taxpayer within allocated resources depends on how well those contracts are managed once they are in place. To that end, and to ensure that the CCG meets its strategic objectives, governing body members might find it helpful to consider the following questions:

- What is the financial position for our key contracts and what are the reasons for any over- or underperformance? Does the finance report include a healthcare services perspective alongside contracts? For example, how much is being spent on respiratory services overall as well as on acute contracts?
- Are the contracts (and the role they play in influencing quality) fully understood?
- Are the indicators to show improved performance reflected in the contracts?
- Is the CCG making best use of its commissioning support unit (CSU)?
- Are contracts making best use of the lead commissioner model? Who is involved in monitoring and assessing this? How is lead commissioner performance managed by contributing CCGs? Is the role of each CCG clear?
- How are contract clauses, incentives and penalties used? Are they designed so that they improve quality and outcomes?
- Are milestones⁶ used effectively?
- How is Commissioning for Quality and Innovation (CQUIN) delivery by a provider agreed, monitored and reviewed? Does the local CQUIN framework support the improvement agenda and its priorities?
- How is the governing body assured that the level of reported risk for key contracts is reasonable?
- Are there any contractual disputes and what assumptions have been made?
- At what stage is the governing body made aware of the need for remedial action?

FOOTNOTES

⁶ An event marking the end of a stage during a longer project process.

WHEN CONSIDERING A SERVICE CHANGE AND/OR IMPROVEMENT

5 What evidence is there that the finance team is positively engaged with every improvement project?

The financial context should be a key part of any decision (however small) made within an NHS organisation. The finance team can provide expertise and advice, as well as detailed information in order that the best outcome for patients is achieved.

However, the finance team can only help in the decision-making process if governing body members are fully behind them. If CFOs and their teams are well known to clinicians and managers, it is easier to demonstrate what finance can do to support change. Therefore, it can be helpful for governing body members to consider the following questions:

- Do you see the finance team positively engaged in the business process that drives change?
- How well does the finance team know and understand the organisation's business? Do you?
- How can the finance team be supported to understand the business, build relationships with clinicians and partner organisations?
- Is there the right level of capacity and capability within the finance team?
- How does the organisation involve the finance team and how does the finance team seek to be involved? Is it only one or two key individuals that are seen?
- How are the clinical leads and programme managers engaging with finance in service reform programmes and projects?
- Is there a finance lead on the service transformation programme board/committee?
- Which processes within the service reform programme can the finance team best support?
- How do finance staff support and monitor the progress of projects including any savings to be delivered?
- How is the finance team supporting the business process arrangement?
- How is delivery monitored?
- Is the finance team engaged in producing baseline data against which service redesign programmes can be measured?

6 How would collaboration and integration help with the transformation agenda?

Within the context of the wider strategy of the organisation, working in partnership can help to achieve something an individual CCG would not otherwise be able to. Given the goal of improving services for patients and delivering value for money for the public sector as a whole, collaboration and/or integration (to whatever extent) can provide the best way forward.

Partnership working should be a normal feature of the CCG's culture, evidenced by regular dialogue with local organisations. But it can be helpful for the governing body to consider the following:

- How are other local organisations involved in what is done and decided?
- Are there formal collaborative arrangements in place and if so, are they effective? Are they underpinned by financial principles?
- Is the whole system perspective considered?
- How can we work in partnership within our local health economy to meet local health needs?
- How do we engage with voluntary and third sector organisations to help deliver our services?
- What might need to be considered to make a proposed change work?
- Are transformational change plans agreed with key stakeholders?
- How do we capture and deliver cross-cutting solutions?
- Do we consider the clinical and financial strategy of our local health economy partners?

7 How do we know we are looking in the best places for improvement?

The organisation must constantly be aware of and refer to its commissioning strategy when considering where to look for reform and improvement. It should also look at the context within which it operates – the local health economy – while being aware of current and likely future issues. It can be helpful for the governing body to consider the following:

- How do we work with healthcare providers in all sectors? Can we improve?
- How do we work with the local authority and the Health and Wellbeing Board? Can we improve?
- How do we learn from other stakeholders?
- What evidence is already gathered that may be of use – for example, reference costs, programme



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budgeting, benchmarking data? Against whom are we benchmarking?

- Where can we obtain further sources of evidence or data?
- Is evidence used to suggest where the greatest opportunities for transformation may be?
- Do we triangulate the data to confirm this and prioritise where to look first?
- How are the commissioning strategy, joint strategic needs assessment and joint health and wellbeing strategy reviewed and updated?
- Do we consider other service redesign programmes that have worked successfully across other parts of the country?

8 How are we assured that there is in place an effective business process for service change?

Here governing body members are looking for assurance about the achievement of strategic goals and outcomes in terms of healthcare reform. Day-to-day, these responsibilities are likely to fall to the reform lead or programme management officer (PMO) (or equivalent) and his or her team. However, to ensure the achievement of tangible improvements in outcomes for patients, the members of the governing body may wish to consider the following:

- Is there public transparency in relation to decision-making?
- Does the CCG have in place appropriate corporate structures and good governance arrangements?
- Where does approval to undertake a transformation project sit and what is being asked of the governing body? Are decisions delegated to any extent?
- What would work best for the organisation and what do/should the prime financial policies say to support this?
- Are there sound governance arrangements around each project? For example, is the performance of each project reviewed regularly in terms of key performance indicators (KPIs), finance and risk?
- Are individual project risk registers in place and the assurance framework regularly updated? Are areas of concern highlighted to the governors?
- How are lessons learnt built on in the future? Is this explicit?
- Is the system improving year on year? Is clinical and financial variation reducing both locally and when compared with demographic peers?

9 What information/evidence does the chief finance officer require in order to agree and sign off proposed schemes?

All governing body members, guided by the CFO, must ensure that finances are used well; that they focus on the delivery of objectives and that the organisation delivers ever-increasing quality and value for patients.

The CFO ensures that plans are financially viable and analysed thoroughly. She/he must also be able to provide a long-term vision, setting parameters for transformation by defining the scale of the financial challenge, accurately modelling the options and managing the financial risks. With that in mind, it can be helpful for members of the governing body to consider a proposed change from this perspective by asking the following questions:

- Are the key outcomes captured in the case for change/business case?
- Are the sources of evidence identified?
- What is the actual cost of implementation (recurrent and non-recurrent)?
- Is the source of funding identified and available?
- What are the deal-breakers within the case?
- What level of commitment must be demonstrated within and outside of the organisation for the reform to go ahead?
- Are the governance arrangements in place proportionate, appropriate and consistently applied?
- What are the key project milestones?
- What are the key risks?
- Have the costs and savings been robustly calculated, profiled, tested and challenged by someone with appropriate expertise?
- What is the return on investment⁷? Are there other clear benefits defined?
- Have the KPIs been identified and an evaluation framework completed?
- Has the baseline data been completed to identify activity and savings?
- Has the service change been reflected in the contract?

FOOTNOTES

⁷ The profit made on an investment as a percentage of the amount invested.

10 How can we be assured that our proposed improvements had the desired impact?

It is vital that the governing body is assured that proposed changes have had the desired impact in both quality and financial terms. To that end, governing body members must be as certain as they can about how the plans will affect patient care. Thinking through the following questions and looking for evidence to support each one, will go some way to providing that assurance:

- What is the likely non-financial and financial impact?
- What is the timescale for delivery?
- How is the change to be evaluated?
- What metrics or measures do we need to ensure success?
- Has the CCG engaged with all the relevant stakeholders?
- How soon will the governing body see the results?
- Where does attention need to be focused?
- What are the lessons learnt?
- What is the process if a concern is identified and who should be approached?

Conclusion

It is important to the CCG's success that the members of its governing body and committees provide appropriate challenge, bringing their expertise to bear when assessing the information put before them. One way of doing this is to seek further assurance, asking probing and challenging questions of the executive directors and other managers as appropriate. In all the areas discussed, the following questions are key to unearthing how the organisation is performing and whether or not it will deliver its strategy and meet its objectives:

1. How has patient care been improved?
2. What are the tangible benefits and improvements for the patient?
3. What value is derived for the local population and the taxpayer?
4. Is non-financial and financial success or failure transparent and is the governing body clear when both have been achieved?
5. Does the organisation make use of the lessons learnt?

Where the governing body is confident the right approach has been identified, this can improve the chance of clinical and financial success.

Finally, the CFO plays a critical and statutory role, both as a member of the governing body and in providing financial information, support and advice – themselves and through their team. They are there to provide a service, so if you are not sure, ask. They will be only too pleased to help. ■



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