

Health

Briefing

March 2008



Improving medium-term financial planning

A practical guide for primary care trusts

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Summary	2
1 Introduction	10
2 Assessment of PCT medium-term financial planning	14
3 Conclusions	21
4 Good medium-term financial planning	23
Appendix 1	65
References	66

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Summary

- 1 Financial planning is a key element of primary care trust (PCT) management. Organisations that do not plan their finances properly are unlikely to achieve their strategic priorities or make the best use of the resources available to them. The need to improve NHS medium-term financial planning has been highlighted in a number of recent Audit Commission publications. A relatively common finding was that NHS organisations do not prepare and adhere to a robust plan.
- 2 A medium-term financial plan (MTFP) can be thought of as a financial translation of the organisation's strategic plan and will typically cover a three to five year period. Historically, the NHS has tended to focus on annual budgets and achieving short-term financial targets. However, strategic plans cover a longer time period and require a corresponding financial plan. PCTs have in the past received three-year resource allocations from the Department of Health (DH) so that they can plan their finances in accordance with their strategic and commissioning priorities over the medium-term. In December 2007 PCTs received notification from the DH of their resource allocation for 2008/09. The Advisory Committee on Resource Allocation¹ is currently reviewing the resource allocation formula and therefore it is expected that the resource allocations for 2009/10 and 2010/11 will be issued in summer 2008.
- 3 The NHS is forecasting a surplus of £1.8 billion for the 2007/08 financial year. The *Operating Framework for the NHS in England 2008/09 (Ref. 1)* requires each strategic health authority (SHA) to plan for a surplus at least equivalent to that achieved in 2007/08. MTFPs should provide the framework to ensure that this is achieved. The DH drive towards world class commissioning in PCTs should develop the financial management competencies to support this. A transparent and considered approach is required for the reinvestment of surpluses to ensure that they are used to improve the quality of the care provided to patients. Those PCTs that are still financially challenged have a similar obligation to produce a robust MTFP, in order to demonstrate how the PCT intends to return to financial balance.

¹ The Advisory Committee on Resource Allocation advises the Secretary of State for Health on the distribution of resources across primary and secondary care.

- 4 This briefing is based on a review of PCT local delivery plans and MTFPs. We have visited a sample of PCTs to identify the characteristics and activities associated with good medium-term financial planning. We have also spoken to SHAs to obtain their views on how financial planning should be managed across health economies.
- 5 The briefing provides a commentary on current PCT performance in medium-term financial planning. It then gives detailed guidance for PCTs to use as necessary.
- 6 The briefing is aimed at PCT finance directors, PCT Boards and all those involved in the planning process; both finance and non-finance staff. It is intended to encourage PCTs to prioritise medium-term financial planning. By following the advice and case studies, PCTs should make financial planning integral to their wider strategic planning and commissioning processes. The briefing will also be of interest to PCTs' partners, SHAs, NHS trusts and local authorities, to gain an understanding of the issues facing PCTs and the types of analyses that typically underpin MTFPs.
- 7 While recognising that MTFPs will differ locally, there are some universal considerations that all PCTs should build in to their MTFP. Our research identified ten factors that have a significant impact on an organisation's medium-term financial planning process. An overarching requirement is that the PCT has arrangements in place to address each of them:
 - Demonstrating strong leadership of finances and strategic direction.
 - Using the MTFP to support the achievement of strategic objectives.
 - Establishing lines of accountability for producing and adhering to the MTFP.
 - Producing an MTFP that identifies and manages the financial implications of risk.
 - Understanding fully the PCT's cost drivers, through the collection and analysis of a wide range of data and planning over the medium-term to improve value for money (VFM).
 - Recognising the importance of good quality data.
 - Producing an MTFP that is comprehensive, accurate and has content that is relevant and useful.
 - Providing internal and external stakeholders with an opportunity to scrutinise and challenge the MTFP.

- Ensuring Board approval of the MTFP and that the MTFP is communicated to the right people.
 - Using the MTFP as the key financial document, from which the annual budget is developed and puts in place the systems for achieving, monitoring and continually refreshing the MTFP.
- 8 The briefing addresses each of these factors in detail, providing case studies and sources of further information. There is no one-size-fits-all planning template for PCTs but the approach and process will be similar everywhere. The case studies included in the briefing show how some PCTs have made the medium-term financial planning process work for them. These PCTs are now seeing the benefits of good planning, including strong financial standing, and are well positioned to develop plans for the reinvestment of surpluses. They also have the capacity to react to any unforeseen changes in circumstances before they create financial problems. We recommend that all PCT finance directors and Boards review their MTFP and consider what more they could do to improve financial planning throughout their organisations. Set out in the table below are the key questions for PCTs to consider about their financial planning arrangements.

The key questions

Features	
Leadership	
1.1	Does the PCT Board recognise the importance of planning its activities over the medium-term?
1.2	Does the Board demonstrate strong financial leadership?
1.3	Is the Board committed to the production of a realistic, achievable MTFP, with PCT-wide ownership and an emphasis on improving VFM over the medium-term?
1.4	Does the MTFP show that the Board undertakes regular horizon scanning and considers the impact of those issues with a medium-term financial impact?
1.5	Is the MTFP a clear statement of financial intentions, enabling provider development that is commissioner-led?
1.6	Has the Board reviewed the success of previous MTFPs and considered auditors' views and those of the SHA when producing its MTFP?
Supporting strategic objectives	
2.1	Is the MTFP explicitly linked to the achievement of the organisation's strategic objectives, which take account of local and national priorities?
2.2	Is the MTFP linked to other internal strategies as appropriate, including workforce planning, information management and technology, asset management and capacity planning?
2.3	Does the MTFP provide assurance to the Board that commissioning intentions and service plans are financially feasible?

Features	
Establish lines of accountability for producing and adhering to the MTFP	
3.1	Are the processes for producing the MTFP clearly set out and is accountability assigned to a named group of officers ('the group') from across the PCT, in conjunction with production of the local delivery plan (LDP)?
3.2	Does the group work to a timetable for integrated service and financial planning that is aligned with the local delivery plan and annual budgeting timetables?
3.3	Is it clear where accountability lies for liaison with internal and external stakeholders?
3.4	Is there a clear relationship between the group and practice based commissioners to ensure that the ambitions of the PCT are understood and shared by practices?
3.5	Does the group discuss progress regularly and ensure that the MTFP is updated as and when necessary?
3.6	Does the group discharge the PCT's role as provider market manager by considering the financial implications of commissioning decisions for providers?
3.7	Does the group provide the link between medium-term financial planning and a rolling programme of service reviews across the PCT that challenge existing baselines as well as the investment of growth monies?
Risk management	
4.1	Does the MTFP identify future developments and their resource implications? Does it assess the level of risk attached and plan contingencies at an appropriate level?
4.2	Are funding and expenditure projections based on modelling of best case, worst case and most likely scenarios?
4.3	Does the MTFP consider the long-term affordability of capital investment decisions, including all associated revenue expenditure?

Features	
Risk management	
4.4	Is the MTFP supported by a policy on the treatment of under/over spending including calls on contingencies, virements and carry-forward? Do new investments, both capital and revenue, have performance targets attached and also include an agreed exit strategy?
Understanding PCT cost drivers and achieving value for money	
5.1	Is the MTFP based on a clear understanding of the cost drivers of the PCT's expenditure?
5.2	Is the MTFP based on commissioning plans that in turn are based on realistic demographic and public health data forecasting?
5.3	Is the PCT provider-arm financial planning based on service planning?
5.4	Does the medium-term financial planning process support the redesign of care pathways and the generation of efficiency savings? Is expenditure analysed through the use of programme budgeting, benchmarking of cost profiles and trend analysis?
5.5	Is the MTFP based on up-to-date contract monitoring data? Does the PCT have strong arrangements in place for monitoring performance against contracts?
5.6	Does the MTFP include investment in information systems that will result in better population intelligence and informatics?
Data quality	
6.1	Is the MTFP supported by a PCT-wide data quality policy that ensures the reliability of planning data? Does the policy include arrangements to gain assurance on the quality of externally generated data?
6.2	Are previous planning documents reviewed for accuracy to allow continual improvement in data quality?

Features	
Content of the MTFP	
7.1	Does the MTFP model funding and expenditure, balance sheet and cash flows over a minimum of three years? Are expenditure and activity forecasts clearly linked?
7.2	Is expenditure modelling classified into appropriate clinical areas in a format as close as possible to that used for external reporting and transparent to external users?
7.3	Does the MTFP include any unidentified efficiency savings?
7.4	Is modelling of practice based commissioning budgets included in the MTFP?
7.5	Does the MTFP include a strategy for investment of the entire resource allocation linked to a review of care pathways?
Scrutiny and challenge	
8.1	Do senior budget holders and the Board have the opportunity to comment on and challenge the draft MTFP before its approval?
8.2	Does the MTFP include the results of public and patient consultation and is it aligned with the investment plans of key partners such as the local authority and the wider health economy?
Approval and communication of the MTFP	
9.1	Does the Board formally approve the MTFP and subsequent material updates?
9.2	Is the MTFP communicated to staff and stakeholders alongside the LDP and is the importance of medium-term financial planning made clear to non-finance staff?

Features	
Using, achieving, monitoring and updating the MTFP	
10.1	Do annual operating budgets flow directly from the MTFP? Are they directly reconcilable?
10.2	Do practice based commissioning indicative practice budgets flow directly from the MTFP?
10.3	Does the MTFP reflect in-year adjustments to budgets?
10.4	Does the annual budgeting timetable incorporate a robust process for agreeing major commissioning contracts?
10.5	Is the delivery of the MTFP supported by Standing Financial Instructions and Standing Orders that make clear where the responsibility for finance issues lies?
10.6	Do the outputs of the MTFP form part of an integrated planning and performance framework that monitors performance against the MTFP and triggers corrective action when variances occur?
10.7	Are staff involved in the delivery of the MTFP trained specifically to complete business cases, improve finance skills and support the MTFP?

1

Introduction

Financial planning is a key element of PCT management. Organisations that do not plan their finances properly are unlikely to achieve their strategic priorities or be making the best use of the resources available to them.

What is medium-term financial planning?

- 9 An MTFP can be thought of as a financial translation of the organisation's strategic plan. As such it must be developed, understood and delivered by the entire PCT; the only activity exclusive to the finance department should be to forecast the overall funding available. MTFPs typically cover a three to five year period. The Audit Commission's *World Class Financial Management* discussion paper (**Ref. 2**) notes that 'within the public sector, the focus tends to be on short-term financial planning, that is, the annual budget. But key developments, such as the introduction of three year settlements in local government and of payment by results in the NHS, mean that public sector bodies increasingly need to plan their financial strategies over a longer time period and link these directly to strategic and service priorities'.
- 10 The actual form that the MTFP takes will depend to some extent on the financial situation and management structure of an organisation. There are usually two elements to the MTFP – a set of spreadsheets and a narrative summary. The emphasis and importance placed on the spreadsheets or the narrative will typically depend on the organisation's financial standing and the point in the MTFP the organisation has reached. The detail contained within the MTFP will depend on the detail contained in other key strategies; for instance, a PCT may have an extremely detailed commissioning strategy plan containing all of the commissioning activity, which can therefore be omitted from the MTFP. In all cases, the MTFP will be supported by a thorough analysis of a wide range of reliable data sources.
- 11 If the strategic plan for the achievement of local and national priorities is not agreed with key stakeholders, does not provide a link between other key internal strategies, or is not based on quantifiable assumptions, then it will not be possible to produce a robust MTFP. The concept of medium-term financial planning should be intuitive to those with financial training or an interest in the strategic direction of an organisation. It is important to note that the process is not necessarily technically demanding. The biggest barriers can be a cultural reluctance to taking a medium-term view or to increased integration between different departments.

Medium-term financial planning in the NHS

- 12 All NHS organisations should prepare MTFPs. The DH expects SHAs, PCTs and NHS trusts to prepare plans that are submitted before the beginning of the financial year. Monitor, the independent regulator for NHS foundation trusts (FTs), requires FTs to submit such plans. FTs submit, on an annual rolling basis, funding and expenditure, balance sheet and cash flow projections for the next three years, a three year strategic outlook and a commentary that includes key assumptions and sensitivity analysis (**Ref. 3**).
- 13 In the last couple of years, more emphasis has been placed on the need for robust financial planning. Most recently the DH has launched the World Class Commissioning programme that aims to develop a number of PCT competencies, of which financial management is one. PCTs have also recently been externally assessed via the Fitness for Purpose programme. There were two strands to this assessment. The first was the Commissioning Diagnostic Tool that described the activities necessary for good commissioning at PCT level and identified gaps resulting in a high-level development plan. The four key commissioning functions assessed were strategic planning, care pathway management, provider management and monitoring. The second strand, the Organisational Assessment Tool, reviewed the competencies of PCTs across finance, strategy, quality, governance, external relations and emergency planning.
- 14 The results of the programme showed differences in performance across SHAs with the main areas of weakness being finance and strategy. The strategy assessment covered identification of aspirations, operational planning and plan validation.
- 15 Auditors' Local Evaluation (ALE) assessments in 2007 confirmed that medium-term financial planning remains a significant weakness for a number of PCTs, particularly those that had been restructured during 2006/07. Twenty-one per cent of all PCTs (30 per cent of newly created PCTs) were assessed as inadequate on Key Line of Enquiry (KLOE) 2.1, which specifically assesses MTFPs. PCTs that can answer positively to the key questions in this briefing are likely to be those that will be judged to be performing strongly.

Why is medium-term financial planning important?

- 16 Those organisations that are not planning how to use their financial resources properly are unlikely to achieve their strategic objectives or to be making best use of the resources available to them. Our research shows that those organisations that take financial planning seriously are more likely to achieve financial balance and make better use of their resources.
- 17 The need to improve NHS medium-term financial planning has been highlighted in a number of recent Audit Commission publications. The Audit Commission's *Review of the NHS Financial Management and Accounting Regime* (Ref. 4) referred to 'the capacity of NHS bodies to prepare and adhere to robust medium-term plans' and the fact that 'the absence of a robust medium-term financial strategy was a relatively common finding'.
- 18 The NHS is forecasting a surplus of £1.8 billion for 2007/08 (Ref. 5). The *Operating Framework* (Ref. 1) requires each SHA area to plan for a surplus in 2008/09 at least equivalent to its 2007/08 total. This will require good financial planning; firstly to ensure that the surplus is delivered, and secondly to ensure that it is then subsequently reinvested in delivering high-quality patient care. In addition to this, there are expectations that PCTs will have to deliver more with resources that will not be increasing at the same rate as they have in previous years. Lord Darzi's review is likely to bring about some strategic change.
- 19 Furthermore, ensuring the success of practice based commissioning (PBC) is integral to PCTs' strategic objectives. PCTs need to make sure PBC succeeds by ensuring practices receive an indicative fair shares¹ budget and that they support and share the longer term objectives of the PCT (Ref. 6). Similarly there is no great focus on PCTs and local authorities cooperating closely and having a longer term strategy together, backed by financial plans.
- 20 There is no doubt that PCTs will come under increasing pressure to demonstrate that a robust MTFP is in place.

¹ Fair shares is where practices receive indicative budgets based on the number of patients registered and adjusted for factors such as deprivation, rather than on the basis of historical usage.

Methodology

- 21 This briefing is based on a review of 45 PCT local delivery plans¹ (LDPs) and MTFPs. We have focused on the PCTs that have scored well in this area of the ALE assessment and reviewed performance in both 2005/06 and 2006/07. We have visited a sample of PCTs to test the findings of our desk-based research and to obtain a more detailed perspective on some of the activities underpinning the preparation of MTFPs. We have also interviewed four of the ten SHAs to obtain their views on how financial planning should be managed across health economies.
- 22 We have drawn on previous Audit Commission publications, most notably *World Class Financial Management (Ref. 2)*, as well as literature produced by other bodies such as the DH, CIPFA, Monitor, academic institutions and companies such as Dr Foster and McKinsey.
- 23 We have been advised by the Audit Commission's NHS Financial Management Advisory Group and are grateful to all those who have contributed to, or commented on, this briefing. We particularly appreciate the time and effort given by individual NHS organisations that have shared case study material and given permission for its publication.

The aims of this briefing

- 24 This briefing is aimed at improving medium-term financial planning. It provides a commentary on current PCT performance in medium-term financial planning. The areas of strength and weakness are highlighted, as are good practice examples. The briefing then provides detailed guidance for PCTs to use in assessing and preparing their MTFP. We recommend that PCTs use the briefing to review their financial planning processes to ensure that they are fit for purpose and should also consider whether their MTFP is robust.
- 25 The briefing will also be of interest to those organisations that work alongside PCTs – in particular SHAs, NHS trusts and local authorities – to gain an understanding of the issues facing PCTs and the types of analyses that typically underpin MTFPs.
- 26 Finally, the same, or similar, processes will be used by all organisations looking to develop MTFPs and therefore this briefing will contain messages that are relevant for all organisations.

¹ All PCTs are required to produce a local delivery plan which describes the strategic framework, how key targets will be achieved and risk management strategies.

2

Assessment of PCT medium-term financial planning

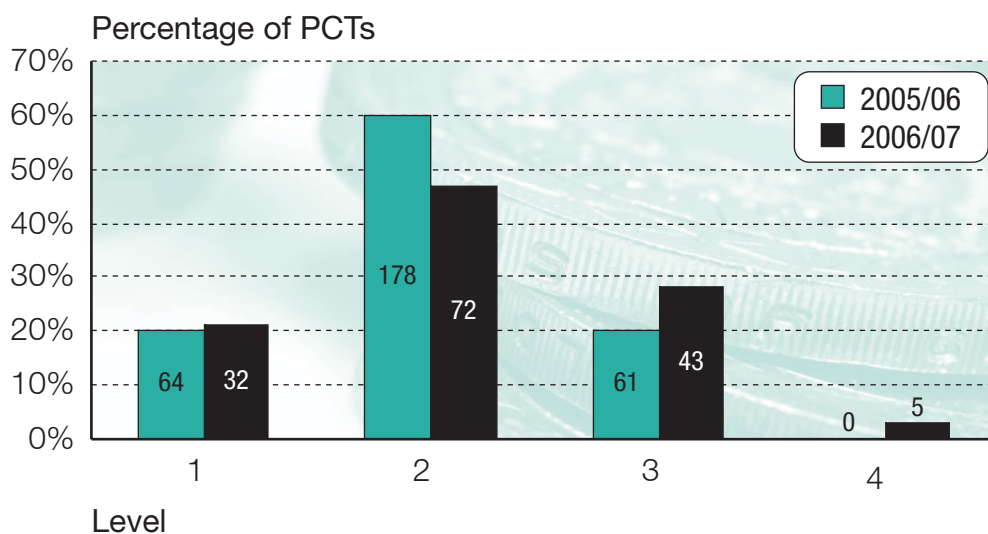
Drawing on ALE findings, local audit reports and a review of LDPs and MTFPs, this chapter sets out general findings on the current strengths and weaknesses of medium-term financial planning in PCTs. The issues identified have been explored in greater detail in interviews with finance directors at a sample of PCTs.

Auditors' views on medium-term financial planning

- 27 Under ALE, there are five areas of assessment or themes, supported by 13 KLOEs. There are four levels of performance:
- 1 – below minimum requirements – inadequate performance;
 - 2 – only at minimum requirements – adequate performance;
 - 3 – consistently above minimum requirements – performing well; and
 - 4 – well above minimum requirements – performing strongly.
- 28 The second theme assesses how well an organisation plans and manages its finances. ALE KLOE 2.1 specifically assesses organisations' medium-term financial planning capabilities. In 2006/07, 21 per cent of PCTs did not meet minimum standards in this area. However, the number of bodies performing well or strongly has risen from 20 per cent in 2005/06 to 31 per cent in 2006/07 (**Figure 1**). This suggests that an increasing number of PCTs have recognised the importance of medium-term financial planning and are taking steps to make it a priority.

Figure 1
PCT scores for KLOE 2.1

The number of PCTs is shown on top of the bars and reflects that the total number of PCTs reduced from 303 to 152 in 2006/07.

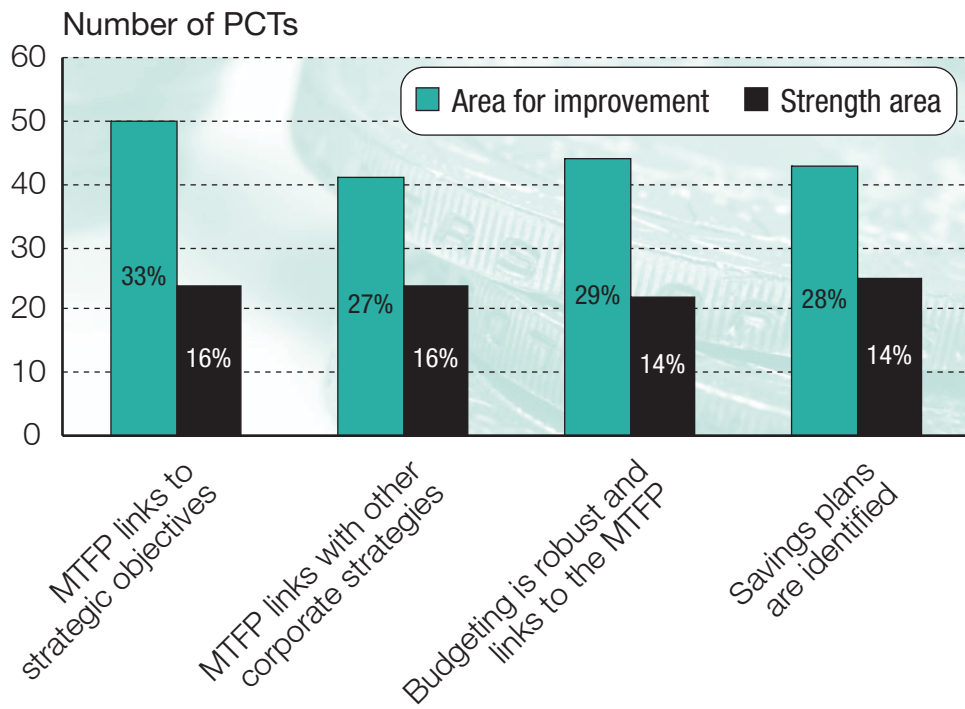


Source: Audit Commission

- 29 During 2006/07 there was a reorganisation of the structure of the NHS, as a result of the implementation of *Commissioning a Patient-led NHS (Ref. 7)* that reduced the number of PCTs from 303 to 152. Assessments at the new and continuing PCTs were undertaken on the same bases. The performance of new PCTs was weaker than at those PCTs unaffected by the reorganisation. While there may be a variety of reasons for this, nine of the newly created PCTs performed well (achieved level 3) on KLOE 2.1, although these PCTs may have been operating in close partnership before reorganisation.
- 30 For many PCTs, medium-term financial planning is undertaken independently from wider discussions around strategic planning. Indeed, our site visits and review of a sample of PCT MTFPs and LDPs confirmed this. Medium-term financial planning in these organisations is seen as a finance directorate responsibility with LDPs lacking clear financial plans to support them.

31 In order to drive improvement in performance, auditors also highlighted organisations’ strengths and areas for improvement within each KLOE. NHS bodies are provided with this detail so that they can target specific problem areas. **Figure 2** shows the number of PCTs where auditors identified either a strength or an area for improvement in medium-term financial planning.

Figure 2
MTFP strengths and areas for improvement



Source: Audit Commission

32 Between 14 per cent and 16 per cent of PCTs were judged to have a strength area in at least one of the four aspects of the assessment. The most common area for improvement was the failure to link the MTFP to the PCT’s key strategic objectives, with 33 per cent of PCTs judged to need improvement in this area. Linking the MTFP to other corporate strategies; producing a robust annual budget that flows from the MTFP and fully identifying savings plans were also found to be major improvement areas for PCTs. In some PCTs there was an historical tendency neither to carry out medium-term financial planning, nor to keep the MTFP updated for new developments.

- 33** For those PCTs assessed as failing to meet minimum standards for KLOE 2.1 there were several further common themes:
- a lack of involvement of key finance and operational staff;
 - a high level of expenditure savings attributed to improvements in efficiency that were yet to be identified;
 - poor Board reporting, with inadequate monitoring of the achievement of savings;
 - the MTFP could not be reconciled to the budget;
 - poor or non-existent cash management strategies, with little cash-flow forecasting; and
 - late sign-off of budgets and major service level agreements (SLAs), which hampered the ability of PCTs to plan with certainty.

Factors affecting good medium-term financial planning

- 34** Our review of a sample of MTFPs found that a number of factors affected a PCT's ability to produce a robust MTFP.
- 35** The majority of PCT documents reviewed included a three-year LDP, as required by the SHA. This was accompanied by some supporting financial commentary or projections. Most of the financial information covered the period 2005/06 to 2007/08, although in some cases it went up to 2009/10 or beyond. In one instance it went up to 2014/15.
- 36** Medium-term financial planning focused on balancing funding and expenditure and only in very few organisations were projected balance sheets produced. Cash flow was not considered in detail in any of the MTFPs reviewed.
- 37** Assumptions underpinning resource predictions and increases in recurrent allocations were given but tended to be fairly basic and sometimes inconsistent. Inflationary growth was based in the main on guidance provided by SHAs.

- 38 PCT expenditure plans were constructed on a similar basis nationally. The MTFP was typically based on the majority of resources allocated to brought forward recurrent expenditure headings such as NHS SLAs, non-NHS SLAs, prescribing costs and general overheads. Where applicable, the MTFP addressed any brought forward recurrent over spend. Budgeting was incremental, and there was little evidence of zero-based budgeting. MTFPs typically covered only how to invest new growth monies and tended not to question existing budgets.
- 39 The MTFPs reviewed did not address PBC to any great extent. Possibly as a reflection of this, only two thirds of practices surveyed by the DH reported receiving an indicative budget for 2007/08 (**Ref. 8**).
- 40 Just as acute providers need to be aware of PCTs' MTFPs, so do practices, particularly as practice based commissioners should be provided with a three-year fair shares indicative allocation. The Audit Commission's *Putting Commissioning into Practice* (**Ref. 6**) also found that, of the PCTs that took part in fieldwork, 40 per cent of their 2006/07 overall budgets were devolved to practices. Producing three-year budgets would demonstrate PCTs' intentions to further support practices in the implementation of PBC. Secondly, strengthening the relationship between PCT and practices leads to more successful implementation of PBC and the benefits this can realise. The DH's September 2007 GP practice survey (**Ref. 8**) revealed that 23 per cent of practices rate their relationship with their PCT as either fairly poor, or very poor. However, where there is strong involvement between practices and PCT finance, commissioning and information departments on longer term strategy this should result in a clearer focus on PCT strategic objectives by practices and better use of PCT commissioning budgets.
- 41 The review of MTFPs found that PCT priorities were supported by demographic and clinical data to some extent, although there was limited use of benchmarking and programme budgeting to support conclusions. The affordability of MTFPs was generally considered, but the level of detail, if any, on scenario planning and sensitivity analysis was low. The LDP generally contained a commentary on the identification of risks but the financial consequences of risk were often not quantified.
- 42 Based on our research, the main weaknesses of the medium-term financial planning process were:
- PCTs not using the MTFP as the key financial strategy;

- a lack of engagement by the PCT Board in financial issues;
- a failure to integrate financial planning with commissioning and service planning;
- a reliance on poor quality activity and planning information; and
- responding inadequately to the impact of externally imposed factors beyond the direct control of the PCT, both in the development of the MTFP and during monitoring achievement of the MTFP.

The role of SHAs

- 43 Producing an MTFP is the responsibility of individual PCTs. However, the SHA can play a role in ensuring MTFPs are well thought through. The SHA need not be prescriptive in the content and format of MTFPs, but must ensure there is a monitoring regime that is commensurate with the risk associated with individual PCTs.
- 44 SHAs currently have a spectrum of approaches, from a light touch framework where the onus is on PCTs to demonstrate their contribution to SHA objectives, to more closely monitored regimes where PCTs are required to complete detailed commissioning and finance templates.
- 45 Whatever the approach, it is important that the SHA provides guidance in a comprehensive and timely fashion. This will help PCTs in their horizon scanning and aid consistency of planning across the SHA. The SHA can help to foster a culture of medium-term financial planning in PCTs and promote the benefits of producing a good MTFP.

SHA guidance

- 46 A sample of SHAs was contacted as part of the research for this briefing to gauge the level of assistance that they provide and how they undertake their role as PCT performance manager. All of the SHAs interviewed provided some level of guidance for PCTs in a formalised document. The main difference in approach between SHAs was the degree to which PCTs have the flexibility to use SHA planning assumptions. Some SHAs required PCTs to use them as guidance; others as a strict basis for planning. A formal SHA policy on planning forces PCTs to plan and ensures that the SHA is forthcoming with planning guidance. PCTs reported that DH guidance is less forthcoming and less in-step with their planning timetable.

- 47 The SHA can help PCTs to interpret the implications of the annual operating framework and assist with financial risk management strategies. Risk management strategies could be on any issue of local importance, such as PBC, continuing care costs or local capital schemes.
- 48 The SHA should ensure that PCTs make use of productivity metrics and programme budgeting information. This could be done by asking PCTs to address the top outlying indicators or by providing PCTs with training or additional information to help them understand the reasons for outlying performance.
- 49 In general, the SHA should help PCTs to develop the finance skills of all of their staff, especially around service planning and writing business cases. This would build upon the PCT Fitness for Purpose programme.

SHA overview

- 50 The SHA has an overview of the entire health economy so can support PCTs by undertaking consistency checks of planning assumptions. The SHA should compare PCT MTFPs to verify that assumptions are realistic and to ensure commissioner and provider plans are both feasible and in line with each other. On top of this, the SHA can set the contractual standards that it expects to see, for instance in limiting consultant to consultant referrals or specifying provider performance.
- 51 The SHA must also ensure the financial health of the local health economy, which it can do by helping PCTs to smooth spending and act as a banker. Some PCTs have significant under spends and require assurance from SHAs that these will be available to be reinvested in a planned way, over a number of years. SHA approaches to managing the financial position across the health economy vary; some have prescribed fixed percentages for PCT top slices, planned surpluses and contingencies. Other SHAs leave the decision making to PCTs and will only intervene if they believe PCT decisions to be unreasonable. SHAs need to ensure that PCT cash management strategies are consistent with agreed funding and expenditure strategies.

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Conclusions

- 52 Medium-term financial planning provides the mechanism for turning strategic objectives into action and is a key component of good management. As commissioners, PCTs are accountable for managing change and delivering maximum benefit to patients. This will involve innovative service redesign and making difficult decisions. PCTs must be transparent on the financial and other rationale behind those decisions. Any changes may expose PCTs to significant risks which must be planned for accordingly.
- 53 PCTs that understand their risks can develop an MTFP that is flexible and includes contingencies should those risks have a financial effect. The SHA has a role to play in monitoring achievement of the MTFP and providing the facility for PCTs to access strategic reserves over the period of the plan.
- 54 The opportunity to achieve long-term benefits and improvements in healthcare provision can only be realised by working in partnership with providers and consulting stakeholders. Producing a robust MTFP for discussion with its partners demonstrates that the PCT is serious about implementing its commissioning plans and shows openness and transparency in its relationships with stakeholders.
- 55 Of equal importance to the content of an MTFP is the data that underpins it. A good information base will provide a clear basis for prioritisation of local objectives. It will allow better benchmarking and monitoring of progress against national priorities. Good data, both financial and non-financial, supports appropriate reporting to the Board and all levels of the organisation. The MTFP should be useful to the organisation through its accuracy and relevance to the organisation's activities. For an organisation to own the MTFP, it is important that assumptions on growth, investment and savings have been agreed with the parts of the organisation and external stakeholders planning services based on the MTFP.

- 56 Medium-term financial planning should not be approached with the intention of producing fixed three year projections of funding, expenditure and activity. Rather, the MTFP should be refreshed at least annually, as and when further information comes to light, gradually filling in the detail for the later years of the MTFP. The annual budget process will finalise the detail. The purpose of medium-term financial planning is to ensure that, at all times the organisation is thinking ahead about where new investment is required, how activity will increase or decrease and which new policies or targets will affect the organisation. It allows the organisation to go forward on a well-managed footing, better placed to absorb the effects of changes.
- 57 The Comprehensive Spending Review 2007 confirmed that PCT funding growth will be lower than in previous years. The challenge that PCTs must rise to is to plan for the future to deliver service improvements and reduce health inequalities, while improving VFM. This can only be achieved if PCTs take medium-term financial planning seriously and are committed to achieving their MTFP. We recommend that PCTs use this briefing to evaluate their current arrangements and to help produce their next MTFP.

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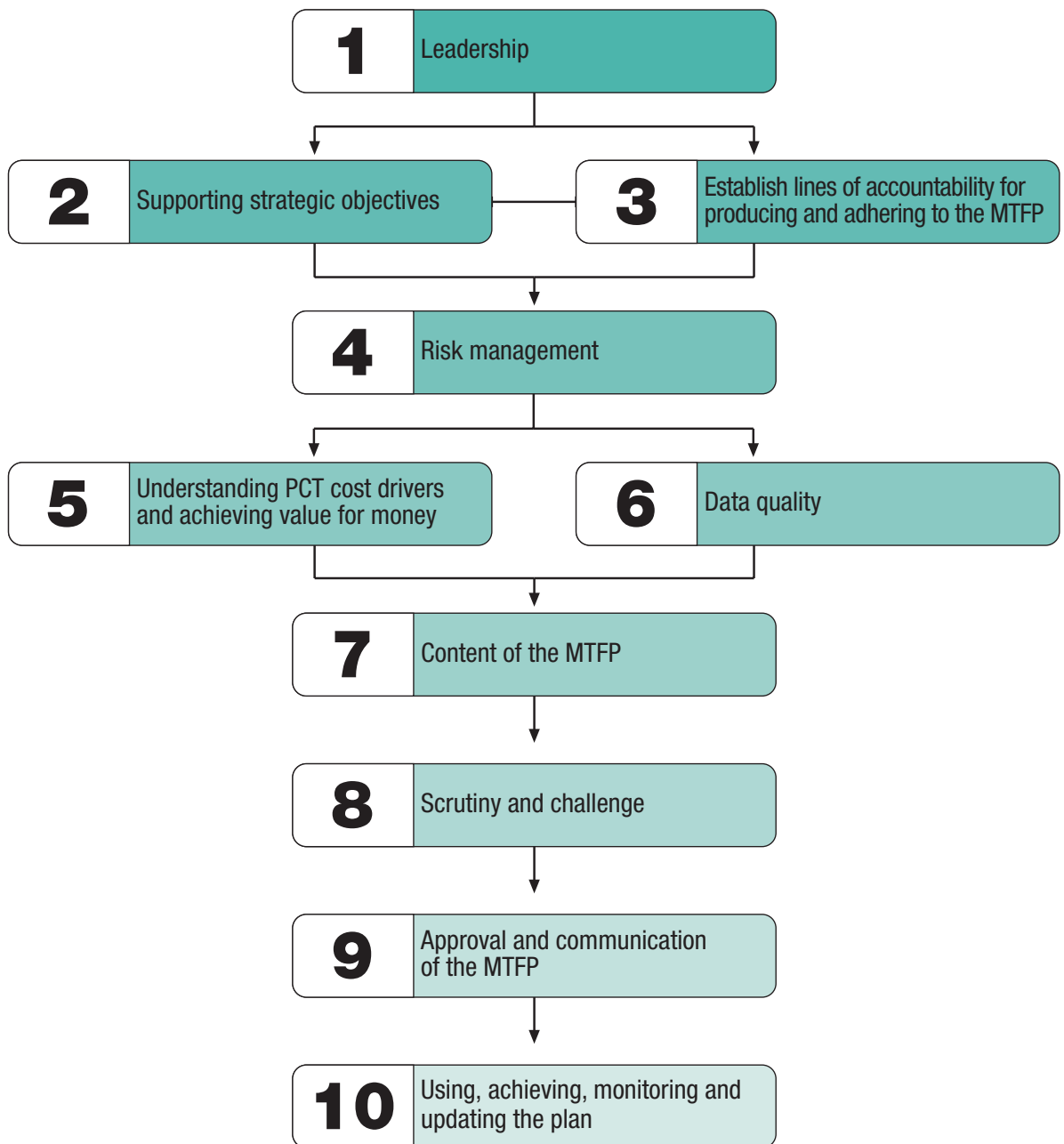
Good medium-term financial planning

This chapter sets out guidance to assist PCTs with their medium-term financial planning. The guidance is split into ten areas that cover what the Audit Commission considers to be good practice in planning. Each area starts with the key points that are explained in more detail and illustrated by a case study where appropriate.

Methodology for medium-term financial planning

- 58 There are several processes that organisations must go through to prepare a thorough and complete MTFP. The flow chart shows the basic tasks (**Figure 3, overleaf**).

Figure 3
Flow chart representing the key factors of medium-term financial planning



Source: Audit Commission

1 Leadership

Why is it important?

Strong and coordinated leadership is essential to producing and achieving an MTFP. Strong leadership provides stability and drive and joins up the parts of the organisation that need to work together.



Questions to consider

- 1.1 Does the PCT Board recognise the importance of planning its activities over the medium-term?
- 1.2 Does the Board demonstrate strong financial leadership?
- 1.3 Is the Board committed to the production of a realistic, achievable MTFP, with PCT-wide ownership and an emphasis on improving VFM over the medium-term?
- 1.4 Does the MTFP show that the Board undertakes regular horizon scanning and considers the impact of those issues with a medium-term financial impact?
- 1.5 Is the MTFP a clear statement of financial intentions, enabling provider development that is commissioner-led?
- 1.6 Has the Board reviewed the success of previous MTFPs and considered auditors' views and those of the SHA when producing its MTFP?

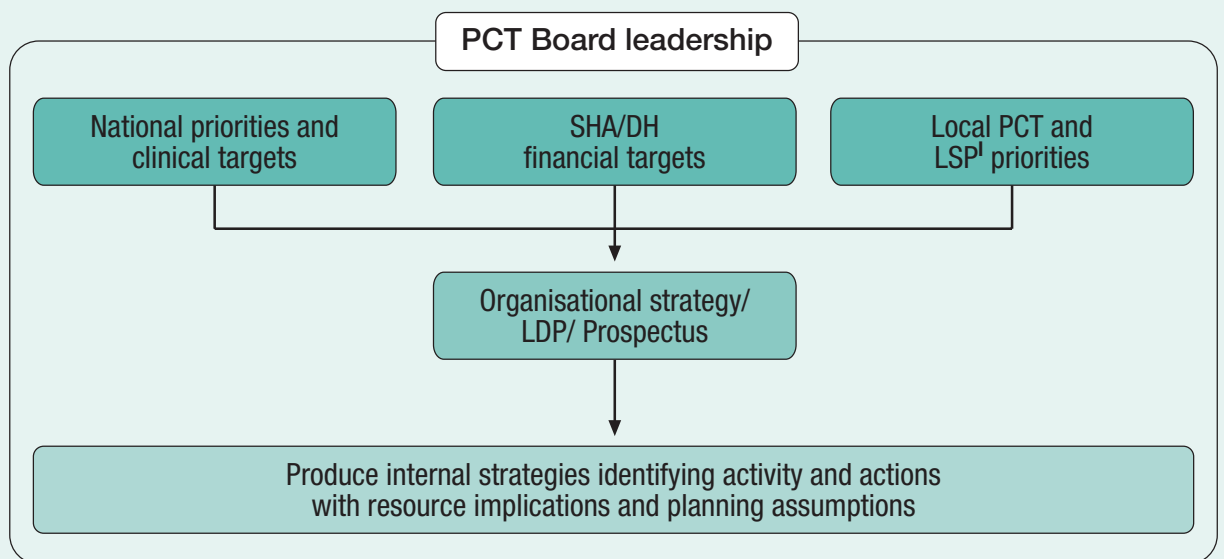


1.1 Does the PCT Board recognise the importance of planning its activities over the medium-term?

In any organisation, planning is the act of defining and articulating an organisation's ongoing and future activities in pursuit of its strategic goals, so that these activities will deliver the required and desired outcomes within available resources (**Ref. 9**). The Board should commission and set the framework for the plan, approve it and periodically review progress against it.

Figure 4, overleaf describes a PCT business planning model. This demonstrates how financial plans should flow from an organisation's overall strategy and objectives. Financial and service planning must be fully integrated.

Figure 4
Flow chart showing the development of a PCT's strategy



Source: Audit Commission



1.2 Does the Board demonstrate strong financial leadership?

The quality of financial governance and leadership within an organisation is critical to achieving world class financial management. Clearly, good basic systems, processes and controls are also important, but it is the overall financial culture of the organisation that really makes the difference (Ref. 2). It is vital that the Board drives the organisation to focus on the need to plan effectively over the medium-term and ensures that this is promoted across the organisation.

1 The local strategic partnership (LSP) is a single body that includes local public sector bodies, including the PCT, as well as private sector, community and voluntary sector organisations. Its purpose is to provide local leadership for other local partnerships and is responsible for delivering local area agreements (LAAs).



1.3 Is the Board committed to the production of a realistic, achievable MTFP, with PCT-wide ownership and an emphasis on improving value for money over the medium-term?

The tone from the top must be that the MTFP is taken seriously and its content should be as accurate as possible. It may take several iterations of the MTFP before a consensus is achieved between financial constraints and assumptions and service and provider ambitions.

Shared ownership of the MTFP should be encouraged by the integration of the medium-term financial planning process across the PCT and embedding a culture of medium-term financial planning at all levels. Moving the organisation from a mindset of focusing solely on the achievement of in-year financial targets to putting in place the finances to achieve the organisation's wider objectives can only be done by the Board.

The MTFP should both allocate resources in an economic fashion and ensure that they are put to use in the most efficient way. As part of the organisation's performance framework, the organisation must be able to demonstrate that resources are being used effectively when benchmarked against a peer group, not just past performance.

The MTFP should set out how the PCT will improve efficiency and achieve recurrent savings over the medium-term. Planning over a three-year period will allow the PCT to consider invest to save schemes that create recurrent savings but require pump-priming.



1.4 Does the MTFP show that the Board undertakes regular horizon scanning and considers the impact of those issues with a medium-term financial impact?

Establishing a formal process of horizon scanning for future cost pressures can ensure a measured approach to investment of surpluses and growth monies. There are several methods for carrying out an environmental analysis; one such technique is the PESTEL analysis. The PESTEL analysis is a method for analysing the environmental factors influencing an organisation. There are six areas, although some organisations may also choose to consider ethical factors as an additional area. **Table 1, overleaf** shows the factors that PCTs may need to consider.

Table 1
PCT PESTEL analysis

Political	Economic
Potential and actual changes to policy and the annual NHS Operating Framework.	Factors such as pay, goods and services inflation or property costs.
Sociological	Technological
Lifestyle trends and other demographic information that should be analysed in a public health report. Public/ patient opinion that must be considered when planning services. Views of the media and staff attitudes are also important.	New technologies and drugs, especially those approved by the National Institute for Health and Clinical Excellence (NICE) and the lifespan of any high-cost equipment.
Environmental	Legal and regulatory
Targets regarding carbon footprint, waste recycling and the use of other natural resources. Stakeholder aims and structures such as NHS FT status, local authority strategic objectives and LAAs.	The impact of targets such as standards for better health and other national targets in the operating framework. Employment law, health and safety law and specific legal cases, for instance regarding the costs of continuing care.

Source: Audit Commission

For those organisations that have a history of failing to achieve financial balance, a medium-term view is even more important. Good planning can ensure that short-term financial fixes are not achieved at the expense of long-term sustainability (**Ref. 2**).



1.5 Is the MTFP a clear statement of financial intentions, enabling provider development that is commissioner-led?

The PCT, as the commissioner for health services for the area, must recognise its role as the local provider market manager. Providers need to plan in conjunction with commissioners to ensure that development is commissioner-led and fits in with the overall needs of the community. Similarly, the PCT must recognise that any commissioning decisions it takes must include the impact on providers and their financial viability.

The NHS FT regulator, Monitor, recently identified that a ‘lack of clarity and certainty as to commissioners’ future plans is having an impact on the timing of significant investment decisions by NHS foundation trusts’ (Ref. 10). The DH makes it clear in its *World Class Commissioning: Competencies document* (Ref. 11) that supporting and managing providers is a key commissioning task.

1.6 Has the Board reviewed the success of previous MTFPs and considered auditors’ views and those of the SHA when producing its MTFP?

When developing MTFPs, PCTs should review the success of previous plans and specifically consider whether they had widespread support across the organisation, and identify the areas where the forecasting of financial impact could be improved.

PCTs should also consider the Fitness for Purpose review and their auditor’s annual ALE assessment, incorporating any recommendations made into the medium-term financial planning process.

Further sources of information:

Department of Health, *World Class Commissioning: Competencies*, December 2007.

Audit Commission, *World Class Financial Management*, November 2005.

Audit Commission, *Managing the Financial Implications of NICE Guidance*, September 2005.

Dr Foster Intelligence, *The Intelligent Commissioning Board*, July 2006.

Local PCT ALE report and action plan.

Local PCT Fitness for Purpose review.

Previous MTFPs.

2 Supporting strategic objectives

Why is it important?

If the PCT's strategic objectives are not incorporated into the MTFP it is unlikely they will be achieved. The MTFP provides the vehicle for ensuring that the PCT's resources are prioritised and aligned to the strategic priorities identified.



Questions to consider

- 2.1 Is the MTFP explicitly linked to the achievement of the organisation's strategic objectives, which take account of local and national priorities?
- 2.2 Is the MTFP linked to other internal strategies as appropriate, including workforce planning, information management and technology, asset management and capacity planning?
- 2.3 Does the MTFP provide assurance to the Board that commissioning intentions and service plans are financially feasible?



2.1 Is the MTFP explicitly linked to the achievement of the organisation's strategic objectives, which take account of local and national priorities?

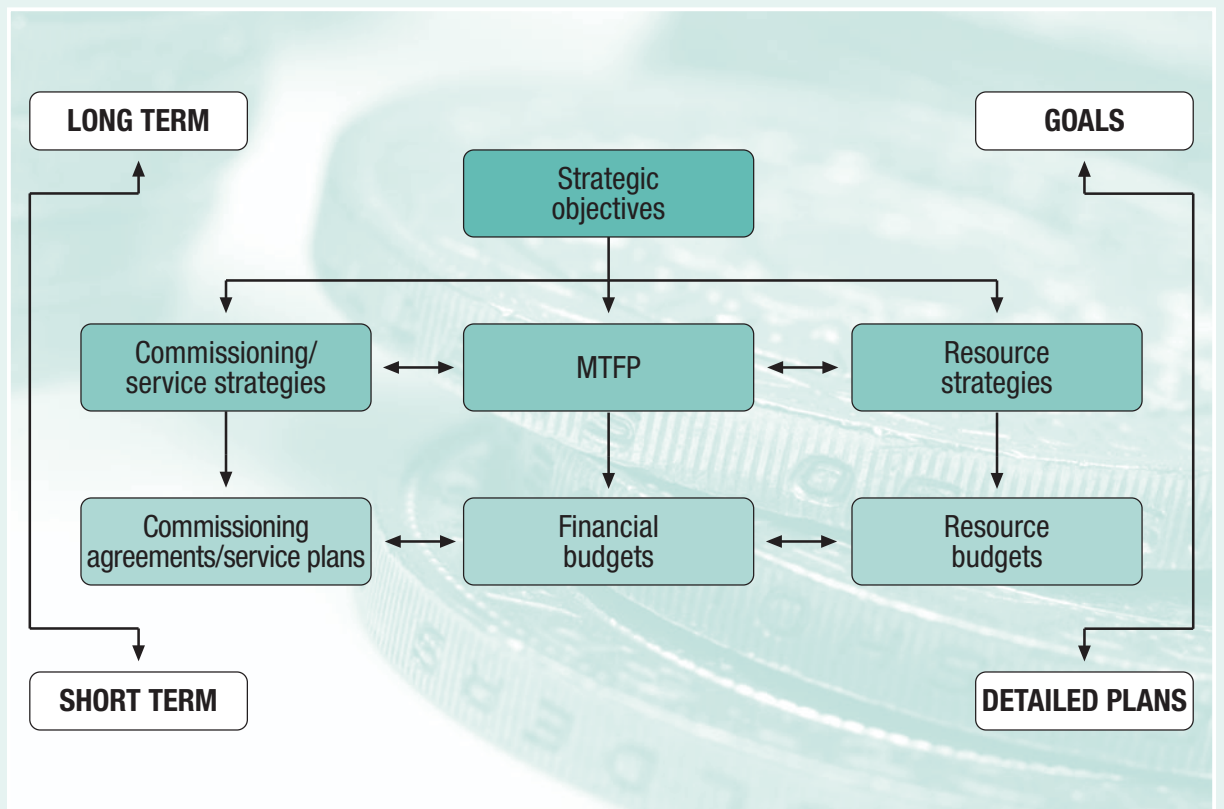
An organisation's overall plan should be developed into an MTFP. The Audit Commission's 2005 discussion paper *World Class Financial Management* (Ref. 2) notes that 'the budget and longer-term financial plan is a quantitative expression of the organisation's plan of action and as such should reflect the organisation's key strategic priorities and objectives both for the year and the longer term'.

All expenditure in the MTFP should link directly to the priorities set out in the LDP and commissioning plan. If this is not the case then the expenditure should be reviewed to clarify how it will be used to support the PCT's strategic objectives.

To further reinforce the idea that the MTFP is produced to set out the financial strategy for the achievement of strategic objectives, the MTFP should include an explanation of how it has contributed to their achievement.

Figure 5 describes a generic business planning model. This demonstrates how financial plans should flow from an organisation’s overall strategy and objectives. Financial and service planning must be fully integrated.

Figure 5
Business planning model showing the linkages between an organisation’s internal strategies



Source: Audit Commission



2.2 Is the MTFP linked to other internal strategies as appropriate, including workforce planning, information management and technology, asset management and capacity planning?

The PCT's strategic objectives will be a combination of local priorities and nationally set targets. Local priorities will have been identified with reference to a comprehensive local information base and compiled as part of the Joint Strategic Needs Assessment¹ (JSNA). These will be formalised through the LAA with the local authority. The DH publication *Operational Plans 2008/09-2010/11 National Planning Guidance and 'Vital Signs'* (Ref. 13) provides further guidance for PCTs. Benchmarking and understanding performance will play an important role in prioritising national objectives. This will form the basis for financial planning.

The MTFP is a three to five year financial plan that sets out the funding and expenditure required to deliver the PCT's operational strategies. These operational strategies include the commissioning plan, the workforce plan, the asset management strategy and information management and technology strategy.

The PCT should be able to show that all expenditure and new business cases are aligned with top level objectives and designed to support internal strategies intended to deliver those objectives.

To do this, a comprehensive business planning system, linked to a performance management system is required. Salford PCT has developed in-house an Electronic Business Monitoring System (EBMS).

Case study 1

Salford PCT

Salford PCT has developed six high-level pledges around its long-term objectives. Each pledge is split into 20 sub-objectives with a 1 to 3 year timescale. Behind the sub-objectives sit a portfolio of directorate level tasks. These are captured on a web-based system that imposes a strict timetable for updates and links with the LDP timetable.

When entering a new objective into EBMS, users are also prompted to state whether sufficient resources are currently available. If not, they are prompted to enter an estimate of the resources required for achieving it and the risk arising to the PCT with

¹ The Local Government and Public Involvement in Health Act (2007) places a duty on upper tier local authorities and PCTs to undertake JSNA. JSNA is a process that will identify the current and future health and well-being needs of a local population, informing the priorities and targets set by LAAs and leading to agreed commissioning priorities that will improve outcomes and reduce health inequalities (Ref. 12).

not achieving the objective. This links to the LDP priority setting process, which is led by the commissioning director.

EBMS also includes national targets (from the operating framework), capacity gaps and external targets such as standards for better health and the Audit Commission ALE KLOE. Each EBMS objective must be linked to one of these targets. If it cannot be then the objective will be reviewed as to whether it is a genuine priority for the PCT. The objectives must eventually link through to the high level pledges. This process is led by the professional executive committee (PEC).

The benefit of this approach is that the PCT finds that the targets appearing in the operating framework are seldom a surprise and that they will already have set an objective to address these national targets. The approach also ensures that the PCT spends its allocation on activities that will contribute to the delivery of its strategic objectives.

Objectives are designated to a named officer and with a defined timeframe. The system is used for monthly monitoring and reporting and for populating the risk register.

The MTFP is structured around the same headings as in EBMS, such as national targets, Greater Manchester targets and then local initiatives.



2.3 Does the MTFP provide assurance to the Board that commissioning intentions and service plans are financially feasible?

The Board should know whether its resources are sufficient to finance its intentions for the future. The MTFP should perform this function and will therefore require close scrutiny and testing of planning assumptions by all members of the Board, not only the finance director.

Further sources of information:

Department of Health, *Guidance on Joint Strategic Needs Assessment*, December 2007.

Department of Health, *Commissioning Framework for Health and Well-being*, March 2007.

Department of Health, *Operational Plans 2008/09-2010/11 National Planning Guidance and 'Vital Signs'*, January 2008.

CIPFA, *Integrated Planning: An Overview of Approaches*, 2006.

3 Establish lines of accountability for producing and adhering to the MTFP

Why is it important?

There needs to be clarity over who is responsible for developing the MTFP and a timetable for its delivery.



Questions to consider

- 3.1 Are the processes for producing the MTFP clearly set out and is accountability assigned to a named group of officers ('the group') from across the PCT, in conjunction with production of the LDP?
- 3.2 Does the group work to a timetable for integrated service and financial planning that is aligned with the LDP and annual budgeting timetables?
- 3.3 Is it clear where accountability lies for liaison with internal and external stakeholders?
- 3.4 Is there a clear relationship between the group and practice based commissioners to ensure that the ambitions of the PCT are understood and shared by practices?
- 3.5 Does the group discuss progress regularly and ensure that the MTFP is updated as and when necessary?
- 3.6 Does the group discharge the PCT's role as local provider market manager by considering the financial implications of commissioning decisions for providers?
- 3.7 Does the group provide the link between medium-term financial planning and a rolling programme of service reviews across the PCT that challenge existing baselines as well as the investment of growth monies?



3.1 Are the processes for producing the MTFP clearly set out and is accountability assigned to a named group of officers ('the group') from across the PCT, in conjunction with production of the LDP?

In practice, this may be difficult to achieve and will involve a cultural shift. Financial planning should no longer be the domain of the finance department, but the responsibility of the entire organisation.

To integrate planning better, some higher ALE scoring PCTs, such as Barking and Dagenham PCT, have established a planning steering group (**Case Study 2**) and others have developed lines of accountability that embed medium-term financial planning fully throughout the organisation. The effect of this centralised, inclusive approach is that all decisions with a financial effect are made through one channel and there are no surprises that could throw the MTFP off course. It also ensures that decisions are made at the highest level so planning is more likely to be aligned with strategic objectives.

Case study 2

Barking and Dagenham PCT

Barking and Dagenham PCT has established an LDP steering group to manage the PCT's intensive development agenda. It is a decision making group that meets monthly and reports to the Board. Its membership includes the PCT chair, a non-executive director, PBC representatives and the PEC chair. Patients' groups, a citizens' panel and the social care and voluntary sector have an opportunity to contribute too.

The PCT does not separate its MTFP from the LDP. The starting point is a basic draft plan – resource allocations for three years and inflationary assumptions – which is discussed by the LDP group. The spreadsheet is updated after every LDP group meeting and the detail is gradually worked out.

The group is a focal point for deciding the PCT's priorities and ensures there are no surprises or conflicting decisions made that could affect the MTFP. The group is the anchor to ensure some central control over the many devolved groups such as practice based commissioners, children's trusts and adult trusts, which all put forward priorities.

The PCT believes that this approach allows the whole PCT to own the LDP and MTFP rather than just the finance department and it is crucial to delivering the PCT's ambitious development plans.

**3.2 Does the group work to a timetable for integrated service and financial planning that is aligned with the LDP and annual budgeting timetables?**

The MTFP cycle should be aligned with the LDP and annual budgeting cycles. This will avoid any unnecessary duplication of planning documentation and ensure that the annual budget is based on the most current version of the MTFP. Overall accountability for adhering to a timetable will need to be assigned to members of the planning group and enforced through the business planning system.

**3.3 Is it clear where accountability lies for liaison with internal and external stakeholders?**

Those involved in the planning process will need to work closely with internal and external stakeholders to develop a comprehensive and balanced MTFP. Ensuring good communication and relationships is integral to gathering the necessary information and understanding it in the context of the PCT and its stakeholders. Good medium-term financial planning is based on the knowledge of the PCT and its services.

**3.4 Is there a clear relationship between the group and practice based commissioners to ensure that the ambitions of the PCT are understood and shared by practices?**

As PBC becomes fully implemented, PCTs will have devolved a significant proportion of their overall budgets to practices. As practices will be responsible for deciding how these budgets are spent, PCTs should have in place clear lines of accountability for ensuring that strategic objectives are addressed by GP practice spending.

The group should have sufficient GP practice representation to allow practice based commissioners to contribute to the medium-term financial planning process but also to ensure practices are fully informed. For instance, the MTFP will be based in part on savings achieved by demand management schemes that will be implemented by practice based commissioners.

Where PBC has been implemented most successfully it was being led or significantly overseen by the PCT director of finance or commissioning (**Ref. 6**); the MTFP group will support this. As well as supporting practice based commissioners' contribution to the achievement of PCT strategic objectives the PCT must also establish a strong performance management and governance framework.

**3.5 Does the group discuss progress regularly and ensure that the MTFP is updated as and when necessary?**

Meetings should be timetabled and include representation from all stakeholders. A standing item for discussion should be refinement of the MTFP where new information is available. The MTFP should be updated after every meeting.

**3.6 Does the group discharge the PCT's role as local provider market manager by considering the financial implications of commissioning decisions for providers?**

Discussions should be held with local partners and stakeholders, where appropriate, to consider the impact on the wider health and social care community and effectively manage the local provider market. This is particularly relevant for decisions on shifting the balance of commissioning from secondary care to primary care as any shift must also form part of the planning process for the organisations that will see a change in activity. There should be a written assessment of the local provider market and whether, and how, it should be changed or improved. The expected impact of changes should be determined.

**3.7 Does the group provide the link between medium-term financial planning and a rolling programme of service reviews across the PCT that challenge existing baselines as well as the investment of growth monies?**

There will be many people, both internal and external to the PCT, who can identify problem areas; the key is to prioritise them against national targets and to establish the causes for problems.

For the majority of organisations, the annual budgeting process will be incremental, but an MTFP provides the opportunity for a rolling review of all aspects of expenditure and the identification of recurrent savings.

The planning group should establish responsibility for undertaking a full review of budgets for its own service provision and that which it commissions from other providers.

The planning group will also need to ensure that service review and care pathway redesign work is integrated into medium-term financial planning as part of its work.

Further sources of information:

CIPFA, *Financial Management Model: Financial Management and Effectiveness in Public Service Organisations*, 2004

Department of Health, *World Class Commissioning: Competencies*, December 2007.

4 Risk management

Why is it important?

Any plan is based on forecasting and predictions of future activity. Plans are therefore only as accurate as the assumptions they are based on. This needs to be recognised so that scenario planning, risk assessment and sensitivity analysis can be used appropriately.



Questions to consider

- 4.1 Does the MTFP identify future developments and their resource implications? Does it assess the level of risk attached and plan contingencies at an appropriate level?
- 4.2 Are funding and expenditure projections based on modelling of best case, worst case and most likely scenarios?
- 4.3 Does the MTFP consider the long-term affordability of capital investment decisions, including all associated revenue expenditure?
- 4.4 Is the MTFP supported by a policy on the treatment of under/ over spending including calls on contingencies, virements and carry-forward? Do new investments, both capital and revenue, have performance targets attached and also include an agreed exit strategy?



4.1 Does the MTFP identify future developments and their resource implications? Does it assess the level of risk attached and plan contingencies at an appropriate level?

The MTFP should incorporate any service developments and the investment of any growth monies, but show risk awareness and prudence. It should include an assessment of the strength of planning assumptions and the risk attached to poor quality information. New business cases should include a risk assessment that is recorded in a risk register and actions developed to address these risks for the annualised element of the MTFP. Triggers for urgent action can also be agreed for a range of indicators that may have an impact on achievement of the MTFP, for instance:

- poor performance on VFM indicators or lack of progress on VFM targets;
- material expenditure savings attributed to improvements in efficiency that are yet to be identified;

- adverse ALE assessment or poor performance highlighted by Financial Information Monitoring returns or other financial reporting; or
- long-term contract disputes.

Uncertainty and risk should also be built into the MTFP on a quantitative level by incorporating contingencies to ensure that the organisation is able to position itself well for the unexpected. There are many examples of uncertainties that NHS organisations have faced recently, for instance issues external to the organisation, such as: SHA top slicing; inaccurately coded or untimely activity data; uncertainty of Payment by Results (PbR) activity; the cost of implementing NICE guidance; workforce contracts; and severance costs. Internally, organisations may not be able to be certain about the costs of meeting national targets, such as: the 18-week referral to treatment target; the success of demand management initiatives or public health campaigns, or successfully preparing for the cost of potential future legislation.

Contingencies must be set at a level appropriate to the risk and take into account the likelihood and impact of its occurrence. In essence, contingencies should be prudent but affordable and not unduly affect the provision of services to patients. The overall level of contingencies should be set in agreement with the SHA.



4.2 Are funding and expenditure projections based on modelling of best case, worst case and most likely scenarios?

Scenario modelling is a key tool to assist organisations faced with uncertainty and is mandated by the *Operating Framework (Ref. 1)*. Organisations need a rigorous process to build up and analyse cost information across the range of services they provide. There should be a clear understanding of what factors influence an organisation's costs (**Ref. 2**). Scenarios should be used to model growth and the impact of demand management schemes on acute and community based activity, in order to arrive at a most likely outcome that can be used for planning purposes.

It is very important that modelling is realistic and reflects genuine scenarios.



4.3 Does the MTFP consider the long-term affordability of capital investment decisions, including all associated revenue expenditure?

The MTFP should cover a three year period for most revenue expenditure. However, capital schemes will have a longer lifetime. For major capital investments the MTFP should be compiled with reference to forecasts of all material revenue expenditure

associated with the asset over its entire lifetime. This will have been completed as part of the original investment appraisal. This demonstrates transparency on the part of the PCT and that the PCT is aware of the total package of costs associated with the purchase and running of capital schemes. PCTs should also be aware of any material long-term revenue expenditure, for instance, high cost continuing care cases.



4.4 Is the MTFP supported by a policy on the treatment of under/ over spending including calls on contingencies, virements and carry-forward? Do new investments, both capital and revenue, have performance targets attached and also include an agreed exit strategy?

PCTs should make strenuous efforts to produce a comprehensive and detailed MTFP. PCTs should ensure there is a policy that is complied with on the use of contingencies and that carry-forward of under spends is justifiable.

A good MTFP will be supported by robust business cases that underpin all new expenditure, both capital and revenue, that set out both the costs of the scheme and the expected benefits, linked to performance targets. It will also include a risk analysis and a summary of the implications of the initiatives, including for the organisation's stakeholders.

Business cases should be implemented with a strong governance regime to ensure their success. All new schemes should have performance targets agreed upfront and be either self-funding, funded in order to realise equivalent increases in efficiency through higher productivity, or funded to achieve an improvement in quality. Should the scheme not deliver the expected outcomes, the business case should also include an exit strategy if the decision is made to cease. This will allow PCTs to cease funding a scheme in a planned way that will not cause undue disruption to patients or other services.

Further sources of information:

Department of Health/HFMA, *NHS Audit Committee Handbook 2005*, October 2005.

NHS Executive, *Capital Investment Manual*, 1994.

HFMA, *Effective Governance in Healthcare: An Introductory Guide*, November 2006.

5 Understanding PCT cost drivers and achieving value for money

Why is it important?

PCTs commission and pay for care. Therefore, to produce an accurate MTFP a PCT should fully understand the relationship between activity and expenditure. The ability of PCTs to monitor, understand and challenge providers' performance is a critical part of achieving value for money in the PbR environment.



Questions to consider

- 5.1 Is the MTFP based on a clear understanding of the cost drivers of the PCT's expenditure?
- 5.2 Is the MTFP based on commissioning plans that in turn are based on realistic demographic and public health data forecasting?
- 5.3 Is the PCT provider-arm financial planning based on service planning?
- 5.4 Does the medium-term financial planning process support the redesign of care pathways and the generation of efficiency savings? Is expenditure analysed through the use of programme budgeting, benchmarking of cost profiles and trend analysis?
- 5.5 Is the MTFP based on up-to-date contract monitoring data? Does the PCT have strong arrangements in place for monitoring performance against contracts?
- 5.6 Does the MTFP include investment in information systems that will result in better population intelligence and informatics?



5.1 Is the MTFP based on a clear understanding of the cost drivers of the PCT's expenditure?

A PCT's ability to influence its expenditure varies significantly between different expenditure types and this in turn has an impact on how easy expenditure is to forecast. **Table 2** outlines the different approaches that may be necessary for the different expenditure types.

The effect of local circumstances should not be underestimated and forecasting models should factor these in. PCTs also need to be sure of the levels of influence they hold over different parts of the local health economy. PCTs' relationships with NHS FTs, the local authority and voluntary sector organisations will all be different, depending on the drivers for the relationship. There will need to be different planning assumptions accordingly.

The Audit Commission has developed a PbR benchmarking tool (available on the Audit Commission website) with a data explorer that allows users to perform several analyses. For instance, any one of 22 indicators over a two-year period can be compared to identify trends or unexpected changes at a selected NHS trust or FT. Furthermore, the trust's actual reported activity for the area and indicator in question can be compared with the expected rate, which is a calculated value showing the same activity if it had occurred at the average national rates in the country over the same time period.

PCTs should also consider the fixed and variable costs of their organisation and of providers. For the PCT this is necessary for major investment or disinvestment decisions, reference costs and one-off projects. It is important that PCTs understand provider cost structures to ensure that their commissioning decisions do not unintentionally destabilise providers.

Investment strategies need to be supported by a proper analysis of financial and operational returns that assesses the suitability and acceptability of the strategy, taking into account risk and discounted cash flows.

Table 2
Examples of medium-term financial planning methods

Cost type	Example	Medium-term financial planning method
Direct control	PCT provider services	Incremental budgeting and trend analysis. Financial forecasting based on activity forecasts and predictive planning of cost drivers.
Some direct control	PCT initiates or approves expenditure but is not responsible for the delivery of goods or services.	<p>Planning can be activity-based, based on benchmarking and within quotas. Planning can be informed by trend analysis and forecasting based on information obtained from those incurring the expenditure.</p> <p>Control needs to be exercised via close communication with those incurring expenditure and more formally through SLAs or other agreements.</p>
Some indirect control	PCT does not control the approval or level of expenditure but can influence it via its wider strategic decisions.	<p>Expenditure will include PBC expenditure and expenditure initiated by acute trusts.</p> <p>This planning must be undertaken in conjunction with partners in the acute and local authority sectors, given that activity forecasting will vary between commissioner and provider.</p> <p>For demand management schemes, benchmarking, such as programme budgeting and the use of actuarial based forecasting techniques to allow scenario planning around the success of schemes over the medium-term could also be considered.</p>
Limited or no control	Accident and Emergency or maternity expenditure.	<p>PCTs should make use of sophisticated methods of forecasting, such as actuarial methods, to base scenario planning on. Medium-term financial planning forecasts would have wider upper and lower limits ascribed to the various scenarios.</p> <p>Some trend analysis would be possible and some demand management/public health initiatives will have an impact that would need to be quantified. PCTs should also make use of tools such as the avoidable admissions tool, developed by Audit Commission improvement investigators that can highlight outlying expenditure.</p>

**5.2 Is the MTFP based on commissioning plans that in turn are based on realistic demographic and public health data forecasting?**

By collecting and analysing performance and demographic data, the link between spending and outcomes can be quantified, analysed and the drivers and costs of specific care pathways better understood, enabling better decision making.

The DH has published guidance on the JSNA (**Ref. 12**) that will place a duty on PCTs to carry out a joint strategic needs assessment with local authorities and publish the results as part of a PCT Prospectus¹ document. Many PCTs already use a variety of analytical tools to do this. The guidance sets out a minimum data set to carry out this exercise.

**5.3 Is the PCT provider-arm financial planning based on service planning?**

The majority of PCT expenditure is spent on commissioning services but PCT provider arms also need to plan over the medium-term. The *Operating Framework* (**Ref. 1**) also makes this explicit, requiring an 'internal separation of their operational provider services'. PCT commissioners are expected to agree SLAs with PCT providers, therefore necessitating a separate commissioner and provider MTFP.

PCTs should ensure that adequate activity data are held on its own provider functions, especially given that the PbR tariff does not currently extend to the majority of these services. PCT providers should also consider the use of service-line reporting to aid strategic medium-term decision making.

**5.4 Does the medium-term financial planning process support the redesign of care pathways and the generation of efficiency savings? Is expenditure analysed through the use of programme budgeting, benchmarking of cost profiles and trend analysis?**

In most organisations, the MTFP will not be based on a fully zero-based approach but rather the roll-over of the most significant budgets with an incremental uplift. The MTFP will represent the investment of growth monies and the managed spend of surpluses or the return to financial balance from a position of over spending.

¹ The *PCT Prospectus* is a document which sets out the strategic direction for local health services, highlighting commissioning priorities, needs and opportunities for service providers, providing a focus for discussion with patients and the local community, and an opportunity to open dialogue with potential providers (**Ref. 14**).

Medium-term financial planning should include a rolling programme reviewing the major service areas within the organisation (**Ref. 2**). In practice this can be difficult to contemplate when faced with demanding targets and cost pressures. Even organisations reporting good financial standing for a given year may still not be achieving recurrent in-year financial balance, hence a rolling review of major services is applicable to all organisations. This approach has been undertaken by Salford PCT (**Case study 3**).

Although a PCT cannot hold reserves on its balance sheet, it may choose to lodge surpluses with the SHA, to be returned the following year. These should also be included in the MTFP.

Case study 3

Salford PCT

Salford PCT has found that in previous years it has not had the resources fully to address its local priorities as it would like to. The PCT has therefore embarked on a rolling value for money review programme, initially consisting of 27 reviews, with the intention of creating savings to resource local plans.

This programme is expected to realise savings of £10 million between 2007/08 and 2009/10, half of which is to address an underlying recurrent over spend and the other half will be invested in local plans.

The scope of the reviews was identified through national benchmarking that highlighted spending on outpatient follow up, and programme budgeting information that highlighted in particular the PCT's spending on gastro-intestinal care. Other reviews have been driven by the PBC business plan that identified areas where efficiency savings could be made.

Individual officers are made responsible for an area and the review process is overseen by an associate director. The majority of best value reviews lie in the commissioning directorate around demand management.

The reviews are a high priority for the PCT and before any new investment bids are approved the service must go through a review to release savings.

PCTs should use these various sources of information to help identify areas of expenditure that appear to be outliers and then to find out the reasons for the outlying performance, taking action as necessary. **Table 3** sets out some sources of data that might be useful for this. In practice, information analysis of this kind will require investment in both training and new information analysts. The PCTs interviewed as part of the field work for this briefing all reported that they had increased capacity in this area. For instance, investing in capacity around care pathway redesign or in information handling capacity such as clinical coding/data quality assurance.

As well as benchmarking to identify areas with below average performance, PCTs should seek to drive performance of their average services to that of the leading PCTs.

Table 3
Sources of data

Source	Description
Programme budgeting	<p>Although not a radical driver of PCT planning, programme budgeting information is useful as an indication of problem areas. However, PCTs must understand the service in detail to ensure that the right conclusions are drawn. For instance, a high spend in one area and low spend in another area may be co-dependent and by tackling one area and improving outcomes, the outcomes of another programme area may then be affected, either positively or adversely. PCTs also need to be aware of the levels of unmet demand that exist in order to gauge the effect on activity of service investment.</p> <p>The MTFP should contain, as an appendix, a narrative analysis of programme budgeting information, setting out the programme areas that require further analysis.</p>
National Centre for Health Outcomes Development (NCHOD)	<p>Comparative health outcome indicators using available routine data, in the form of the Compendium of Clinical and Health Indicators. Programme budget and outcome indicators are presented in a user-friendly graphical format combining maps, tables and charts in a way that allows the user to select, filter, sort and generally explore the data.</p>
NHS Institute for Innovation and Improvement productivity metrics	<p>Based around 15 high-level indicators of efficiency that identify potential areas for improvement in efficiency. These indicators can be used locally to help inform planning, to inform views on the scale of potential efficiency savings in different aspects of care and to generate ideas on how to achieve these savings.</p>
Local health observatories	<p>Health observatories operate in each region and provide a range of information for commissioners covering the <i>DH Commissioning Framework for Health and Well-being (Ref.14)</i>, health inequalities and public health.</p>
JSNA	<p>The <i>DH Commissioning Framework for Health and Well-being (Ref. 14)</i> provides guidance on what a JSNA should contain and the sources of these data, including demographical and outcomes data. Further JSNA guidance (Ref. 12) was published in December 2007 alongside the <i>Operating Framework (Ref. 1)</i>.</p>

PCTs also need to monitor closely the activity and effects of PBC. The Audit Commission's report *Putting Commissioning into Practice* (Ref. 6) notes that PBC is 'largely being led locally by enthusiastic practices'. PCTs still need to ensure that practices engage with stakeholders in order that PBC budgets are properly aligned with PCT strategic objectives.

Many PCTs are implementing SLA monitoring systems that can help capture management information for this purpose. Furthermore, PCTs are beginning to invest in upgrading their activity and recording systems for community and mental health activity. All of the PCTs involved in this briefing recognised that investment at some level would be necessary over the medium-term.



5.5 Is the MTFP based on up-to-date contract monitoring data? Does the PCT have strong arrangements in place for monitoring performance against contracts?

The need to link forecasting to contracts is integral to managing performance through contracts. Our research found that a common barrier when monitoring provider performance against contract was the effectiveness of the Secondary Uses Service¹ (SUS). The view was that SUS does not currently fulfil the needs of PCTs. Activity monitoring is key to effective planning and PCTs should not rely on SUS if the necessary data can be obtained from other sources more quickly and accurately.

There are SLA monitoring software packages available that many PCTs have implemented that allow activity to be cleansed and reported usefully. It is important that PCTs have the most up-to-date activity information available, especially because medium-term financial planning will start well in advance of the new financial year and will therefore be based on month six activity data in many cases.

¹ SUS is the single repository of person and care event level data relating to the NHS care of patients, which is used for management and clinical purposes other than direct patient care. These secondary uses include healthcare planning and commissioning, benchmarking and research. The data currently managed within SUS is derived from the commissioning datasets, which providers of NHS care must submit and make available to commissioners.

Activity data for community and mental health services activity can also be very difficult to measure. It may be necessary to consider the most appropriate currencies for recording contacts, to ensure that meaningful comparisons between acute and primary care can be made. This will also be useful for measuring the impact of demand management initiatives. The PCTs involved in the research for this briefing all reported that some form of investment in activity recording systems is planned.



5.6 Does the MTFP include investment in information systems that will result in better population intelligence and informatics?

PCTs have access to, and make use of, demographic and clinical information at a fairly high level; typically GP practice or council ward level. This kind of information can help practice based commissioners to target services and PCT commissioning departments to determine capacity requirements by forecasting over the medium-term. When linked to outcomes and programme budgeting information, activity forecasting can also be used to monitor the effectiveness and VFM of care pathways.

PCTs should also be collecting and analysing enough information to enable them to judge whether commissioned services are meeting the needs of its community effectively. The JSNA guidance (**Ref. 12**) contains tools that will help PCTs make this judgement.

The American insurance based healthcare system has well developed systems for the predictive modelling of healthcare. Predicting future health needs and the use of sophisticated analytical techniques such as actuarial analysis and population risk stratification also forms part of the DH's *World Class Commissioning: Competencies* (**Ref. 11**). Some of the possibilities are:

- predicting long-term trends for populations;
- better market management of providers;
- identifying patient groups at risk of particular diseases; and
- assessing VFM by comparing patient outcomes with provider outputs.

Through better modelling of commissioning needs the MTFP will include a more accurate financial prediction of likely future costs.

Further sources of information:

Audit Commission, *In the Know: Using Information to Make Better Decisions*, February 2008.

CIPFA, *Achieving Transformational Change – Reform, Efficiency and Lean Thinking in the NHS*, 2007.

Department of Health, *Guidance on Joint Strategic Needs Assessment*, December 2007.

Department of Health, *Commissioning Framework for Health and Well-being*, March 2007.

Audit Commission, PbR Benchmarking www.audit-commission.gov.uk.

Programme budgeting –
www.dh.gov.uk/en/Managingyourorganisation/Financeandplanning/Programmebudgeting/index.htm.

NCHOD – www.nchod.nhs.uk.

NHS Benchmarking Club – www.nhsbenchmarking.nhs.uk.

NHS Institute – www.institute.nhs.uk.

6 Data quality

Why is it important?

Given the reliance placed on activity data for trend analysis and benchmarking tools such as programme budgeting for decision making, it is important that data are reliable and used correctly.



Questions to consider

- 6.1 Is the MTFP supported by a PCT-wide data quality policy that ensures the reliability of planning data? Does the policy include arrangements to gain assurance on the quality of externally generated data?
- 6.2 Are previous planning documents reviewed for accuracy to allow continual improvement in data quality?



- 6.1 Is the MTFP supported by a PCT-wide data quality policy that ensures the reliability of planning data? Does the policy include arrangements to gain assurance on the quality of externally generated data?

The rationale for key assumptions, the derivation of figures and discussion of the completeness of figures and whether figures are outdated or uncertain should be considered as part of the medium-term financial planning process. Data quality issues need to be recognised and addressed if necessary, including:

- whether all sources of data reliable and appropriate for the use for which they are intended;
- how data can be improved; and
- whether the organisation has a corporate data quality policy.

The collection and interpretation of data is crucial to accurate planning but the quality of decision making can only be as good as the quality of the data. PCTs should have appropriate data quality policies but, where they rely on externally generated information, alternative arrangements may be required, such as the SLA monitoring tools described in the previous section. The MTFP should include an assessment of the data used for decision making and an indication of how much reliance can be placed on it.

The Audit Commission has a role to play in data quality assurance and 2006/07 was the first year of the PbR data assurance framework. The Audit Commission has also published a briefing called *Improving Information to Support Decision Making* (Ref. 15) that sets out the qualities of good information and what organisations should be thinking about when collecting and using data. The *Operating Framework* (Ref. 1) also notes that formal data quality audits will be developed, possibly by the Audit Commission.



6.2 Are previous planning documents reviewed for accuracy to allow continual improvement in data quality?

Where the implementation of the MTFP reveals inaccuracies in planning assumptions or new data come to light that would improve the accuracy of the MTFP, then planning documents should be updated.

The MTFP baseline assumptions on activity and costs should be refined each year if they are found to be incorrect, to further improve the quality of data.

Further sources of information:

Audit Commission, *Improving Information to Support Decision Making: Standards for Better Quality Data*, November 2007.

Audit Commission, *In the Know: Using Information to Make Better Decisions*, February 2008.

7 Content of the MTFP

Why is it important?

The MTFP itself will take the form of a set of interdependent spreadsheets, accompanied by a narrative that explains assumptions and risks. Based on the input of basic funding and expenditure information, predicted activity, inflationary and growth assumptions, the spreadsheets will produce three to five year financial and activity plans analysed across programme areas or directorates.



Questions to consider

- 7.1 Does the MTFP model funding and expenditure, balance sheet and cash flows over a minimum of three years? Are expenditure and activity forecasts clearly linked?
- 7.2 Is expenditure modelling classified into appropriate clinical areas in a format as close as possible to that used for external reporting and transparent to external users?
- 7.3 Does the MTFP include any unidentified efficiency savings?
- 7.4 Is modelling of practice based commissioning budgets included in the MTFP?
- 7.5 Does the MTFP include a strategy for investment of the entire resource allocation linked to a review of care pathways?



7.1 Does the MTFP model funding and expenditure, balance sheet and cash flows over a minimum of three years? Are expenditure and activity forecasts clearly linked?

The MTFP should set out in detail:

- three to five year funding and expenditure forecasts, including the impact of any service development plans and new initiatives;
- three to five year projections for activity and demand for services;
- capital expenditure forecasts and the associated revenue implications;
- three to five year cash flow projections, including working capital assumptions and financial commitments around loans and deposits;

- three to five year balance sheets giving an indication of the strength of the balance sheet;
- sensitivity analysis – outputs can be revised simply to reflect changes in key activity drivers; and
- scenario planning where impact and uncertainty are high.

None of the primary financial statements can be considered in isolation. Instead, the impact of financial plans, budgets and strategic objectives should be linked through to all of them (**Ref. 2**).

It is important to note that there is no precise format for a good MTFP; this will vary depending on the level of collaboration with the commissioning function and others. The commissioning function may have already produced detailed activity forecasts and other directorates may have detailed strategies in place that need to be collated and costed by finance. In some organisations it may be that the finance function is responsible for initiating and supervising the entire process from beginning to end. In all circumstances, the MTFP will be a fairly complex and resource intensive exercise to be of use.

Alongside the financial spreadsheets, there should be a narrative commentary on the implications of the operating framework and the demographic, policy and financial environment. This will provide context and justification for the MTFP and explain in further detail the planning assumptions that have been made. Themes to be covered should include:

- population demographics;
- population healthcare needs assessment;
- health outcomes and inequalities;
- local targets and national priorities;
- existing healthcare provision in the health economy;
- other pressures within the health economy;
- financial standing and targets;
- activity;
- internal capacity and development needs; and
- stakeholder analysis.

The narrative should provide a clear link to the system for monitoring achievement of the MTFP. This will include milestones and named responsible officers.



7.2 Is expenditure modelling classified into appropriate clinical areas in a format as close as possible to that used for external reporting and transparent to external users?

PCTs' MTFP spreadsheet templates should analyse expenditure at a detailed level between the various clinical categories that make up the majority of PCT commissioning spending. They should be grouped by sectors such as secondary acute care, primary care, prescribing, community services, maternity services, mental health/ learning disabilities and so on. There should be a separate MTFP for the PCT provider arm. This can be used as the framework for analysing and planning expenditure. PCTs can assign scenario planning models to each expenditure category.

PCTs can model best case, worst case and most likely inflationary growth and expenditure assumptions. **Appendix 1** demonstrates how a PCT could use these scenarios to produce medium-term funding and expenditure forecasts.



7.3 Does the MTFP include any unidentified efficiency savings?

The MTFP should not include unidentified efficiency savings as a method for balancing funding and expenditure. All savings appearing in the MTFP should be assigned to a named officer, accountable for delivery of those savings.

Efficiency savings linked to demand management schemes and service redesign should be supported by sufficient evidence.



7.4 Is modelling of practice based commissioning budgets included in the MTFP?

The *Operating Framework (Ref. 1)* notes that PCTs should ensure GP practices receive a fair shares indicative budget. The MTFP should include an analysis of the commissioning budget to show which areas of activity will be devolved to practices and the level of funding.



7.5 Does the MTFP include a strategy for investment of the entire resource allocation linked to a review of care pathways?

The MTFP should be comprehensive, without unidentified savings and including capital and revenue. Consideration of capital investment and its revenue implications will become ever more important in light of Lord Darzi's report for the DH *Our NHS, Our Future* interim report (**Ref. 16**). Reviewing the overall budget has been discussed in Section five and is a large and important area to address.

Further sources of information:

CIPFA, *The CIPFA FM Model: Statements Of Good Practice in Public Financial Management*, 2007.

CIPFA, *Integrated Planning: An Overview of Approaches*, 2006.

NHS Executive, *Capital Investment Manual*, 1994.

8 Scrutiny and challenge

Why is it important?

An MTFP with PCT wide input is more widely accepted and shows that financial stability, rather than savings is seen as a priority issue.



Questions to consider

- 8.1 Do senior budget holders and the Board have the opportunity to comment on and challenge the draft MTFP before its approval?
- 8.2 Does the MTFP include the results of public and patient consultation and is it aligned with the investment plans of key partners such as the local authority and the wider health economy?



8.1 Do senior budget holders and the Board have the opportunity to comment on and challenge the draft MTFP before its approval?

The MTFP should be circulated for an internal consultation period to ensure that senior budget holders are satisfied that the figures and assumptions contained within it are achievable.

Board members should satisfy themselves that the MTFP is a complete and accurate document that incorporates all of the PCT's funding and expenditure streams and quantifies all known financial risks.



8.2 Does the MTFP include the results of public and patient consultation and is it aligned with the investment plans of key partners such as the local authority and the wider health economy?

The JSNA should capture the needs of the public and patients that then need to be fed into the commissioning and provider-arm strategies and the MTFP. To ensure coordination with acute providers, the local authority and other key partners, the external stakeholders should have a formal opportunity to scrutinise and challenge PCTs' MTFPs. For the local authority this could be via the mechanism of the Overview and Scrutiny Committee. For other stakeholders the group accountable for the MTFP should ensure that an appropriate mechanism has been established to allow sufficient challenge.

To test the sensitivity of the local provider market to care pathway redesign and commissioning models and assumptions, PCTs must consider the impact that decision making has on providers.

Further sources of information:

Department of Health, *Guidance on Joint Strategic Needs Assessment*, December 2007.

Department of Health, *Overview and Scrutiny of Health – Guidance*, July 2003.

Department of Health, *Local Involvement Networks Explained*, November 2007.

9 Approval and communication of the MTFP

Why is it important?

The MTFP should be formally approved by the Board to show that medium-term financial planning is a high level and cross-cutting issue. Communication of the MTFP within the PCT and with external stakeholders demonstrates transparency and a willingness to work with partner organisations.



Questions to consider

- 9.1 Does the Board formally approve the MTFP and subsequent material updates?
- 9.2 Is the MTFP communicated to staff and stakeholders alongside the LDP and is the importance of medium-term financial planning made clear to non-finance staff?



9.1 Does the Board formally approve the MTFP and subsequent material updates?

The MTFP is the PCT's financial strategy and of equal status to the PCT's other strategies. It must therefore be presented to the Board for formal approval. Subsequent material changes should also receive formal approval. Board approval demonstrates leadership on achieving financial stability and properly funding PCT priorities.



9.2 Is the MTFP communicated to staff and stakeholders alongside the LDP and is the importance of medium-term financial planning made clear to non-finance staff?

Communication between the finance department and services and between the organisation and its stakeholders, at the highest levels is essential for an organisation if it is to own and benefit from its MTFP. Organisational stability and memory are also a major factor in successful planning.

Details of the MTFP should be circulated throughout the organisation in a format appropriate to the audience. For instance, budget holders should receive medium-term financial information in addition to annual budget information. Practice based commissioners should receive medium-term indicative budgets.

Training for non-finance staff to embed a culture of medium-term financial planning is important. Training could also cover the development of robust business cases, the use of appropriate decision-making information and promoting good data quality.

Further sources of information:

Dr Foster Intelligence, *The Intelligent Commissioning Board*, July 2006.
Department of Health/HFMA, *NHS Audit Committee Handbook 2005*,
October 2005.

10 Using, achieving, monitoring and updating the MTFP

Why is it important?

To achieve the MTFP, annual operational budgets and directorate plans must flow directly from the overall MTFP and strategy documents. Achievement of these plans should form part of the performance framework.



Questions to consider

- 10.1 Do annual operating budgets flow directly from the MTFP? Are they directly reconcilable?**
- 10.2 Do practice based commissioning indicative practice budgets flow directly from the MTFP?**
- 10.3 Does the MTFP reflect in-year adjustments to budgets?**
- 10.4 Does the annual budgeting timetable incorporate a robust process for agreeing major commissioning contracts?**
- 10.5 Is the delivery of the MTFP supported by Standing Financial Instructions and Standing Orders that make clear where the responsibility for finance issues lies?**
- 10.6 Do the outputs of the MTFP form part of an integrated planning and performance framework that monitors performance against the MTFP and triggers corrective action when variances occur?**
- 10.7 Are staff involved in the delivery of the MTFP trained specifically to complete business cases, improve finance skills and support the MTFP?**



10.1 Do annual operating budgets flow directly from the MTFP? Are they directly reconcilable?

The MTFP and annual budget should be produced in conjunction with each other. The annual budget should use the overall resource envelope identified in the MTFP, filling in the detail as it becomes known closer to the start of each financial year.

**10.2 Do practice based commissioning indicative practice budgets flow directly from the MTFP?**

As with PCT annual budgets, the MTFP should be the top level financial strategy and PBC practice level indicative budgets should flow from and reconcile directly to the amounts allocated in the MTFP.

**10.3 Does the MTFP reflect in-year adjustments to budgets?**

Conversely, where in-year budget virements or re-basing becomes necessary, this should be reflected in the MTFP to ensure that any recurring funding and expenditure adjustments are reflected in future years.

**10.4 Does the annual budgeting timetable incorporate a robust process for agreeing major commissioning contracts?**

The process can be helped by ensuring that a financial envelope for potential negotiation of contracts with providers has been agreed by the Board. This envelope can be delegated to finance and commissioning directors so that contracts can be agreed without further reference to the Board. Agreeing contracts before the start of the financial year is an important part of planning. The *Operating Framework (Ref. 1)* encourages PCTs to agree contracts in excess of three years where this would be beneficial.

**10.5 Is the delivery of the MTFP supported by Standing Financial Instructions and Standing Orders that make clear where the responsibility for finance issues lies?**

Delivery of the MTFP should be underpinned by clearly set out standing financial instructions and an appropriate scheme of delegation that ensures tight budgetary control and accountability. There should be strong leadership and commitment from the chief executive, finance director and Board to ensure the whole organisation has consistent goals and an appropriate culture to achieve them.

Each line of the MTFP should be assigned to named officers, accountable for delivery of that part of the MTFP.



10.6 Do the outputs of the MTFP form part of an integrated planning and performance framework that monitors performance against the MTFP and triggers corrective action when variances occur?

There should be a comprehensive performance management system in place to monitor progress against the organisation's objectives, including the MTFP. Critically, where there is significant variance from the MTFP, an action plan should be developed to determine corrective action or review the MTFP should be refreshed. The monitoring process should be in place at all levels of the organisation and form part of the regular Board reporting cycle, perhaps via a dashboard of key performance indicators. The Board should focus on outcomes rather than meeting specific pre-set targets in the MTFP; the MTFP should be used as a guide but not as the last word and should be reviewed and updated where subsequent events make this necessary.

Embedded in the medium-term financial planning process should be a system for the regular review and annual refresh of planning assumptions and funding, expenditure and activity data. The MTFP should be refreshed not only where data are found to be incorrect but where new data become known and new priorities arise. **Case study 4** outlines the approach taken by Redbridge PCT.

The refresh process will also need to give consideration to developments in government policy and other external factors that may have an influence on an organisation over the medium-term.

Case study 4

Redbridge PCT

Redbridge PCT has implemented a new business monitoring system. The system allows the PCT to align corporate objectives with milestones and the risk assessment and links them to performance metrics. The software underpinning the system can deliver a milestone progress report or report performance against targets, be these targets for the PCT's development agenda, clinical or audit targets.

The MTFP sets out the financial implications of the key risks and key performance targets that can be monitored through the performance system. For instance, if there is a target of £0.5 million efficiency savings and there is a number of milestones to achieve that, then the amount of savings can be reported on and achievement of the MTFP comprehensively measured.

The PCT finance report includes some activity and quality information, however, there is potential to further integrate finance and performance Board reporting. The PCT is looking to report activity, quality, commissioning and finance together via a data warehouse that records key finance and performance data.



10.7 Are staff involved in the delivery of the MTFP specifically trained to complete business cases, improve finance skills and support the MTFP?

It is important to reinforce the message that producing and delivering the MTFP is the responsibility of the entire PCT and can only be done effectively with the full cooperation of all staff. Changing the culture of an organisation to one that seeks to plan over a three year period, with strong, financially viable business cases for all of the services it commissions and provides is a challenge. Non-finance staff will need specific objectives and training to help them. The performance management system must be capable of recognising which competencies the PCT needs to improve in order to make medium-term financial planning second nature.

Further sources of information:

CIPFA, *The CIPFA FM Model: Statements Of Good Practice in Public Financial Management*, 2007.

CIPFA, *Integrated Planning: An Overview of Approaches*, 2006.

HFMA, *HFMA Briefing: Better Budgeting*, May 2007.

Audit Commission, *Putting Commissioning into Practice*, November 2007.

Department of Health, *Practice Based Commissioning – Budget Setting Refinements and Clarification of Health Funding Flexibilities, Incentive Schemes and Governance*, December 2007.

Department of Health, *Primary Care Trust Model Standing Orders, Reservation and Delegation of Powers and Standing Financial Instructions*, August 2006.

Appendix 1

Funding and expenditure scenarios

	Most likely			Best case			Worst case		
	'08/09	'09/10	'10/11	'08/09	'09/10	'10/11	'08/09	'09/10	'10/11
	£k	£k	£k	£k	£k	£k	£k	£k	£k
Resource Limit									
Growth									
PbR Transition									
Total									
NHS SLAs									
NHS Emergency									
PbR Tariff									
Acute									
Provider									
Ambulance									
Mental Health									
Prescribing									
GMS/PMS									
Dentistry									
Other									
Top slice									
LAA									
Inflation									
Total									
Balance for Investment									

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- 1 Department of Health, *Operating Framework for the NHS in England 2008/09*, December 2007.
- 2 Audit Commission, *World Class Financial Management*, November 2005.
- 3 Monitor, *Compliance Framework*, April 2007.
- 4 Audit Commission, *Review of the NHS Financial Management and Accounting Regime*, July 2006.
- 5 Department of Health, *The Quarter*, Quarter 3 2007/08, March 2008.
- 6 Audit Commission, *Putting Commissioning into Practice*, November 2007.
- 7 Department of Health, *Commissioning a Patient-led NHS*, July 2005.
- 8 Department of Health, *Practice Based Commissioning: GP Practice Survey Wave 2 (September 2007)*, January 2008.
- 9 CIPFA, *Integrated Planning: An Overview of Approaches*, 2006.
- 10 Monitor, *NHS Foundation Trusts: Review of Three Months to 30 June 2007*, September 2007.
- 11 Department of Health, *World Class Commissioning: Competencies*, December 2007.
- 12 Department of Health, *Guidance on Joint Strategic Needs Assessment*, December 2007.
- 13 Department of Health, *Operational Plans 2008/09 – 2010/11 National Planning Guidance and 'Vital Signs'*, January 2008.
- 14 Department of Health, *Commissioning Framework for Health and Well-being*, March 2007.
- 15 Audit Commission, *Improving Information to Support Decision Making: Standards For Better Quality Data*, November 2007.
- 16 Department of Health, *Our NHS, Our Future: NHS Next Stage Review Interim Report*, October 2007.

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