hfma

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Glossary for NHS finance and governance (Wales)

Briefing

shaping healthcare finance …

Index

Introduction

The briefing provides a glossary of terms used frequently in relation to finance and governance in the NHS in Wales. Terms are grouped into relevant sections covering:

1. **Who does what?**
2. **Budget-setting and monitoring**
3. **Costing**
4. **Financial planning**
5. **Governance**
6. **In-year performance**
7. **Statutory and departmental duties.**

It is not intended to be exhaustive in its coverage. Instead it focuses on key terms that HFMA members may find helpful and relevant when discussing different aspects of finance and governance in the NHS in Wales or explaining terms to other colleagues.

1. WHO DOES WHAT?

Before looking at some specific areas of NHS finance and governance in more detail, it may be helpful to understand who does what in the NHS in Wales and how their roles relate to each other in finance and governance terms. The diagram below shows the key organisations and the way that funding and accountability works between them.

This section of the briefing will provide an overview of each element and other bodies that support the work of the NHS in Wales.

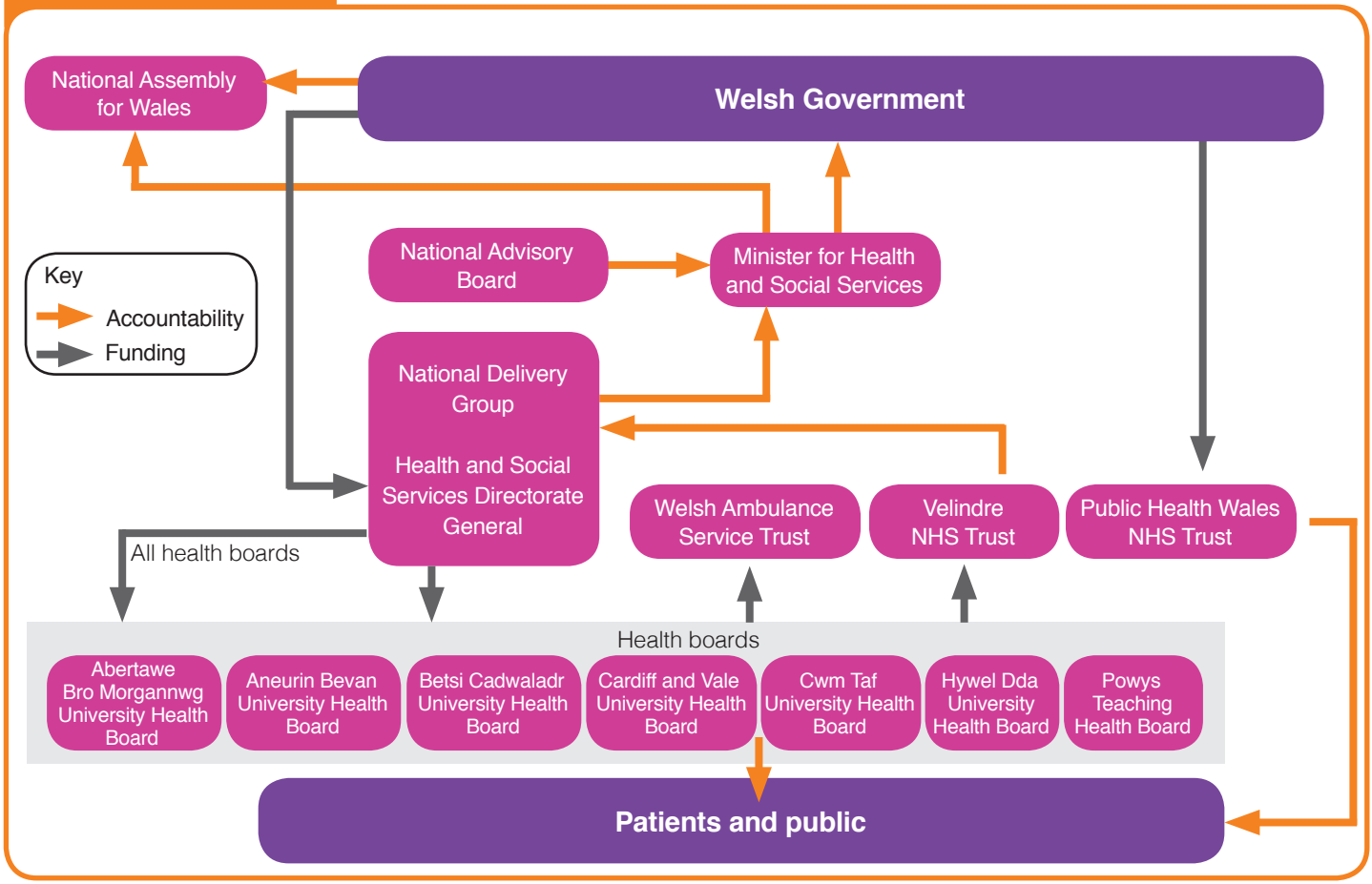
The National Assembly for Wales is the democratically elected body that represents the interests of Wales and its people, makes laws and holds the Welsh Government to account. It comprises 60 elected members known as Assembly Members (AMs). The role of the Assembly is to scrutinise the Welsh Government's decisions and policies, hold ministers to account, approve budgets for the Welsh Government's programmes and enact Assembly measures.

The Care and Social Services Inspectorate Wales is responsible for inspecting social care and social services, providing independent assurance about the quality and availability of social care in Wales, promoting improvement and safeguarding adults and children.

There are seven community health councils (CHCs) in Wales. The CHCs are co-terminus with the seven local health boards. They are statutory, independent bodies and work to enhance and improve the quality of local health services. They offer information and advice, assist people who wish to make complaints and engage with local health boards wishing to make changes to services.

The Delivery Unit is an NHS Wales body formed from the Delivery Support Unit, Clinical Governance Support and

NHS structure in Wales



Development Unit and the Patient Safety Agency. It is responsible for the functions of assurance, improvement of performance and delivery in the NHS in Wales.

The Department for Health and Social Care is the Welsh Government department responsible for the NHS and social care in Wales. The part of this department that is responsible for the NHS is called NHS Wales.

The director general for health and social services is the civil servant who heads the Department for Health and Social Care. The same individual is also the chief executive of NHS Wales. He is responsible for providing the minister with policy advice and exercising strategic leadership and management of the NHS.

The Emergency Ambulance Services Committee (EASC) was established in April 2014 and purchases emergency ambulance services on behalf of local health boards. It is hosted by Cwm Taf University Health Board and its membership consists of the chief officers or their representatives of each local health board, a chair appointed by ministers and the chief ambulance services commissioner.

Health and Care Research Wales is a Welsh government body that develops the strategy and policy for funding research in the Welsh NHS and in social care.

The Healthcare Inspectorate Wales (HIW) is an independent inspectorate and regulator of healthcare that provides information about the safety and quality of all healthcare in Wales. Its focus is on improving safety and quality, improving citizens' experience of healthcare and strengthening the voice of patients and the public.

There are seven local health boards (also known as university health boards or health boards) that are responsible for providing healthcare services to their local population. The services include acute and mental healthcare, both in hospitals and in the community. They are also responsible for the provision of primary care services through GPs, dentists, opticians and pharmacists. The health boards are:

- Abertawe Bro Morgannwg University Health Board
- Aneurin Bevan University Health Board
- Betsi Cadwaladr University Health Board
- Cardiff and Vale University Health Board
- Cwm Taf University Health Board
- Hywel Dda University Health Board
- Powys Teaching Board.

The minister for health and social services is the member of the Welsh Government who has responsibility for the NHS in Wales as well as social services. The minister is supported by the deputy minister for health.

The National Delivery Group is chaired by the chief executive of NHS Wales. It is responsible for overseeing the development and delivery of NHS services across Wales.

The National Institute for Health and Care Excellence (NICE) is responsible for providing national guidance and quality standards to improve the outcomes of people using the English NHS, other public health and social care services. However, the Welsh Assembly Government has agreed that NICE technology appraisals, clinical guidelines and interventional procedure guidance will also apply in Wales.

Three NHS trusts deliver specific services covering the whole of Wales:

- Welsh Ambulance Services NHS Trust
- Velindre NHS Trust (cancer specialist)
- Public Health Wales NHS Trust.

The NHS Wales Deanery purchases or commissions, quality assures

The National Delivery Group, chaired by the chief executive of NHS Wales, oversees the development and delivery of NHS services across Wales

and supports the education and training of trainees, hospital doctors, GPs, dentists and dental care professionals in Wales.

The NHS Wales Shared Services Partnership (NWSSP) provides support services to the statutory bodies of NHS Wales, including audit, procurement, legal, courier, estates, employment and counterfraud.

The Wales Audit Office (WAO) is an independent public body, established by the National Assembly for Wales. It has overall responsibility for auditing all sectors of government in Wales, including NHS Wales. The aim of the WAO is to ensure that the people of Wales know whether public money is being managed wisely and that public bodies in Wales understand how to improve outcomes.

The Welsh Government is responsible for setting overall policy for the NHS in Wales and for funding the local health boards. The Welsh Government is established by the party or parties who hold the majority of seats in the National Assembly for Wales. The first minister of Wales heads the Welsh Government. Together with Welsh ministers and the counsel general, they form the Cabinet. The *Government in Wales Act 2006* created the formal legal separation between the Welsh Government and the National Assembly for Wales.

The Welsh Health Specialised Services Committee (WHSSC) is responsible for the joint planning of specialised and tertiary services in Wales. It is hosted by Cwm Taf University Health Board but works on behalf of all seven local health boards.

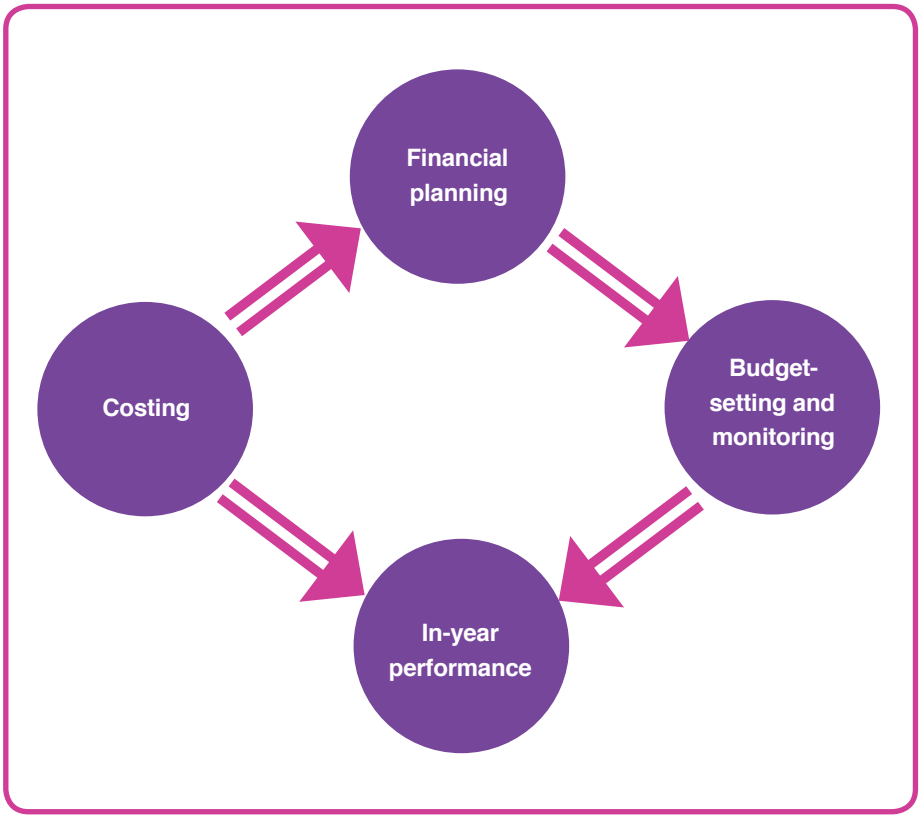
All organisations in the NHS in Wales are involved in the financial activities outlined in the diagram. The glossary will cover terms commonly used when discussing each area, as well as others you might find helpful.

2. BUDGET-SETTING AND MONITORING

A budget is a financial and/or quantitative statement that is prepared and agreed for a specific future period. It usually covers a year but to help with planning, budgets can cover longer periods – three to five years is common. It translates aims into a statement of the resources needed to fulfil them and has a monetary or non-monetary value. In this section you will find terms commonly used when discussing budgets in the NHS.

An accrual is an accounting concept that is designed to ensure the accounts and budget reports show all the income and expenditure that relate to the financial year. In addition to payments and receipts of cash (and similar), adjustment is made for outstanding payments, debts to be collected and stock (items paid for but not yet used – also known as inventory), as well as non-cash transactions such as depreciation and impairments.

The WAO ensures that the people of Wales know public money is being managed wisely and that public bodies in Wales understand how to improve outcomes



Activity-based budgeting produces a budget for a defined activity level. The budgeted costs and income change as activity levels change.

Agenda for change is the NHS-wide grading and pay system for all NHS staff, with the exception of medical and dental staff and some senior managers. Each relevant job role in the NHS is matched to a band on the agenda for change pay scale.

The budget manager is the single named individual responsible for a budget. They are responsible for agreeing, reviewing and monitoring their allocated budgets and taking the action necessary to ensure that income and expenditure do not exceed that planned. In some organisations, this role is known as a budget holder.

Budget monitoring is a continuous process of reviewing actual income and expenditure or non-financial data – for example, patient activity against the budget. A monthly budget monitoring report is often produced to help budget managers to do this.

The budget profile is the likely spending or activity pattern during the time period covered by the budget. For example, the number of patients attending accident and emergency departments will be subject to seasonal variations and so the resources planned to be spent will fluctuate accordingly.

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Budgetary control involves comparing actual income, expenditure, activity and workforce results with the budget – what was originally planned – and taking action when differences emerge.

Rather than record every cost incurred separately, costs are categorised into a number of distinct headings referred to as cost centres. Usually these are in line with the organisational or management structure – for example, the human resources department or drugs advisory team. Other codes are routinely used for analytical purposes – for example, account or subjective codes. These are given to specific types of expenditure and make possible analysis of the same type of spending across different cost centres – for example, spending on training or travel expenses. Activity or analysis codes are used when more detailed analysis is required.

Deferred income (also known as deferred revenue) is income received in advance for goods or services that have not yet been delivered or provided. It is shown as a liability on an organisation's statement of financial position, so that the accounts show only income that relates to the current financial year. Once the goods or services have been provided, the deferred income liability is recognised as revenue in the statement of comprehensive income.

A staffing establishment is the number of full-time/whole-time equivalents for each grade of staff budgeted for a ward, department or service. If the budget manager keeps to the agreed staffing establishment, the amount spent against the budget should stay on track throughout the year.

Full-time equivalent (FTE)/ whole-time equivalent (WTE) is a measure of staffing numbers, based on the maximum contracted hours. So, 1 FTE is one person contracted to work the maximum number of hours per week for a whole year. These measures are not the same as 'headcount' or the actual number of people employed. For example, a part-time receptionist working 22.5 hours out of the standard 37.5 hours per week has an FTE of 22.5 hours divided by 37.5 hours – or 0.60 FTE – but a headcount of 1.

Incremental budgeting is the most common approach to budgeting in the NHS. Also known as historical budgeting, it starts with the previous year's budget, which is adjusted for known changes and developments.

A prepayment is an amount already paid for benefits that will be delivered in the future. An example might be payments made in advance for next year's rent or utility bills.

Income, expenditure, savings and activity can be recurrent (ongoing) or non-recurrent (one-off).

Reserves are monies that are set aside for a specific purpose, often on receipt of specific or ring-fenced income. For example, a contingency reserve allows an organisation to meet unforeseen expenditure during the course of the year.

Revenue costs are the day-to-day costs of running an organisation that might include:

- Maintenance and service costs
- Consumables
- Accommodation
- Staff costs.

Rollover/historical budgets (also known as incremental budgets) are the most common approach to budgeting in the NHS. They start with the previous year's budget, which is adjusted for known changes and developments.

A variance is the difference between what is budgeted and what actually happens. It is used to identify and analyse the cause of overspends or underspends with a view to proposing rectifying action.

A virement is the process of transferring money from one budget heading/line to another.

Zero-based budgeting (ZBB) is an approach to budgeting that involves starting with a blank sheet of paper and building up the budget, working out all figures based on the agreed objectives and what it will cost to meet them.

3. COSTING

Costing is all to do with quantifying, in financial terms, the value of resources consumed in carrying out a particular activity/service or producing a certain unit of output. Understanding how costs are built up and the cost of treating individual patients is fundamental to decision-making in the NHS. Below are some of the terms you may find helpful in relation to costing.

Cost drivers or triggers cause changes in the level of costs incurred. They can be:

- Activity or volume based – these tend to be related to homogenous activities. For example, processing an invoice for £50 involves the same actions as one for £500
- Time based – these are linked to variations in the amount of time taken for different outputs/ outcomes. For example, an appointment will take more time if the patient has a number of complex issues to be addressed
- Resource based – for example, when there is a direct charge for materials for a particular activity.

Direct costs are costs that can be directly attributed to a particular activity or output. For example, the cost of a radiographer is a direct cost to the radiology department and a lens is a direct cost in the treatment of a patient with cataracts.

Fixed costs are costs that do not increase or decrease with changes in levels of activity – for example, the rent paid for a service to occupy a building.

Mainly applicable to patient activity in acute hospitals, healthcare resource groups (HRGs) are the 'currency' used to collate costs of procedures/ diagnoses into common groupings. HRGs place these procedures and/or diagnoses into bands that are 'resource homogenous' – that is, clinically similar and consuming similar levels of resource. HRGs enable organisations to compare costs for delivering services.

Indirect costs are costs that cannot be attributed directly to a particular activity or cost centre. Cleaning costs, for instance, may be spread across a range of departments in proportion to the floor area occupied by each.

The marginal cost is the increase or decrease in cost caused by an increase or decrease in activity by one unit.

Fixed costs do not increase or decrease with changes in levels of activity – for example, the rent paid for a service to occupy a building

Overhead costs contribute to the general running of the organisation but cannot be directly related to an activity or service – for example, the costs of the members of the board.

Patient-level costing involves allocating costs, where possible, to an individual patient. Assigning costs to individual patients provides opportunities for a much greater understanding of how costs are built up. The systems that gather this information are known as patient-level information and costing systems (PLICS).

The programme budget expenditure analysis shows spending by NHS bodies across 23 areas of healthcare, such as cancer, mental health and cardiovascular diseases. It allows users to see the total spend and spend per head of population by category of care, allowing comparison between organisations and health programmes.

NHS organisations are required to submit a schedule of costs of delivered healthcare resource groups to allow direct comparison of the relative costs of different providers. The results are published each year in the national schedule of reference costs.

Semi-fixed or step costs are costs that tend to remain fixed for a given level of activity but change in steps when activity levels exceed or fall below given levels. For example, substance misuse staff numbers may remain fixed within a given range of referral levels but vary if the number of referrals significantly drops or increases.

Time-driven activity-based costing is a costing method used by some NHS organisations to improve the accuracy of cost estimates for processes and interventions. It requires organisations to estimate the staff, equipment and time for each step of a process, the total costs associated with the staff involved and the time a patient will spend at each step of a process.

Variable costs increase/decrease in line with changes in the level of activity – for example, drugs costs.

Time-driven activity-based costing is used by some NHS organisations to improve the accuracy of cost estimates for processes and interventions

Welsh Costing Returns (WCRs) are annual costing returns produced by NHS bodies in Wales. They are collected by the Financial Information Strategy Development Programme (FISDP) on behalf of the Welsh Government. They contain the detail of an NHS organisation's cost base and can be used for benchmarking purposes. The main returns are:

- WCR1 – providing a local health board level analysis of all costs and activity by specialty, patient category and community service
- WCR2 – providing a local health board level analysis of acute secondary care inpatient and day-case activity by specialty and type of admission (elective and emergency) and HRG. Information is consolidated to produce an All Wales average HRG cost per finished consultant episode
- WCR3 and WCR13 – providing local health board level costs by programme budget category.

4. FINANCIAL PLANNING

All NHS organisations are required to undertake financial planning. The plan must cover all expected sources of income and expenditure and the full range of responsibilities under the management of the organisation over the short, medium and longer term. Below are some key terms in relation to financial planning and funding sources that you may find helpful.

The development of a business case is a formal process for identifying the financial and qualitative implications of options for changing services and/or making investments.

A business plan is the written end product of a process that identifies the aims, objectives and resource requirements of an organisation over the next three- to five-year period. Generally, business plans cover the forthcoming year(s) in greater detail than those periods further in the future. The business plan should be consistent with the strategic objectives of the

organisation and provide the basis for the annual budget.

In most businesses, capital refers either to shareholder investment funds or buildings, land and equipment owned by a business that has the potential to earn income in the future. The NHS uses this second definition, but adds a further condition – that the cost of the building/equipment must exceed a minimum threshold, normally £5,000. Capital is thus an asset (or group of functionally interdependent assets) with a useful life expectancy of greater than one year, whose cost exceeds the threshold.

Capital programme funding is one element of an organisation's capital resource allocation. The Welsh Government can strategically prioritise schemes through the All Wales Capital Programme, where there is an appropriate business case.

A cost improvement plan/programme (CIP) or savings plan sets out the savings an NHS organisation plans to make to reduce its expenditure/ increase efficiency. It is used to close the gap between funding received and expenditure incurred in any one year.

Cost pressures must be taken into account when producing a financial plan. A generic cost pressure is an increase in cost that is generally beyond the control of individual health organisations. They may also be referred to as 'national cost pressures' and include items such as national changes to the rate of employers' contributions in relation to the NHS pension scheme. A local cost pressure is a rise in cost that, although it may or may not be geographically widespread, is considered to be within the control of individual elements of the NHS.

The delivery framework is the annual plan that explains the delivery priorities for NHS Wales. The priorities are aligned with government policy and the need to improve standards.

Discretionary capital is one element of Welsh NHS organisations' capital resource allocations and is intended for meeting statutory obligations, such as health and safety and fire code requirements, maintaining the fabric of the estate, and the timely replacement of equipment.

Local health boards have statutory financial flexibility over a three-year rolling period – a change to their previous statutory duty to break even each and every year (see statutory duties). This means that, subject to the availability of sufficient resources for planned expenditure, local health boards can plan to match income to expenditure over the three years of their financial plan rather than annually.

A financial model is a mechanism used for illustrating what the income and costs for different scenarios will be, when they will be received and incurred and what tolerances there are for each.

The Five Case Model is the HM Treasury approach used by the Welsh Government to develop business cases for spending proposals. It requires consideration of five 'cases' – strategic, economic, commercial, financial and management – to ensure business cases are thorough and well planned.

A full business case (FBC) is a written document that brings together the arguments for a preferred planned investment, including current and future service requirements, affordability, the organisation's competitive service position and the ability to complete the project within the specified budget and time scale.

The Welsh Government makes funding allocations to local health boards and NHS trusts in Wales. Allocations are made for revenue funding for local health boards to secure hospital, community and primary care services for their resident populations. Capital allocations to local health boards and NHS trusts enable operational and strategic capital developments. There may also be targeted funding for health improvement initiatives during the year. As well as routine and specialist services for the registered population,

Local health boards can plan to match income to expenditure over the three years of their financial plan rather than annually

health board revenue funding may also be used to support:

- Individual patient funding requests – requests for the funding of a treatment outside of routine or specialist services, such as a drug or treatment under development
- Out of area treatments – treatments provided by another health board or appropriate provider.

Healthcare agreements are contracts agreed between two local health boards or a local health board and an NHS trust.

All Welsh health boards, trusts and hosted bodies are required to develop an integrated medium-term plan. The plan covers three financial years, in accordance with the Welsh Government Integrated planning framework, which sets out the minimum requirements. These include three years of financial plans, savings plans, workforce data, investment information and educational commissioning information.

Operational plans (OPs) outline how an NHS organisation plans to meet national and local priorities within the financial resources available to it.

An outline business case (OBC) is a written document that evaluates different investment options using economic appraisals to identify the preferred option in financial terms.

Revenue funding is the funding received by an NHS organisation to meet the costs of its day-to-day activities.

Savings plans – also known as cost improvement programmes (CIPs) – set out the savings that an NHS organisation plans to make to reduce its expenditure/increase efficiency. It is used to close the gap between the funding received and the expenditure incurred in any one year.

Service line management (SLM) is 'an organisation structure and management framework' where specialist clinical areas are identified and managed as distinct operational units. Within these units, '…clinicians and managers can plan service activities, set objectives and targets, monitor their service's financial and operational activity and manage performance'.[1]

Service line reporting (SLR) involves looking in detail at the income and costs of an organisation's services in much the same way as a private sector company analyses its business units. In practice, this means that the focus is on profitability information by specialty or service.

Service lines are units from which services are planned and delivered. Each service line has unique characteristics with their own focus on particular medical conditions – making it clinically different from another service.

A strategic outline case (SOC) is a written document used as part of the business case process. It sets out the strategic context, assesses the options and makes the case for change.

Transformation programmes enable an NHS organisation or number of organisations to fundamentally change the way a service is provided/delivered.

An underlying deficit is the recurrent ongoing mismatch between an organisation's revenue and expenditure.

Value is concerned with the delivery of the best quality of care possible within the resources available.

5. GOVERNANCE

Governance (or corporate governance) is the system by which organisations are directed and controlled. It is concerned with how an organisation is run – how it structures itself and how it is led. Governance should underpin all that an organisation does. In the NHS this means it must encompass clinical,

1 *Service line management: an overview,* Monitor, 2009

financial and organisational aspects. Below are a number of key terms that may be helpful when discussing governance in the NHS.

Accountability means demonstrating on an ongoing basis that public money is being used wisely and effectively.

The accountable officer (AO) in an NHS organisation is responsible for ensuring that his or her organisation:

- Operates effectively, economically and with probity
- Makes good use of their resources
- Keeps proper accounts.

For local health boards and NHS trusts, the accountable officer is the chief executive. He or she is accountable to the chief executive of NHS Wales (who is also the director general for health and social services).

Audit is the process of validating the accuracy, completeness and adequacy of disclosure in financial records.

The audit committee is a statutory committee of the board of all NHS organisations. It is best practice for the audit committee to be solely comprised of non-officer members/ non-executive directors. Its role is to review and report on the relevance and rigour of the governance structures in place and the assurances the board receives.

Authorisation levels set out the limits of delegated authority for each officer listed in the scheme of delegation.

An authorisation matrix is a detailed listing of people empowered by an organisation to take actions or make decisions on its behalf. It goes beyond the scheme of reservation and delegation, which can often be high-level, referring only to the most senior members of staff.

The board (also known as the governing body) is the organisation's pre-eminent group that takes corporate responsibility for the strategies and actions of the organisation and is accountable to the public for the services provided. It sets the strategy and objectives for the organisation, monitors their achievement and looks for potential problems and risks that might prevent them being achieved.

The board assurance framework records the key processes used to manage the organisation and the principle risks to meeting its strategic objectives.

Each NHS organisation must have a chief finance officer or finance director who has a key role in governance terms. As members of the board they have a range of responsibilities from statutory duties relating to accountability, governance and probity, 'traditional' treasurer activities, corporate strategic management and day-to-day operational management. This also means that they have collective responsibility for all the organisation's activities.

Clinical governance is a framework of processes, systems and controls that helps NHS organisations demonstrate accountability for continuously improving the quality of their services and safeguarding high standards of care. Good clinical governance involves establishing an environment in which clinical excellence can flourish.

Originally issued in 1994 and revised in 2004, the code of accountability defines the public service values that must underpin the work of NHS governing bodies, sets out accountability regimes and describes the basis on which NHS organisations should fulfil their statutory duties.

Conflicts of interest arise when a person or organisation has a relationship or is involved in something elsewhere that may influence their decision-making.

A declaration of interest occurs when an employee or member of the NHS organisation or its board formally acknowledges a potential conflict of interest. This is either made in writing to the board or, if it occurs during the course of a meeting, is acknowledged

Each NHS organisation must have a chief finance officer or finance director who has a key role in governance terms

to enable the declaration to be appropriately recorded in the minutes.

External auditors have two key roles for public sector organisations – to review and report on the year end accounts and to scrutinise arrangements for securing value for money in the use of resources.

The governance statement (GS) is a key component of the annual report and accounts and is signed by the accountable officer (on behalf of the board). It is designed to provide assurance in relation to the system of internal control that has been operating throughout the preceding year.

Internal audit has two aspects. First, it provides an independent and objective opinion to the accountable officer, board and audit committee on the extent that risk management, control and governance arrangements support the aims of the organisation. It also provides an independent and objective consultancy service specifically to help line management improve the organisation's risk management, control and governance.

The Nolan principles of public life are the key principles of how individuals and organisations in the public sector should conduct themselves. The principles are:

- Selflessness
- Integrity
- Objectivity
- Accountability
- Openness
- Honesty
- Leadership.

A non-officer member (health board governing body member) or non-executive director (trust board governing body member) are normally appointed by the organisation's nominations committee and are chosen based on their individual skills and what they will bring to the overall composition of the board or governing body. They are expected to challenge decisions and strategies.

It is important that chief finance officers can demonstrate probity in the use of resources, ensuring they are safeguarded at all times

One of the Nolan principles, openness, requires that holders of public office should be as open as possible about all their decisions and the actions that they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands.

Probity is the quality of integrity and honesty. It is particularly important that chief finance officers can demonstrate probity in the use of resources, ensuring they are safeguarded at all times (through effective systems of control), that they are used wisely and well and in line with prevailing legislation, rules and regulations.

A register of interests details any potentially 'conflicting' relationships and any business interests held by the members of the board and other employees. All NHS organisations maintain a register of interests that is subject to external audit review and helps to counter the risk of conflicts of interest arising.

The remuneration committee is a mandatory committee of the board. It sets the remuneration and allowances for executive directors and makes recommendations in relation to the level of remuneration received by senior management (usually the first layer of managers below the board), including whether or not pay is linked to performance. To ensure that people involved in the day-to-day running of the organisation do not make sensitive decisions in this area, the committee's membership is solely comprised of non-officer members.

The scheme of reservation and delegation is a detailed listing of who the board empowers to take actions or make decisions on its behalf.

Stakeholders are any groups of people or other organisations that have a contractual, legal or financial interest or involvement with an organisation. The stakeholders of a company will be its shareholders and employees. For a public body, its stakeholders are all those with an interest in it – the

government, the staff, the 'customers' (for example, patients), the directors and/or trustees.

First published in 1993, the standards of business conduct are the strict ethical standards to be applied by all staff when conducting NHS business. They include the standards of conduct expected of all NHS staff and the measures that NHS organisations need to take to safeguard themselves. For example, they include the requirement for NHS organisations to prevent bribery taking place with the advent of the *Bribery Act 2010*.

Standing financial instructions (SFIs) set out the organisation's detailed financial procedures and responsibilities. They are designed to ensure that NHS organisations account fully and openly for all that they do.

Standing orders translate an organisation's statutory powers into a series of practical rules designed to protect the interests of the organisation, its staff and 'customers'. They specify how functions will be carried out and how decisions will be made.

The system of internal control is established to minimise the risk of an NHS organisation not achieving its objectives. It is based on ongoing risk management processes designed to identify principal risks, evaluate the nature and extent of those risks and manage them.

A values and standards of behaviour framework, together with model standing orders and standing financial instructions, form the key elements of the governance and accountability framework for the NHS in Wales.

6. IN-YEAR PERFORMANCE

All NHS organisations are required to deliver a satisfactory level of financial performance and demonstrate financial stewardship of public monies (see statutory duties). To ensure that NHS organisations remain on track in financial terms, a number of tools are used to measure performance. Below are terms that are commonly used in relation to the financial performance of NHS organisations.

Benchmarking is the process of measuring and comparing performance against other similar organisations to obtain information that helps to identify areas for potential improvement.

Best practice/best in class refers to the benchmarking of an organisation's processes and performance against best practice in other organisations or using similar processes to determine 'best in class' operation.

A forecast is a prediction of the future performance of a budget. To produce a forecast, the following information is needed:

- The total underspend or overspend for the year to date
- Non-recurrent costs or benefits within the year-to-date position
- The number of months left in the financial year
- The likely change to income and expenditure before the year-end.

Key performance indicators (KPIs) enable an organisation to define and assess progress towards its goals. KPIs enable performance to be examined across a range of areas and compared over time – providing regular and consistently measured feedback.

Management information packs (MIPs) are monthly reports provided to an organisation's managers with the key financial and performance data to help them to make informed decisions.

Monthly monitoring returns (MMRs) are pre-formatted financial templates submitted each month by local health boards and NHS trusts to NHS Wales. The data is used to inform briefings and reports regarding the consolidated financial position of NHS Wales.

Oracle/Qlikview are software packages used by some NHS organisations to present performance and finance data in easily read dashboard displays.

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About the briefing

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Data can be presented in different formats depending on the user, so a ward manager will receive different information to a board member.

Sensitivity analysis is financial modelling used by NHS organisations to identify what happens to the financial position as variables change – for example, in the event that adverse risks are realised.

The term value for money (VFM) is used when assessing whether or not the maximum benefit has been obtained from the goods or services bought or investment made. Specifically it involves looking at:

- Economy – sourcing resources as cheaply as possible
- Effectiveness – ensuring desired goals/ targets are achieved
- Efficiency – ensuring outputs/ outcomes are maximised for the resources (inputs) used.

The NHS in Wales also needs to consider value for money in terms of the Prudent Healthcare agenda – a Welsh government initiative that aims to create a patient-centred system. Prudent healthcare principles ensure patients receive the most appropriate agreed treatments, making the most effective use of skills and resources and reducing inappropriate variation.

Working capital is the money and assets (owned resources) that an organisation can call upon to finance its day-to-day operations. If working capital dips too low, organisations risk running out of cash.

7. STATUTORY AND DEPARTMENTAL DUTIES

NHS bodies are subject to a range of statutory and departmental financial duties depending on the type of organisation, as outlined below.

Statutory duties

Break even means that income equals expenditure. The break even duty is a statutory requirement for NHS trusts.

The capital resource limit (CRL) limits the amount that may be spent on capital purchases and takes account of money owed by and to the organisation in relation to capital as well as the sale or disposal of assets. If net capital expenditure is less than the limit, the target has been achieved.

The resource limit (RL) is used to determine whether or not operational financial balance has been met by local health boards. *The NHS Finance (Wales) Act 2014*[2] requires local health boards to ensure (over a three-year accounting period) that expenditure does not exceed the money allotted to or received by it for each year in the three-year period.

Administrative duties

The external financing limit (EFL) is one of the performance targets against which an NHS trust is measured. The EFL is a control on net cash flows and sets a limit on the level of cash that may be:

- Drawn from either external sources or the trust's own cash reserves (a positive EFL)

or

- Repaid to external sources to increase cash reserves (a negative EFL).

A target EFL is set at the start of the financial year by NHS Wales and the trust is expected to manage its resources to ensure it achieves the target. Trusts must not overshoot their EFL.

The public sector payment policy requires all NHS organisations to achieve a 'public sector payment standard' for valid invoices to be paid within 30 days of their receipt or the receipt of the goods or services. A target (currently 95%) is set for the value and volume of invoices that must be paid within 30 days. Performance against the target must be reported in the annual report and accounts. It is also known as the better payment practice code.

2 www.legislation.gov.uk/anaw/2014/2/contents

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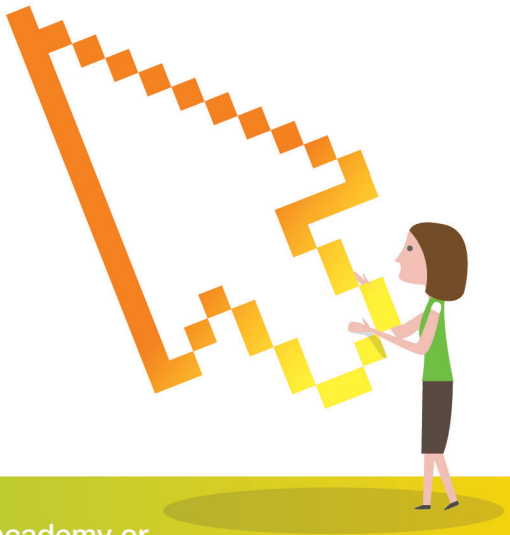

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Wales

About the HFMA

The Healthcare Financial Management Association (HFMA) is the professional body for finance staff in healthcare. For more than 60 years, it has provided independent and objective advice to its members and the wider healthcare community. It is a charitable organisation that promotes best practice and innovation in financial management and governance across the UK health economy through its local and national networks.

The association also analyses and responds to national policy and aims to exert influence in shaping the wider healthcare agenda. It has a particular interest in promoting the highest professional standards in financial management and governance and is keen to work with other organisations to promote approaches that really are 'fit for purpose' and effective.

Our vision & mission

The vision that inspires us is a world where we see:

Better quality healthcare through effective use of resources

In order to help deliver our vision, we are committed to our mission of:

- Representing and supporting healthcare finance professionals
- Influencing healthcare policy
- Promoting best practice, education and CPD

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