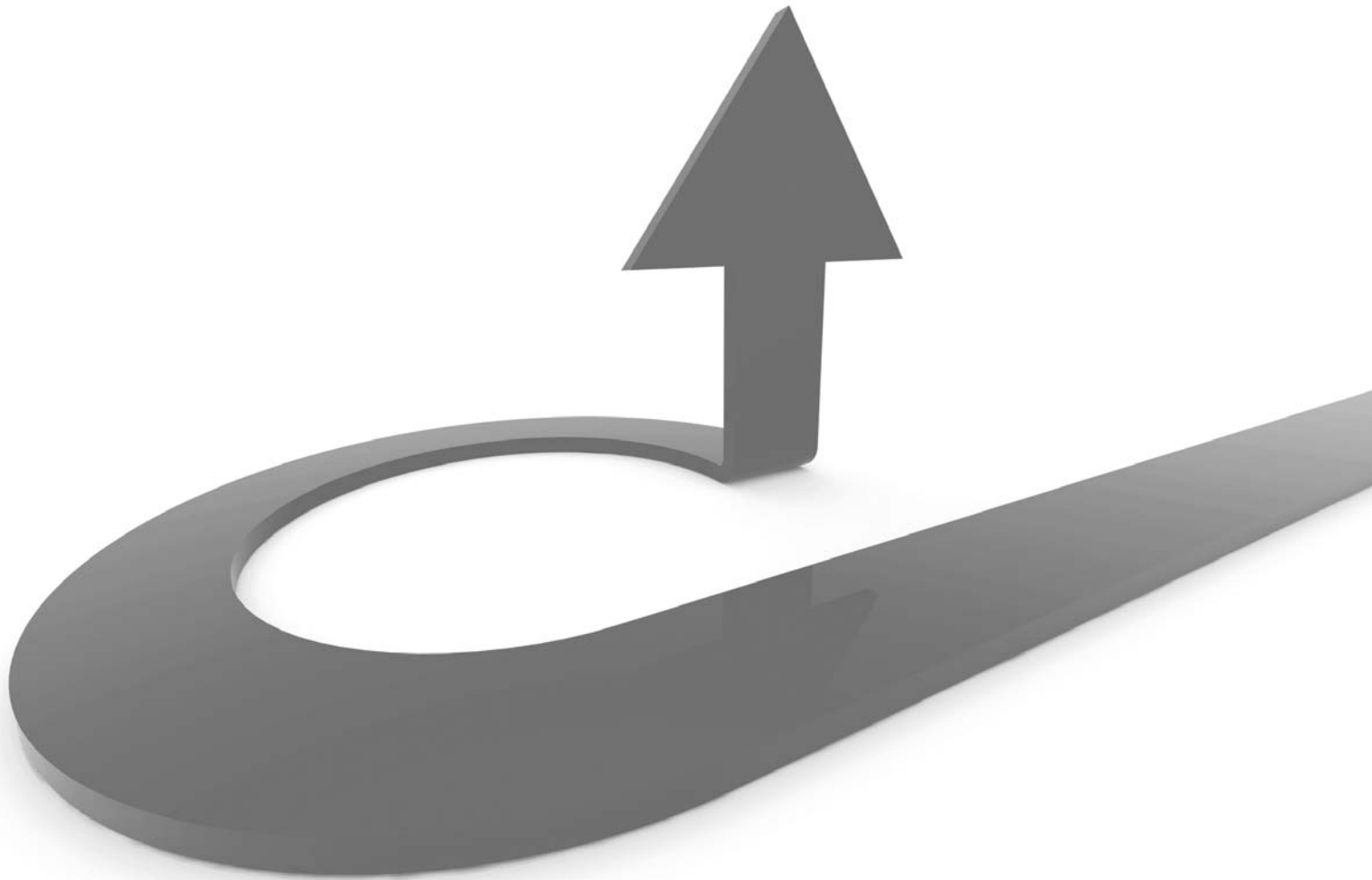


Health

Briefing

April 2008



Improving medium-term financial planning

A practical guide for primary care trusts



Introduction

The Audit Commission national briefing *Improving Medium-term Financial Planning: A Practical Guide for Primary Care Trusts* was published on 19 March 2008. The briefing is intended to encourage primary care trusts (PCTs) to prioritise medium-term financial planning.

This summary explains the key points for non-executive directors (NEDs) and includes questions about medium-term financial planning that NEDs should consider. We recommend that all PCT finance directors and Boards review their medium-term financial plan (MTFP) and consider what more they could do to improve financial planning throughout their organisations.



What is medium-term financial planning?

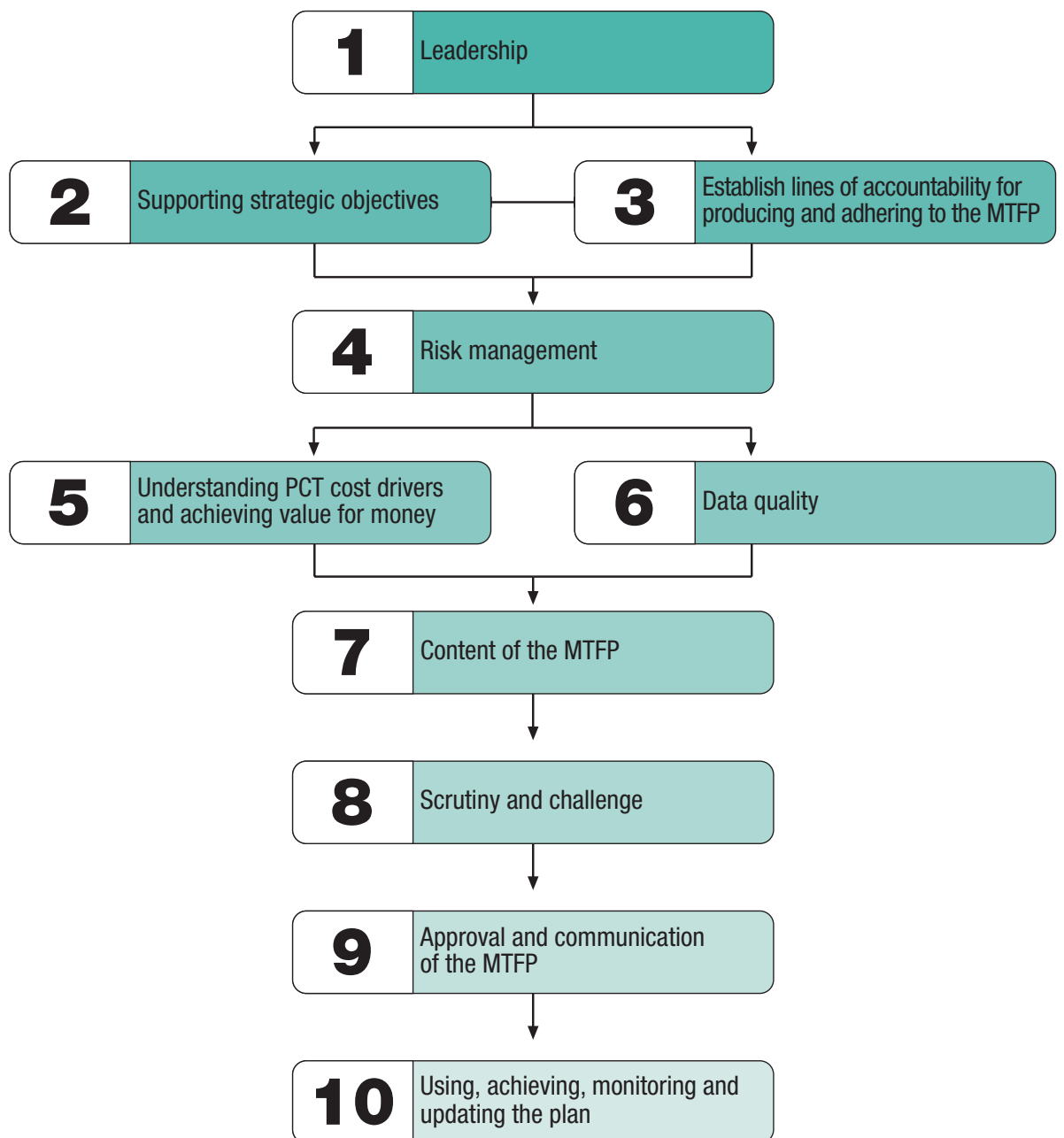
Financial planning is a key element of PCT management. Organisations that do not plan their finances properly are unlikely to achieve their strategic priorities or make the best use of the resources available to them. The need to improve NHS medium-term financial planning has been highlighted in a number of recent Audit Commission publications. A relatively common finding was that NHS organisations do not prepare and adhere to a robust plan.

An 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. It is expected that PCT resource allocations for 2009/10 and 2010/11 will be issued in summer 2008; PCTs should then be able to plan their finances in accordance with their strategic priorities over the medium-term.

Our research identified ten factors that have a significant impact on an organisation's medium-term financial planning process. Set out in **Figure 1**, is a flowchart representing the key factors of medium-term financial planning.

Figure 1

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



Source: Audit Commission



Why is medium-term financial planning important?

The NHS delivered a surplus of approximately £1.8 billion in 2007/08. A transparent and well-planned 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.

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. Furthermore, ensuring the success of practice based commissioning is integral to PCTs' strategic objectives. Similarly there is no great focus on PCTs and local authorities cooperating closely and having a longer term strategy together, backed by financial plans.

There is no doubt that PCTs will come under increasing pressure to demonstrate that a robust MTFP is in place.



What do PCTs need to do?

NEDs should consider how their organisations could answer the following key questions (**Figure 2**) and whether the Board or Audit Committee needs to do more to improve medium-term financial planning. Further detail and case studies can be found in the full briefing.

While recognising that MTFPs will differ locally, there are some universal considerations that all PCTs should build in to their MTFP.

An overarching requirement is that the PCT has arrangements in place to address each factor by:

- 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;

Figure 2

Key questions for NEDs

Key questions

Have you, and other Board members, scrutinised the MTFP and planning assumptions?

Does the MTFP reflect your understanding of the main cost drivers of the PCT's expenditure over the next three years?

Are you able to link expenditure in the MTFP to the PCT's commitments in the commissioning strategy and other strategic objectives?

Can you see from the MTFP how the PCT intends to achieve recurrent savings and improve the value for money of services over the next three years?

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

- future government policy and targets;
- changes in demographic and economic conditions; and
- new medicines and technologies.

Have you, and other Board members, reviewed and discussed the success of previous MTFPs and considered auditors' views and those of the strategic health authority when producing the MTFP?

Are you satisfied that the MTFP provides sufficient assurance that the PCT's commissioning intentions and service plans are financially affordable?

Are you satisfied that the MTFP is supported by a PCT-wide data quality policy that ensures the reliability of planning data?

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

Source: Audit Commission

- 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; and
- 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.

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.

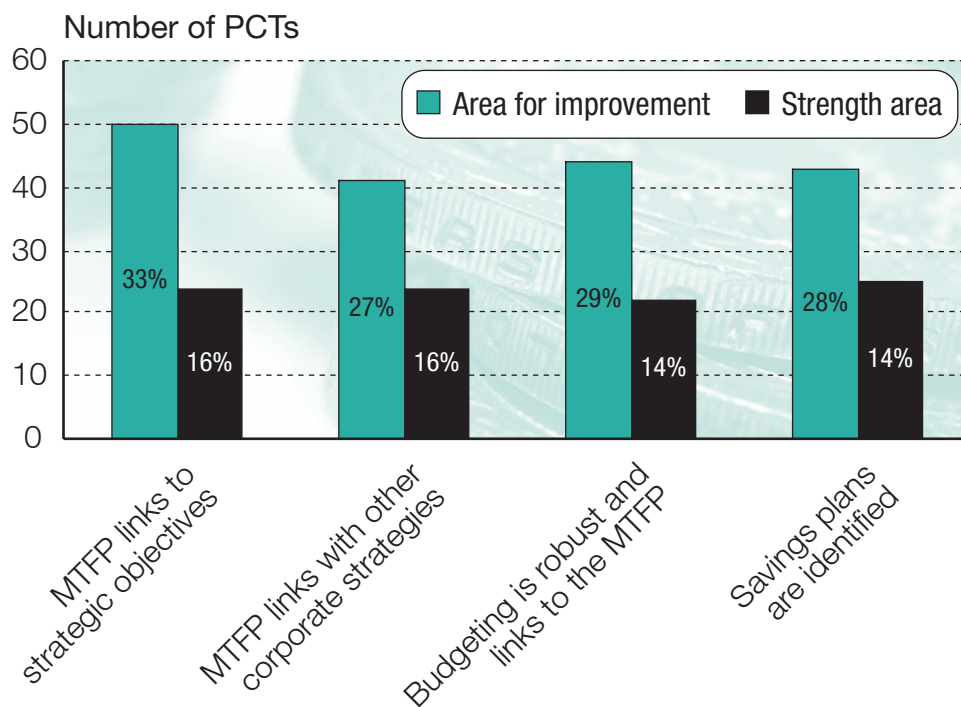


What our research found

For many PCTs, medium-term financial planning is undertaken independently from wider discussions around strategic planning. Medium-term financial planning in these organisations is seen as a finance directorate responsibility with strategic plans lacking clear financial plans to support them.

In order to drive improvement in performance, auditors highlighted organisations' strengths and areas for improvement as part of the 2007 ALE assessment. PCTs are provided with this detail so that they can target specific problem areas. **Figure 3** shows the number of PCTs where auditors identified either a strength or an area for improvement in medium-term financial planning.

Figure 3
MTFP strengths and areas for improvement



Source: Audit Commission

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
- an inadequate response 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.



Conclusions

Medium-term financial planning provides the mechanism for turning strategic objectives into action and is a key component of good management. PCTs that understand their risks can develop an MTFP that is flexible and includes contingencies should those risks have a financial effect. 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. 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 and will allow better benchmarking and monitoring of progress against national priorities.

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.

i Copies of the full report are available at: www.audit-commission.gov.uk
or to order a printed copy telephone: **0800 502030** quoting stock code: **HNR3439**

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