



HFMA briefing  
April 2022



# Improving NHS financial sustainability

Are you getting the basics right?

The CPD Standards Office  
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# Introduction

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.

The move to integrated care systems means that organisations cannot think about financial sustainability in isolation, but rather they need to also consider what the impact of their decisions is on other organisations and how other system partners may impact on them. This is at the same time as ensuring that financial sustainability is integrated within the organisation (for example, with quality, activity, workforce and so on).

This self-assessment is intended to help finance teams and their boards to think about the core elements that should be in place to support board assurance over an NHS organisation's financial position and identify where improvements are needed to drive financial sustainability.

The HFMA's checklist for boards [\*How to review and scrutinise the numbers during the year\*](#) may be more useful for board members than this self-assessment.

## Using this self-assessment document

This assessment is divided into two parts. It is intended to prompt an honest assessment of the arrangements as they stand and provide a focus for further work. It is for each organisation to decide how they will use it.

### Initial self-assessment

The first part is a small number of statements to prompt thinking about how arrangements work, or should work, in practice. It is intended to provide a quick assessment of the relative maturity of the organisation's arrangements for financial sustainability and provide an indication of where further work is required.

### Detailed checklist

The second part is a more detailed checklist linked to the initial self-assessment. It is not a comprehensive list of all the factors that need considering - it focuses on those areas most likely to have an impact on financial sustainability. To that end, it uses a series of questions as the checklist, with a brief comment on the reasoning behind the question.

The checklist is not designed to be a simple 'tick-box' exercise, but rather for consideration of the question; both in terms of whether the arrangement is in place, but also if that arrangement is working effectively.

Both parts of the assessment should be supported by identified evidence. The answers to the questions will allow an assessment to be made of the relative maturity of the organisation in each area. This is intended to identify where more work is needed.

The areas covered are:

- business and financial planning
- budget setting
- budget reporting and monitoring
- forecasting
- cost improvement/ efficiency plans
- board reporting
- financial governance framework
- culture, training and development.

The initial self-assessment and the detailed checklist are available in [Word](#) and [Excel](#) formats to allow organisations to tailor and use them as best suits their needs.

It is likely that when undertaking the assessment other questions become apparent. If you would like to provide feedback so we can make improvements, please contact us [policy@hfma.org.uk](mailto:policy@hfma.org.uk).

# Initial self-assessment

This list of high-level questions is intended to be used to assess whether the organisation has the basics right in relation to financial management. It is intended to identify the areas that may need further assessment using the more detailed questions in the checklist.

Questions need to be answered honestly about the arrangements that are actually in place as they work in practice rather than how they should work.

This assessment is available in both *Word* and *Excel* formats so it can be tailored and used as appropriate.

We suggest that each statement is scored 1 to 5, and that you provide your reasons for the score:

- 1 means that the statement never holds true
- 2 means that often the arrangement is not in place
- 3 means that the statement holds about half of the time
- 4 means that there are areas where there is room for improvement
- 5 means that the statement holds true for the whole organisation or whole process all the time.

This initial self-assessment will allow you to identify the areas that need more detailed review using the other more detailed checklist. Organisations may wish to complete this as a group or may ask several people to make the assessment to compare results.

| Question  | Assessment |   |   |   |   | Reason |
|---|------------|---|---|---|---|--------|
|   | 1          | 2 | 3 | 4 | 5 |        |
| <p><b>A Business and financial planning</b></p> <p>Financial plans are entirely consistent with all other plans (both internal and system wide) and have been based on robust assumptions that have been thoroughly tested. All plans have been accepted by management as achievable and approved by the board.</p> |            |   |   |   |   |        |
| <p><b>B Budget setting</b></p> <p>Budget holders have signed off and agreed their budgets and will work within their resource allocation to support the achievement of their agreed objectives.</p>   |            |   |   |   |   |        |
| <p><b>C Budget reporting and monitoring</b></p> <p>Complete, accurate and timely budget reports are prepared to support budget holders, from organisational level, down to ward level. Reports clearly identify where over or underspends are occurring, and budget holders are committed</p>                       |            |   |   |   |   |        |

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| to take corrective action to achieve their budget.   |  |  |  |  |  |  |
| <p><b>D Forecasting</b></p> <p>Financial forecasts, at budget holder and organisational level, represent the latest, most accurate estimate of the financial out-turn for the year reflecting actual and planned activity and resource. Management use this information to take action to achieve their budget and performance targets.</p>      |  |  |  |  |  |  |
| <p><b>E Cost improvement/ efficiency plans</b></p> <p>Cost improvement opportunities are identified on a recurrent basis, regarded as part of managing the business and are integral to the delivery of financial sustainability.</p>  |  |  |  |  |  |  |
| <p><b>F Board reporting</b></p> <p>The board receives financial reports that are triangulated with operational, quality and workforce data, allowing them to ask probing questions and agreeing actions to ensure that operational and financial objectives are met.</p>   |  |  |  |  |  |  |
| <p><b>G Financial governance framework</b></p> <p>The financial governance framework is embedded throughout the organisation as ‘the way things are done here’ to deliver a robust control environment.</p>  |  |  |  |  |  |  |
| <p><b>H Culture, training and development</b></p> <p>The culture of the organisation recognises the need to achieve the best value from the use of available resources. This is reflected in the ‘tone at the top’ through to ensuring staff comprehend and are competent to support the achievement of the organisation’s financial duties.</p> |  |  |  |  |  |  |

# Checklist

This checklist is intended to allow you to drill down into the detail to understand your organisation's the strengths and weaknesses and to monitor progress over time.

As with the first part of the assessment, organisations need to determine how they will use the checklist. The questions can be answered with narrative answers. We strongly suggest that evidence is provided to support the assessment where possible.

Alternatively, each statement could be scored 1 to 5:

- 1 means that the statement never holds true
- 2 means that often the arrangement is not in place
- 3 means that the statement holds about half of the time
- 4 means that there are areas where there is room for improvement
- 5 means that the statement holds true for the whole organisation or whole process all the time.

This checklist is available in both *Word* and *Excel* formats so it can be tailored and used as appropriate.

## A Business and financial planning

Financial plans are entirely consistent with all other plans (both internal and system wide) and have been based on robust assumptions that have been thoroughly tested. All plans have been accepted by management as achievable and approved by the board.

| Question   | Underlying reasoning  |
|--|---|
| <p><b>A1 Are the assumptions behind business and financial planning, and elements within them, clear and consistently applied, both within the organisation and across the system?</b></p>   | <p>High-level planning assumptions should be based upon clear guidance from the integrated care board (ICB)/ integrated care partnership (ICP) and NHS England and NHS Improvement (NHSE&amp;I). Where there is any lack of clarity, this should have been resolved or the board informed of the risk.</p> <p>Internal assumptions should be sense tested for accuracy and appropriateness and adopted by the executive. Once agreed they should be communicated to everyone involved in the planning process, and checks made that the assumptions have been correctly and consistently applied.</p> <p>Internal assumptions that involve, or impact upon, other organisations within the system, need to be checked and agreed with those system partners.</p> <p>Financial assumptions should be consistent with those used for demand and capacity analysis, along with clinical job planning, establishment setting, contractual agreements and so on.</p> |
| <p><b>A2 Is there a co-ordinating process and timetable for business planning to pull together the various strands (for example, workforce, operational, capital, digital, efficiency, quality, environmental sustainability)? Does this process and timetable continue into the financial year as a</b></p> | <p>Planning should not be done in individual silos, but rather developed in an integrated way so that the consequences of a development in one planning area are communicated and understood by all the other areas. This ensures that planned actions are fully evaluated, and the unintended consequences of an action are avoided.</p> <p>In particular, financial plans should link in with operational and workforce plans, and vice versa.</p>  |

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| <b>continuous review process, and not wait for central guidance?</b>   | A central process needs to be in place to ensure that there is consistent co-ordination, both in terms of timescales as well as resolution of queries.  |
| <b>A3 Are plans subject to review throughout the year and rolling forecasts updated where necessary?</b>   | <p>Plans should be subject to continuous review, during the year, and alterations made where the plans are no longer appropriate. They should avoid being a one-off annual event.</p> <p>When reporting ‘against plan’, it should be clear which plan is being used as the baseline and a clear reconciliation between the original plan for the year and subsequent updated versions.</p>  |
| <b>A4 Is there a quality assurance process in place to ensure the internal consistency of the various strands of business planning (for example, workforce, operational, capital, digital, efficiency, quality, environmental sustainability)?</b> | <p>Some form of quality control/ assurance ensures that planning guidance has been correctly applied and complied with, at the same time ensuring that other requirements (such as clinical protocols and safe staffing levels, or recommendations from CQC review and internal governance requirements) are satisfied.</p> <p>This can best be achieved using templates to capture key information and a process that involves review by people from a number of different disciplines.</p> <p>There should be a central process to review business plans, that provides independent oversight and manages resolution of disputes.</p> |
| <b>A5 Are financial plans subject to challenge/ sense/ quality check, for instance reviewed against historical run rates of expenditure or expectations from initial planning, and differences satisfactorily explained?</b>                       | <p>Financial plans, particularly if based on prior year budgets, forecasts or rolled forward figures, should be subject to key checks to ensure that the proposed plan is appropriate and significant changes can be validated.</p> <p>These can include review against historical expenditure patterns (pay and non-pay) as well as expected changes based on the financial models of new business developments.</p>   |
| <b>A6 Have initial/ first draft business and financial plans been developed in collaboration with the ICB/ ICP to ensure that system plans and partner expectations are consistent?</b>  | <p>Submissions to the ICB/ ICP and NHSE&amp;I should receive feedback which should be acted on.</p> <p>Planning issues that rely on action from system partners need to be clarified and agreed.</p>  |
| <b>A7 Is there a robust and clearly defined process for business case consideration? Is this readily available and used?</b>   | <p>The requirement for when business cases (at their various levels of detail) are needed should be set out and be part of the business planning process.</p> <p>This process should have clarity about the requirements on managers to provide sufficient information for decisions to be made (for example, through templates) and the approval process and criteria.</p>   |
| <b>A8 Has there been an equitable process for the consideration, prioritisation and approval of cost pressures?</b>  | A system should be in place for all cost pressures to be captured and recorded centrally so that they can be considered in the planning process. This will need to distinguish between external pressures (such as utility price rises, pay increases) that the organisation has little control   |

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|  | <p>over, and internal pressures from desired changes where the organisation will need to make the decision on which to choose.</p> <p>Monitoring of the impact of external pressures, particularly if unfunded or only partially so, needs to be maintained up to the setting of budgets (and during the year).</p> <p>The process for reviewing internal cost pressures should consider a range of value for money criteria, agreed in advance, in agreeing the prioritisation of bids. The approval process should be robust, with senior involvement, and board endorsement of significant prioritisation decisions.</p> <p>Communication of decisions as to which bids are agreed/ deferred/ declined should be made as soon as possible after the decision, with reasons. Some form of appeal may be appropriate.</p> |
| <p><b>A9 Has there been a robust process for the development of cost improvement/ waste reduction plans?</b></p>   | <p>A process for the development of cost improvement/ waste reduction plans, both corporately (top-down) and departmentally (bottom-up) needs to be in place to co-ordinate the activity and provide direction and priority.</p> <p>A programme/ project approach can provide the systematic methodology to help identify, agree and monitor the delivery of the plans. This should include qualitative assessments (such as quality impact assessments (QIAs)).</p> <p>The monitoring of the delivery of CIPs should be undertaken within the context of delivering the overall budget and not just the delivery to the specific CIP.</p> <p>(See also section <i>E Cost improvement plans (CIPs)/ efficiency plans</i>)</p>  |
| <p><b>A10 Is there appropriate governance in place for the review and approval of significant transformation or change programmes? Is there clear evidence this has been used?</b></p> | <p>There should be a clear process for the governance of significant transformation or change programmes, including requirements for business cases in support and the management of any programme of change, such as through a programme management office.</p> <p>The approval process should be proportionate and involve appropriate levels of executive management/ committees, board committees and the board itself.</p>  |
| <p><b>A11 Has there been a robust process for the targeting of productivity improvements?</b></p>  | <p>If being handled separately from any cost improvement plans, a programme/ project approach to identifying and delivering productivity improvements should be adopted. This should ensure that all national and regional initiatives are captured and monitored (for example, patient initiated follow up, advice and guidance).</p> <p>The process can use benchmarking tools (for example, Getting It Right First Time and the Model Health System) as well as targeting using existing key performance indicators (KPIs) and targets.</p> <p>Benchmarking pre-pandemic activity may no longer provide wholly appropriate assurance, but areas may be worth re-reviewing where the pandemic introduced changes or where</p>  |



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|   | sources of non-recurrent funding may have covered recurrent issues that will now be exposed with the loss of this funding.   |
| <b>A12 Has the board been made aware of any of the ‘tough decisions’ made by the executive?</b> | <p>In the business planning process, there will be a need for prioritisation that the board should review and agree. To do this, the board’s strategic role needs to balance with its operational oversight – board members should understand the rationale for decisions that they are approving.</p> <p>When the board agrees business plans it should understand major decisions made (for example, deferral of maintenance expenditure or recruitment freezes for short-term savings).</p> |

## B Budget setting

Budget holders have signed off and agreed their budgets and will work within their resource allocation to support the achievement of their agreed objectives.

| Question   | Underlying reasoning  |
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| <b>B1 Where the system has set the organisation a financial target, which may differ from the budget determined by the organisation, has the board accepted the control total as achievable and committed to deliver against it?</b> | <p>Financial targets should clarify the organisation’s minimum contribution to the system’s requirement to break-even. It is therefore important that the target is achievable, and the organisation’s board will take the necessary decisions to monitor against and achieve it.</p> <p>Where a board does not believe that the financial target is achievable, and therefore sets a different budget, it needs to be clear on the reasons for this and work with the ICB/ ICP on how this financial risk will be managed, in the short and medium-term.</p> <p>The budget adopted by the organisation should reconcile to the financial target and the board must be committed to the delivery of the budget as the critical control objective.</p> |
| <b>B2 Where the organisation has undertaken scenario planning, has it assessed the risks to achieving the budget and/ or financial target? Are these scenarios monitored throughout the year? Are actions taken as a result?</b>     | <p>A series of ‘what if’ questions help organisations look at the assumptions behind the achievement of financial plans (such as inflation) and the degree of impact that they might have, individually or collectively.</p> <p>Such scenarios should be monitored throughout the year to ensure that they are still appropriate and that nothing significant has changed.</p> <p>The risk register should be updated to reflect significant changes to the underlying scenario plans.</p> <p>The credibility and achievability of budgets should be reassessed based on the updated scenarios. Action will need to be taken to address any shortfalls in funding.</p>  |
| <b>B3 Have financial budgets been agreed and signed off by all budget holders/ managers? Does sign-off also include confirmation that the budget accurately reflects:</b>  | <p>All budgets need to be owned by their holders/ managers on an understanding that, at that moment in time, they believe that the budget represents the expected resources, such as staff, supplies and services, needed to deliver planned and agreed activity.</p> <p>The process of signing off budgets needs to ensure that all budgets are formally accepted and that there is a clear</p>  |

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| <ul style="list-style-type: none"> <li>the underlying resources, in terms of staff as well as supplies and services, needed to deliver those targets?</li> </ul>                               | <p>process to resolve any matters preventing budget holders/ manager signing.</p>  |
| <p><b>B4 Is there a clear process for the approval of revenue budgets?</b></p>   | <p>There is a clear and widely communicated process for the setting of budgets, from the initial guidance through submissions, challenge and resolution of differences, to their final agreement.</p>  |
| <p><b>B5 Has the board formally agreed the organisation’s budget for the year, along with the main assumptions behind it?</b></p>  | <p>Before the new financial year, consistent with the completion of the business planning cycle, the board should agree the budget and communicate this to budget holders with the importance of managing within it.</p> <p>Material changes to the budget should be reported to the board and endorsed where appropriate.</p>   |
| <p><b>B6 Is there a process/ opportunity for review of the budget as the year progresses, including formal opportunities to revise budgets and provide updated forecasts if necessary?</b></p> | <p>The board should review performance against the budget and consider if, should circumstances or assumptions change significantly, a revised budget should be considered. For example, where additional funding is received, or a capital project is approved then the budget may need to be revised.</p> <p>In other circumstances, for example, an unexpected increase in demand that is not funded, the forecast outturn will need to be revised rather than the budget.</p> <p>Where budgets are revised a clear trail from the original budget/ plan should be kept.</p> <p>This could be across the organisation or in specific areas of stress.</p> |
| <p><b>B7 Is there a process/ opportunity for virements within budgets to be undertaken during the year?</b></p>  | <p>Where appropriate, budget managers should be encouraged to use virements to ensure that they use budget lines to control items of expenditure within the overall budget total.</p>  |
| <p><b>B8 Has a capital budget been set and appropriately delegated to budget holders/ managers?</b></p>  | <p>A separate capital budget should be set and delegated to the appropriate level to manage. This should include the timing of expenditure and a review of the achievability of the capital project and its dependencies on external and internal factors.</p>   |
| <p><b>B9 Is there a clear, robust process for the approval of capital schemes?</b></p>   | <p>There is a clear and widely communicated process for the submission of bids for capital development, including requirements for business cases in support of bids.</p> <p>This process covers the assessment, prioritisation and approval of individual schemes and the programme as a whole.</p>   |
| <p><b>B10 Are the revenue expenditure implications of capital expenditure reflected in revenue budgets?</b></p>  | <p>In agreeing the capital budget, through business cases, there should be a clear understanding of the revenue expenditure implications over the life of the asset, which are reflected in revenue budgets.</p>   |

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| <b>B11 Are budgets profiled to reflect the expected pattern of expenditure each month?</b> | Larger budgets should be profiled to reflect the expected spend over the financial year, rather than a simple 1/12 <sup>th</sup> each month. This will enable more meaningful variance analysis.   |
| <b>B12 Are cash flow forecasts consistent with budgets?</b>                                | The timing of cash flows needs to reconcile with the timing of income and expenditure to ensure that the organisation maintains the appropriate cash balances, manages prompt supplier payments, and identifies possible shortfalls in good time to take necessary action.                   |
| <b>B13 Is there a formal process in place to agree the authorised establishment?</b>       | As part of the formal budget setting process, there should be agreement on the authorised establishment, including changes due to cost pressures or improvement/ productivity plans.<br><br>An in-year process should be in place to review requests to change the authorised establishment. |
| <b>B14 Is there a high-level outline budget for the next three to five years?</b>          | A high-level forward-looking budget can provide context for the current year and how assumptions will roll forward in the medium term.   |

## C Budget reporting and monitoring

Complete, accurate and timely budget reports are prepared to support budget holders, from organisational level, down to ward level. Reports clearly identify where over or underspends are occurring, and budget holders are committed to take corrective action to achieve their budget.

| <b>Question</b>  | <b>Underlying reasoning</b>  |
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| <b>C1 Is there a clear month-end reporting timetable, including the production of reports to budget managers?</b>  | Month-end processes should be embedded to ensure that all material transactions are accounted for, and budget reports produced for budget managers.  |
| <b>C2 Do budget reports provide detailed analysis of expenditure on a month-by-month basis (run rates over a period of time)<sup>1</sup>? Does the report provide sufficient information to identify the reason for variances?</b> | Reporting trends in expenditure over time will help budget holders identify if month on month changes are matters to be concerned about or not. Variances should be explained as expected changes linked to activity or transformation programmes, expected timing differences, or unplanned changes that need investigation and addressing <sup>2</sup> .<br><br>Financial sustainability needs to focus on the underlying budget that will form the basis of future operations and avoid any confusion through one off (non-recurrent) expenditure skewing the underlying pattern of expenditure.<br><br>Where appropriate, and proportionate, uncommon or significant non-recurrent expenditure should be reported separately. For example, one-off projects or short-term initiatives. |
| <b>C3 Do budget managers receive their budget reports in a timely manner for them to review and correct for any errors and</b>   | Budget managers need validated budget reports in a timely manner to review and take action based on robust evidence.   |

<sup>1</sup> FutureNHS platform, *Finance - making data count* (login required)

<sup>2</sup> HFMA, *Pre-accounts planning conference Making data count: statistical process control (SPC) for financial reporting*, January 2022

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| <p><b>omissions, before they are used to review financial performance?</b></p>  | <p>There should be a short period between the first cut of budget reports and the agreed final report for budget holders and finance business managers to validate the data (for example, to pick up mis-postings and omissions).</p> <p>Once validated, budget reports should be regarded as the basis for meaningful analysis and action planning.</p>   |
| <p><b>C4 Do budget managers formally review their budget performance each month and develop remedial actions plans that are followed up?</b></p>  | <p>Monthly reviews of budget reports should be in place, where significant variances are analysed and explained.</p> <p>The definition of what is regarded as a significant or material variation needs to be clear, both in terms of bottom-line impact or particular lines of expenditure and may be specific to individual budgets.</p> <p>Accurate profiling should minimise variances due to timing differences, so that variances can be based around cost and/or activity factors.</p> <p>Significant variances from budget need to be understood as they may well result from something unexpected occurring. An action plan should be agreed to either return to budget or seek additional funding.</p> <p>Explanations for variances should be probed to ensure that there is an understanding of their full-year impact and the underlying drivers.</p> |
| <p><b>C5 Do budget reports provide clear insight for clinical and operational teams?</b></p>  | <p>Teams need to be aware of the actions that they need to take to influence performance against budget, and this means that budget reports need to be clear and available to more than just business or financial managers.</p> <p>The budget report should help teams understand where performance is not in line with budget so they can start to understand the reason for the over/ underspend. If it is not clear from the budget report where the over/ underspend is happening, then budget holders need to know who in the finance team they should contact to help with that understanding.</p>  |
| <p><b>C6 Do budget managers have clear instructions on what actions they need to take in managing any overspends and are aware that they are expected to manage within their resource allocation?</b></p> | <p>Based on their understanding of where and why the overspend has occurred, budget managers should determine what actions they can take to correct the overspend.</p> <p>Corrective action should be discussed with the appropriate person in the finance team. Actions could include:</p> <ul style="list-style-type: none"> <li>• reduction of spend in that budget or other areas within the overall budget</li> <li>• postponement of spend to future periods as a short-term measure</li> <li>• review with other budget holders on the drivers of the overspend to ensure that spend is within the right budget heading</li> <li>• escalation of concerns to central finance as an additional cost pressure.</li> </ul>   |

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| <b>C7 Do budget managers understand what actions they should take if they are underspending against budget?</b> | <p>Where there are underspends there should be guidance on what action should be taken. This could be:</p> <ul style="list-style-type: none"> <li>• returning the overspend to a central contingency</li> <li>• using it to offset an overspend elsewhere in the budget</li> <li>• using some element of the underspend for non-recurrent spending (for example, training or maintenance) as an incentive for prudent financial management.</li> </ul> |
| <b>C8 Is there a system in place to look, corporately, for early warning signs that go across budgets?</b>      | <p>Individual variances within individual budget reports may not warrant attention, but when aggregated across the organisation may present a wider issue that needs investigation and may not get picked up.</p>  |

## D Forecasting

Financial forecasts, at budget holder and organisational level, represent the latest best estimate of the financial out-turn for the year given actual and planned activity and resource, with management using this information to take action to achieve their budget<sup>3</sup>.

| <b>Question</b>  | <b>Underlying reasoning</b>  |
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| <b>D1 Is there a clear month-end reporting timetable for the creation of forecasts and production of reports to budget managers?</b> | <p>Monthly forecasting processes should be a combination of corporate (top-down estimation) and bottom up. The level of detail and attention may depend on the financial circumstances of the organisation (and system) as well as indicators of future pressure.</p>  |
| <b>D2 Do forecasts include analysis of the underlying recurrent costs (run rate) as well as non-recurrent expenditure?</b>           | <p>Financial sustainability needs to focus on the recurring expenditure that will form the basis of future ongoing operations and avoid any confusion through non-recurrent expenditure screening the underlying pattern of expenditure.</p> <p>By its nature, non-recurrent expenditure should not be included in forecasts indefinitely but should be included only for the short period that it is expected to be incurred.</p> |
| <b>D3 In the production of forecasts, are managers provided with central instructions and assumptions that they use?</b>             | <p>Instructions on the creation of forecasts of future income and expenditure should be based, as with budgets, on agreed central assumptions.</p>   |
| <b>D4 Is the use of any central contingency, where used, transparent?</b>  | <p>Transparency on any central contingency held helps build trust and ensures that there is no impression of some form of central bail out or rescue that relieves managers of a focus on delivering against budget.</p> <p>The process for access to any such contingency or reserve, and the approval process, should be clear.</p>  |
| <b>D5 Are financial forecasts triangulated with activity, workforce and other forecasts?</b>   | <p>Financial forecasts should be built on activity forecasts from other parts of the business (for example, if activity is forecast to increase then income may also be forecast to increase but there may also be increased variable costs such as some staff cost and the cost of consumables).</p>  |
| <b>D6 Do forecasts, both at budget level and organisational level,</b>   | <p>Budgets will be prepared on an accruals basis so timing of cash flow may be different to the recognition of income or</p>   |

<sup>3</sup> HFMA, *Financial forecasting in the NHS*, 2016 (HFMA members only)

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| <b>include cash flow as well as income and expenditure?</b>   | expenditure. Financial management involves both – ensuring that expenditure is within budget but also that cash is available in order to pay staff and suppliers promptly.  |
| <b>D7 Are the financial forecasts generated for internal management purposes consistent with forecasts reported to the ICB/ ICP and NHSE&amp;I?</b> | While there may be different reporting requirements, both internally and externally, they both need to be based upon a ‘one version of the truth’ with a reconciliation/ explanation for any differences and an understanding why this is so.               |
| <b>D8 Do budget managers formally review their forecasts each month and develop remedial actions plans that are followed up?</b>                    | Monthly reviews of forecasts should be in place, where significant variances from the year-end budget are analysed and explained. Variances need to be understood and an action plan agreed to either return to year-end budget or seek additional funding. |

## E Cost improvement plans (CIPs)/ efficiency plans<sup>4</sup>

Cost improvement opportunities are identified on a recurrent basis, regarded as part of managing the business and are integral to the delivery of financial sustainability.

| <b>Question</b>   | <b>Underlying reasoning</b>  |
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| <b>E1 Is the development of CIPs part of the budget setting and delivery process?</b>   | CIPs are one element of the overall business and financial planning approach. They should support the development of an underlying financially sustainable budget.   |
| <b>E2 Is there a ‘top-down’ process for identifying CIPs?</b>   | A process for identifying CIPs needs to combine both top-down and bottom-up approaches.<br><br>A ‘top-down’ approach allows direction into areas that may have been identified by analysis at organisational level or may address areas that cut across the organisation. It can be introduced to combat unwillingness to make tough decisions.                              |
| <b>E3 Is there a ‘bottom-up’ process for identifying CIPs?</b>  | A ‘bottom-up’ process empowers staff to identify areas that they regard as poor value for money. This will use the more detailed knowledge that such staff will have acquired and will result in greater ownership of solutions.   |
| <b>E4 Are the organisation’s CIP plans consistent with, and in line with, plans at ICB/ ICP level, including system saving opportunities?</b> | There is a danger that an organisation’s own CIP plans may impact on partners within the system or be counter to local initiatives in associated areas.<br><br>There are also opportunities for savings initiatives across the system that can be driven by the system or individual partners.   |
| <b>E5 Is the process for identifying and managing CIPs a continuous one?</b>  | Most CIP plans are drawn up to meet the annual planning process and deliver against a target to contribute to the delivery of the financial target for that year.<br><br>Opportunities for CIP developments should be encouraged throughout the year. This brings the benefit of a longer time to consult and consider changes with a more recurring impact in future years. |
| <b>E6 Is there a programme/ project management approach adopted for</b>   | The discipline of formal programme/ project management will help ensure that the governance over the process is  |

<sup>4</sup> HFMA, *NHS value and efficiency map*, updated March 2022

|   |   |
|---|---|
| <p><b>the identification and delivery of CIPs?</b></p>  | <p>seen as fair, but that there is a rigour in ensuring that CIPs are delivered.</p> <p>The use of a professional programme management office to oversee this not only provides the rigour and discipline, but also frees executive and management time to implement the necessary changes to deliver efficiencies.</p>   |
| <p><b>E7 Are CIPs subject to some form of scrutiny/ challenge to ensure that they are deliverable in the timescale and to the size envisaged?</b></p>   | <p>Challenge of CIPs should ensure that the optimum cost improvement is achieved; not too little when more is available, not too much that might create intended consequences for the department or specialty, that is subject to the review and threaten other parts of their operation.</p> <p>The challenge should also check if the improvement is one-off or recurring, as well as focusing on the risks to delivery and the impact of dependencies.</p>                   |
| <p><b>E8 Are CIP proposals subject to a review of their impact on clinical/ quality areas (such as quality impact assessments - QIAs), as well as finance, to make decisions on an overall value for money basis?</b></p> | <p>CIPs will require QIAs to ensure that they do not result in adverse impacts on clinical quality.</p> <p>A review by clinical and operational staff, to ensure that there are no unforeseen consequences, should ensure that the decision to proceed is based on a rounded value for money basis.</p>   |
| <p><b>E9 Is there a process to monitor the delivery of CIPs and escalate where material delays or an inability to deliver becomes apparent, including a set of KPIs to monitor delivery?</b></p>                          | <p>The actual delivery of CIPs needs to be monitored, both in terms of the timing of the improvement and the amount of cost released. This will have an impact on budgetary control if any budget has been removed based on CIP delivery.</p> <p>Where delivery of CIPs are delayed, there needs to be a clear process of escalation and support to deliver the planned improvements.</p> <p>A set of KPIs (or key risk indicators) should be used to monitor the delivery.</p> |
| <p><b>E10 Is ownership of the delivery of CIPs clear, particularly with regards to clinical engagement?</b></p>   | <p>Delivery of CIPs should be part of individual managers' objectives for the year. They should also be encouraged to identify any support or training needed to deliver the CIP.</p> <p>Clinical ownership of CIPs, as with any changes in practice and transformation, is regarded as critical in achieving effective delivery. Boards should check that there is full clinical engagement as a key success factor.</p>   |
| <p><b>E11 Where there are unidentified CIPs, is this clearly noted and a plan in place to narrow the gap through further reviews?</b></p>   | <p>Unidentified CIPs are the difference between the required CIP target to meet the financial target and the CIPs identified and committed to.</p> <p>This difference needs monitoring closely and reporting to the ICB/ ICP so that the financial risk is appreciated at the system level.</p>   |

## F Board reporting<sup>5</sup>

The board receives financial reports that are triangulated with operational, quality and workforce data, allowing them to ask probing questions and agreeing actions to ensure that operational and financial objectives are met.

| Question  | Underlying reasoning   |
|---|--|
| <p><b>F1 Has the board agreed the format of the financial reports that it receives, and compared this to alternatives/ examples of good practice (for instance use of statistical process control charts or other forms of presentation)?</b></p> | <p>Good practice in board reporting recommends a periodic review of the information provided to the board (and its sub-committees) and the ability to drill down into more detailed information.</p> <p>Information provided to the board needs to allow for appropriate level of operational oversight as well as the key indicators.</p> <p>This needs to balance with the need to monitor a range of indicators, not just income and expenditure, but others such as cash, debtors, and performance against the <i>Better payment practice code</i>.</p> <p>The format for the presentation of data should be a consideration, using appropriate tools to highlight trends and anomalies.</p> |
| <p><b>F2 Where a scorecard/ dashboard is produced, can board members drill down easily into detail?</b></p>   | <p>Well-developed scorecards help board members focus on the key indicators, but they need to be able to drill down to the component parts of those indicators, particularly where they start to move from target, to be able to understand the drivers.</p>   |
| <p><b>F3 Has all data/ information included in board reports been subject to validation so that the board can act with confidence on the information provided?</b></p>  | <p>Boards need to be able to act with confidence that the decisions that they make are based on robust information.</p> <p>They should seek assurance from executives that the production of board reports, and the supporting information, has been subject to data validation for completeness and accuracy.</p>   |
| <p><b>F4 Is the written commentary within board reports succinct and designed to provide insight and prioritise the board's decisions?</b></p>  | <p>Commentary in board reports should be used to provide assurance to the board and explanations for variations and direct the discussion to the critical areas and issues.</p> <p>The reports need to ensure that the obvious questions that board members will raise from reading the analysis are anticipated and answers provided, with supporting evidence. They need to address the 'why' to demonstrate understanding of the issue.</p> <p>There should be a clear process for the board to feedback on the content of the reports, not necessarily seeking more information, but better information and explanations.</p>  |
| <p><b>F5 Is the board aware of the cost-benefit of management time spent in preparing board information and has it agreed a proportionate requirement?</b></p>  | <p>Board information should, wherever possible, be using information that is already being used for management purposes. Board reports should therefore be written to add value.</p>   |

<sup>5</sup> HFMA, *How to review and scrutinise the numbers during the year*, updated April 2022



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| <b>F6 Are financial risks explicitly captured in the corporate risk register discussed and action plans developed?</b> | <p>Financial risks should be explicitly captured and to a level of detail that can enable discussions on the measures needed to improve the management of the risk.</p> <p>Discussions on the management of the risk need to be structured and linked to the remedial action plans needed, and the factors that will allow effective delivery.</p> |
|--|--|

## G Financial governance framework<sup>6</sup>

The financial governance framework is embedded throughout the organisation as ‘the way things are done here’ to deliver a robust control environment.

| <b>Question</b>   | <b>Underlying reasoning</b>   |
|---|---|
| <b>G1 Are standing orders, standing financial instructions, schemes of delegation and associated governance documentation up to date and formally approved?</b> | Financial governance documentation needs to be kept up to date (for example, for changes to procurement rules) but may also need to change for the level of control deemed necessary for the maturity of the organisation (spending limits being centralised or de-centralised, the relative levels of delegation and so on).   |
| <b>G2 Are standing orders, standing financial instructions, schemes of delegation and associated governance documentation readily available to all staff?</b>   | All staff, particularly those that have responsibility for incurring expenditure, should be aware of the financial governance documentation and where to find it.   |
| <b>G3 Have all staff received relevant training in the requirements of financial governance?</b>  | See section <i>H Culture, training and development</i> .  |
| <b>G4 Is there a programme of independent assurance that financial governance arrangements are being complied with?</b>   | <p>Following on from ‘first’ line assurance from line management, there should be a programme of assurance including ‘second’ line assurance from management oversight and compliance checks, as well as ‘third’ line assurance from, for example, internal audit.</p> <p>Findings from external audit, that are relevant to this area, should have an action plan to address them.</p> |
| <b>G5 Are there a suite of appropriate policies and procedures in place that support the financial governance documentation?</b>                                | <p>Up-to-date policies and procedures (including process notes) should be in place to direct and control staff in the appropriate way to work.</p> <p>Regular/ periodic reviews of policies and procedures should be scheduled to keep them appropriate.</p>  |

<sup>6</sup> HFMA, *NHS corporate governance map*, updated March 2022

## H Culture, training and development

The culture of the organisation recognises the need to achieve the best value from the use of available resources. This is reflected in the 'tone at the top' through to ensuring staff comprehend and are competent to support the achievement of the organisation's financial duties.

| Question   | Underlying reasoning  |
|--|---|
| <b>H1 Is there a clear 'tone from the top' that promotes the importance of sound financial management and the importance of achieving financial targets?</b>   | <p>A common message from governance failings is that the 'tone from the top' is key in developing, embedding and sustaining a culture that financial management is critical.</p> <p>The example needs to be led by the board and senior executives.</p>   |
| <b>H2 Is there evidence that the 'tone from the top' is demonstrated from actions of the executive and board, consistent with that tone?</b>   | <p>Staff will look to senior executives to embed the policy on financial management and use examples of their behaviour to validate the policy.</p> <p>Where there are conflicting examples, then staff will feel less inclined to accept the necessary rigour.</p>   |
| <b>H3 Have all staff received relevant training in financial management, both in the requirements of standing orders, financial instructions/ procedures, as well as the wider communication of the role of finance in organisational success?</b> | <p>There should be a clear policy on training in financial governance and financial management, with a process to receive assurance that the policy is being applied and effective.</p> <p>Training in financial governance should be focused on the requirements of the role (for instance general managers may need a mix of training on budget, payroll and procurement, whilst others may be more specific).</p> <p>Training (and communication) on the wider role of finance, and the interdependencies between finance and management should be included within this training.</p> <p>There should be a record of all staff who are required to have training with a process for following up those who have not been trained.</p> <p>There should be a process for considering the effectiveness of this training.</p> |
| <b>H4 Is there a system of training in financial management available across the organisation for non-financial staff that promotes the culture of financial control?</b>  | <p>In addition to specific training on financial management and governance, there should be opportunities for all staff to be updated on the financial discipline needed to build future sustainability and the shared responsibility to achieve value for money.</p>   |
| <b>H5 Do financial staff have training that is focused on the development of future skills, as well as current competencies?</b>   | <p>All finance staff should be aware of the number of regional and national initiatives to develop skills for the future, such as those provided by One NHS Finance, HFMA, Skills Development Networks, etc.</p>  |
| <b>H6 Are financial governance requirements of roles considered, where relevant, in individuals' annual performance reviews and personal development plans?</b>  | <p>Key elements of financial governance (for example budget management, delegated authority and so on) should be considered within annual appraisals and staff encouraged to raise their development needs where there are gaps in their knowledge or competency.</p>   |
| <b>H7 Are financial governance requirements included in new</b>  | <p>It is important that staff understand their role in financial governance as soon as they start to work at the</p>  |

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| <p><b>starter packs/ on-boarding processes?</b></p>  | <p>organisation. This may be as simple as referring to expenses and overtime policies for those that are not budget holders, but budget holders will need more information so that they can make appropriate decisions before they receive the necessary training.</p> |
| <p><b>H8 Is budget management included in the objectives and performance review of all budget holders?</b></p> | <p>Responsibility for managing a budget should be reflected in the job description and objectives for those staff responsible for budgets. This means that financial management is seen as an integral part of the job and is given due regard.</p>                    |

# Acknowledgements

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## 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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