HFMA briefing
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How to review and scrutinise the numbers during the year

Guidance for boards

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Foreword

Over the last two years NHS organisations have been focused on the operational management of the Covid-19 pandemic. This focus, coupled with the temporary financial regime which included additional funds, led to efficiency requirements being put on hold.

From 2022/23 there is a renewed focus on improving financial sustainability and a need to regain financial grip, while still balancing the competing priorities from operational activity, workforce demands and recovery from the impact of Covid-19.

This briefing was first published in 2017 when the NHS was facing another financial crisis. It sets out a series of questions that board members can ask when reviewing financial board papers to allow them to understand the financial position and identify areas of potential concern.

Introduction

Good governance involves non-executive directors (NEDs) appropriately challenging financial reports during the year as well as at the year end.

The questions are grouped under four headings:

- overall financial performance
- savings, income and expenditure
- what is owned and owed
- cash.

It is not intended to be exhaustive in its coverage – instead it focuses on key questions that may be helpful and relevant when discussing different aspects of financial performance.

Overall financial performance

Question	Underlying reasoning
Do you know and understand the organisation's financial target?	As the NHS moves out of the Covid-19 financial regime, NHS bodies have to re-start efficiency programmes and will need to consider the actions needed to achieve long term financial sustainability. All systems have been given allocations and will have to contain expenditure within those allocations. The *Health and Care Bill,* will introduce a duty for each integrated care system to achieve financial balance. NHS bodies will still have to work within their own statutory financial targets. These arrangements have been put in place to ensure that the Department of Health and Social Care group (comprising more than 400 individual statutory bodies) stays within the spending limits set by the Chancellor and HM Treasury.
How is financial performance compared to the plan? Is the organisation on track? Is the run-rate[1] different to that planned?	The financial plan aims to deliver the financial target and should be agreed by the board. If the underlying position is different to the plan, this needs to be understood and appropriate action taken.
What are the key risks to the organisation delivering its statutory and administrative duties both as an organisation and as part of a wider system?	It is important to understand the key risks that could change the organisation's underlying financial position. Executive officers should have recorded these risks and have appropriate mitigating plans in place. For example, a significant increase in non-elective patient activity is a risk to providers and commissioners.
Is the surplus/ deficit for the year to date consistent with previous forecasts and the plan?	If in-year forecasting is accurate, there should not be any surprises at the year end. If there is a significant change, can it be explained?
Has the forecast for the year-end position changed since the last report?	If so, why? An explanation for key movements should be provided. Are changes on-going or one-off in nature?
Has the plan itself changed? If so, why?	NHS bodies will produce a financial plan each year. Plans should not change significantly in year unless there has been a major change in service delivery or a major transformation project. Unless the underlying basis for the plan has changed the plan should not change – however, forecasts should be adjusted to take account of current performance.

[1] Run rate is a term that is not clearly defined. In this document, we use it to mean a prediction of future financial performance based on current financial information

What is the proportion of recurrent (on-going) versus non-recurrent (one-off) savings?	Efficiencies (or savings) are expected to be long term. Therefore, if savings/ productivity plans are predominantly non-recurrent, the same requirement will be added to next year's savings target in addition to that year's target.

Savings, income and expenditure

Question	Underlying reasoning
Can you see the impact of efficiency schemes[2]? Are they more or less than the target for this point in the year? **What is the position if efficiency gains are excluded from the numbers?**	Delivery of efficiency schemes should support the achievement of the financial target. Efficiency schemes should be planned on an on-going basis, but achievement of the financial target is usually contingent on identified schemes coming into effect at agreed points throughout the financial year. Falling behind early in the year can be increasingly difficult to rectify as the year end approaches. Efficiency schemes that are intended to improve the financial sustainability of the organisation should have a positive effect on cash flow.[3] It is important to understand the pressure on the organisation's underlying position and if more savings are needed than originally planned.
Are reported savings/ efficiencies having a positive effect on cash flow?	Savings should reduce cash flow and income generating schemes should increase cash flow. If the reported surplus/ deficit is improving but cash balances are worsening, it is important to understand why this is and when the cash benefits are expected to be realised.
Do the income figures appear reasonable and can officers explain the reasons for any changes from the previous report and plan?	A wider understanding of what income is expected can flag potential areas of omission or where further review is needed.
Are changes in pay expenditure explainable/ expected?	Is the use of expensive agency or temporary staff increasing or decreasing? If spend on agency staff is increasing, is recruitment an issue?
Are income and expenditure presented graphically over time as well as in a table that shows performance against budget[4]?	Performance against budget indicates how the organisation is performing against its financial plan. However, providing financial information graphically over time allows the board and finance teams to identify where issues are arising and when action needs to be taken[5]..

[2] Efficiency schemes will have different names in different organisations. They may be called cost improvement plans (CIPs), savings schemes, productivity plans, waste reduction plans.
[3] Some efficiency schemes will not be cash releasing – they may achieve efficiencies by freeing up staff time, increasing capacity by reducing length of stay or reducing future demand by identifying medical issues early. If the financial position of the NHS body is to be improved the efficiency schemes need to be cash releasing – either by reducing costs or increasing revenue.
[4] FutureNHS platform, *Finance - making data count* (login required)
[5] HFMA, *Pre-accounts planning conference Making data count: statistical process control (SPC) for financial reporting*, January 2022

Do the expenditure figures appear reasonable, and can officers explain the reasons for any significant changes from the previous report and plan?	A wider understanding of what expenditure is expected can flag potential areas of omission or where further review is needed.
If the organisation has (or is party to) a subsidiary, associate, joint venture or special purpose vehicle (including pooled budget arrangements for commissioners) how are these performing?	It is important to identify how this part of the business or contract is performing and whether or not core activities are keeping it afloat.

What is owned and owed

Question	Underlying reasoning
Is capital expenditure on target? Are there material variances between schemes, are under and overspends off-setting each other?	At a national level, capital expenditure is limited. All expenditure on assets counts against the Department of Health and Social Care's capital departmental expenditure limit (CDEL). Capital expenditure needs to remain within planned levels to ensure that the CDEL is not breached. To that end, capital schemes may need to be re-prioritised during the year.
Are receivables growing? Does the organisation have more money tied up in debtors?	What are the underlying reasons? The longer debts take to be paid, the greater the pressure on the organisation's cash flow.
Can officers explain the level of bad debts that have been written off so far this year?	Bad debt provision is a judgement – are the assumptions used in calculating this in line with expectations?
Have trade payables (creditors) grown or fallen? How much money does the trust owe its suppliers?	If this is increasing, the organisation may be experiencing cash flow problems and delaying payment to creditors to manage its cash position.
Are there any particularly large trade or other payables at the moment, or significant changes from the last report? Can officers explain the reasons for these?	An increase in payables may indicate cash flow problems. Any unexpected or unexplained large movements may highlight an area for further review.
Can officers explain significant receipts in advance and deferred income?	Public sector bodies generally should not make payments in advance of receiving goods or services. Given that NHS bodies generally trade within the NHS, they would not generally expect to have significant receipts in advance. Have the services/ goods that have already been paid for been taken into account in forecasts? What is the reason for the deferral? If there is a judgement required, has it been discussed and agreed with both the third party involved and both sets of auditors? Receipts in advance and deferred income require agreement with the third party involved. Failure to gain appropriate agreement can result in in material

	income and expenditure mismatches. This may result in audit adjustments at the year-end.
If there are borrowings, do you know what they are? They may be to support working capital or a capital loan to finance spend on capital projects.	Does the organisation have any loans that it is in the process of repaying? If the trust has a deficit a working capital loan will be needed. Has it made the repayments it should have done so far this year?

Cash

Question	Underlying reasoning
For providers, what is the liquidity metric i.e., the number of days of operating costs held in cash or cash equivalent forms? If the cash stopped coming in, how many days could the organisation continue to make necessary payments?	Running with very small cash balances means that the organisation risks not be able to meet its obligations – for example, loan repayments, staff wages.
Is there a net cash outflow or a net cash inflow?	Liquidity problems are highlighted by cash inflows that are less than cash outflows.
Is performance against the *Better payment practice code*[6] reported to the board? If so, is performance deteriorating	NHS bodies are required to report their performance against the target to pay all NHS and non-NHS trade payables within 30 calendar days of receipt of goods or a valid invoice (unless other payment terms have been agreed). NHS bodies are expected to achieve this for at least 95% of invoices. If the number or value of invoices paid within 30 days is reducing, then this could be an early warning of cash flow issues
Are cash balances increasing, decreasing or staying the same? Can officers explain the movement in cash balances over the period? **Is cash now an overdraft shown as a current liability?**	Is the movement in cash consistent with the reported performance in the statement of changes in equity (SOCIE) and in relation to efficiency schemes? If the reported surplus/ deficit is not changing but cash balances are reducing, why is that? If efficiency schemes are on target, but cash balances are reducing, does that mean the schemes are not cash releasing? Cash balances need to be looked at alongside receivables and payables to get the full picture: low cash balances, growing receivables and payables indicate cash flow difficulties.
Is the organisation making any loan repayments this year? Are you aware of the reasons why the organisation has a loan and what its repayment profile is? Are the payments being made in full?	If payments are due and have been delayed, is this because there is insufficient cash flow to meet commitments?

[6] The better payment practice code is referred to by NHS bodies but has been superseded by the *Public Contracts Regulations 2015*, *Prompt payment code* and *Procurement Policy Note (PPN) 04-20*

About the HFMA

The Healthcare Financial Management Association (HFMA) is the professional body for finance staff in healthcare. For over 70 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 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.

The HFMA offers a range of qualifications in healthcare business and finance at undergraduate and postgraduate level and can provide a route to an MBA in healthcare finance. The qualifications are delivered through HFMA’s Academy which was launched in 2017 and has already established strong learner and alumni networks.

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