

## **PROPOSED FINANCIAL REPORTING FRAMEWORK**

### **Introduction**

In order for financial reporting to be effective, the right information must be reported to the right place at the right time. In order for financial reporting to be efficient, this information must not be duplicated leading to different committees giving scrutiny to the same information at different points in the reporting month.

The finance department has recently carried out a review of how and where financial data and information is reported. It has been concluded that reporting across the PCT is not as efficient or effective as it could be. This could lead to an inefficient use of time at boards and committees or vital information being overlooked.

Several documents, from bodies such as the HfMA, the Audit Commission and CIMA, outline what should be best practice in financial reporting. These have been reviewed, along with extensive research to identify examples of best practice reporting in other PCTs.

The finance department has used this research to frame recommendations for the Trust Board on how financial information should be reported from July 2008 onwards.

This paper outlines these recommendations and sets a framework for reporting that it is proposed the Board adopts.

### **Proposed Reporting Framework**

#### 1) Monthly Finance and Activity Report – Trust Board

The literature points to developing key indicators when reporting information at a high level. A review of the financial year 2007/08 was undertaken in order to understand what the key financial indicators (KFIs) are for BEN PCT. These are the items that have the potential to significantly and materially affect the PCT financial position.

Eight KFIs have been developed, alongside the three statutory duties that the PCT already reports on. It is proposed that these 11 indicators form the basis of what is reported each month to the Trust Board. Each of the indicators has tolerances and will be traffic lighted for year to date performance and forecast year end performance.

The traffic light system will follow the extensively used R.A.G. (red, amber, green) format. An indicator will appear as green if it is on target. If it is

moving away from being on target, but not to such an extent as to be material then it will be highlighted as amber. A red rating will be used where the indicator is materially away from target. These ratings will be applied to show both under and over performance against target. For example, a material underspend on GP prescribing would warrant a red rating as this is significantly different to plan.

The information will be presented using a combination of narrative and pictorial aids. This will mean that there is immediate recognition of whether an area presents a risk to the financial standing of the PCT. This will also allow the information to be more easily understood by other people reviewing Trust Board papers, such as PCT staff and the public.

This format of reporting will provide the Trust Board with high level information about financial management, and provide assurance that the PCT is meeting its strategic objectives and statutory requirements.

It is proposed that the 11 indicators are the main body of the finance and activity report, with a section for exception reporting to be used for information that must be brought to the attention of the Board, but which does not fit within the KFI framework.

Financial accounting information, such as the balance sheet and performance against the Better Payment Code, will continue to be reported to the Trust Board.

Appendix one contains a template of the proposed format of the finance and activity report for the Trust Board. This is populated with fictional data in order to give a good working example of what the report will look like.

## 2) Monthly Commissioning Finance and Activity Report – Integrated Governance and Performance (IG&P)

In the second half of 2007/08 a detailed commissioning paper was submitted quarterly to the Trust Board, alongside the finance and activity report. This paper was well received, however, the review undertaken, along with evidence of best practice, suggests that this is more detail than an executive board should consider.

It is also the case that quarterly reporting of such information means that very little action can be taken to influence the direction of travel of poorly performing areas. However, a monthly report to the Trust Board would again be providing an inappropriate level of detail.

It is proposed that a similar paper to the quarterly commissioning report goes on a monthly basis to IG&P. This meeting follows the Trust Board in the reporting cycle, and any concerns raised by this group would be reported to the following Trust Board meeting.

The commissioning paper would cover the whole of BEN PCT commissioning budgets, including primary care, public health and management costs.

It has been determined that the IG&P is a powerful and meaningful sub-group of the Trust Board, and due to the high level posts occupied by members of this group, this is the best place for reviewing the financial position across the PCT.

This group will receive information about the PCT commissioning portfolio which outlines key variances and deviations from plan. The group will be expected to agree corrective actions for any reported variances, and will report, by exception, to the Trust Board on any significant financial issues.

### 3) Detailed Commissioning Intentions Report – Performance and Planning Group

The finance department has been working closely with the Strategy and Redesign Directorate to determine how discretionary investments across the PCT are reported. It is important that commissioners take ownership of these investments; however, this can only be achieved through timely and accurate reporting.

It is proposed that detailed information about discretionary investments is reported to, and scrutinised by, the Performance and Planning Group, and concerns are then escalated to IG&P.

The PCT has identified almost £18 million of discretionary investments in 2008/09. It is crucial these are monitored as slippage of as little as 5% of this investment could lead to a material challenge to the PCT in delivering the required surplus target. As such, expenditure against commissioning intentions is one of the KFIs to be reported to the Trust Board, and so will be reported at a summary level.

The Performance and Planning Group will be expected to scrutinise expenditure against agreed profiles for discretionary investments, and agree corrective action where variances from plan occur. Any significant variances will be reported to IG&P by exception.

### 4) Provider Arm Reporting

There is an operations committee for the provider arm, which is a sub-committee of the Trust Board. This group receives a monthly finance and activity report from the provider arm finance department.

The provider arm is also performance managed by the PCT through a tripartite meeting. This monthly meeting covers all performance management

of the provider arm, including financial performance. It would be this group that, in the first instance, picks up any financial issues.

#### 5) Other Assurance Mechanisms

The PCT operates a successful partnership mechanism with Heart of England FT for monitoring the £170 million commissioning contract between the two organisations. This consists of a high level tripartite meeting with Solihull NHS Care Trust, to manage overall performance and delivery, and an operational performance monitoring group, which monitors the contract and analyses variances.

These groups provide wider assurance that a significant amount of PCT expenditure is being scrutinised and monitored.

The PCT also sets indicative budgets for practice based commissioners (PBCs). It is proposed that a monthly summary of the performance against these budgets is reported to the PBC PEC sub-group.

#### Recommendations

The Trust Board are asked to:-

- Discuss this paper and make any suggestions regarding the content and format of future finance and activity reports.
- Agree the financial reporting framework for 2008/09.