Finance Committee - Thoughts for boards
Board Assurance Prompt

Good Governance Institute

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The essential guide to provider collaboratives

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What is this guide and who is it for?

This briefing is for chairs and non-executive directors of NHS provider organisations, particularly those on finance committees. It is intended to provide a high-level summary of some of the principal challenges currently facing finance committees and aims to help colleagues gain an understanding of the key issues facing finance committees during and immediately after the pandemic.

Do we need a finance committee?

This is an important if surprising question. In fact, the only committees required by statute are an audit committee and a nomination and remuneration committee. It is significant that these are non-executive committees and whilst they rely on executive input, they make recommendations to the board or, in the case of NHS Foundation Trusts, the Council of Governors' nominations committee, to the full council.

Any other committee should only be set up if there is a need for it and there is a job for it to do. Boards should keep the work of committees under review, especially looking at how they work together and avoid duplication of effort, and should be testing the terms of reference regularly – annually is usual.

It is a good question as to whether it is realistic to consider financial matters in isolation from others. There are important relationships between finance and quality, between finance and risk, between capital, affordability and need, and between business planning, budgeting and strategic finance and operational need. Capital is a subject on its own – and trusts often overlook the revenue consequences of spending capital to their cost. How the board is assured across the range is an important consideration when devising a committee structure.

Alternatives include the board as a whole taking the lead on finance though this would be likely to skew its agendas, leaving insufficient time to consider the huge range of issues it faces in normal times, let alone during and after a pandemic. Combining finance and quality into an integrated assurance committee brings the two key ingredients of good governance together as does setting up committees along time horizons to be responsible for the current operating period, the next 2-3 years (which would cover major capital projects) and then a committee looking at the strategy of the trust and the longer-term future. The quid pro quo for combining finance and quality may have to be more frequent meetings, but this should also give time for more detailed consideration of particular issues – for example a service needing greater support or how to address a cost improvement plan.

The importance to a trust's reputation of looking after its finances well and in line with national guidance is not to be underestimated; even if control totals disappear as fast as they arrived the regulatory imperative will remain. Nevertheless, it is unarguable that NHS finances are complex in both design and execution and some trusts will conclude that they merit a committee to themselves, thus freeing up time for the board itself to think about strategy. And if there is to be a finance committee, it needs a first-class chairman who can tell wood from trees, tackle issues from the standpoint of strategy and risk and not fuss about irrelevant detail.

What assurance matters are finance committees likely to be responsible for?

Having concluded that a trust needs the support of a finance committee, it is important to frame its responsibilities carefully. It must have a real job to do that adds value to the organisation's governance.

The main issue around COVID-19 will be seeking assurance that the trust can justify the decisions it has made during the crisis in financial terms – procurement, remuneration, operations, estates, and communications will all have a contribution to make. The audit committee will also be interested in this and it is important that the work of the two committees is complementary and not duplicative.

There are other matters that should be allocated to one or other committee but, unless there is a distinct contribution to be made, only to one. The audit committee should expect to take responsibility for the annual accounts and report, the annual governance statement, internal and external audit, standing financial instructions, counter-fraud and the oversight of the board assurance framework – see the GGI Audit Effective Committee BAP maturity matrix.

Anything linked to operational activity and its funding is the business of a finance committee. Potentially the list can be very long but is likely to include:

- financial and performance management – business planning, budget setting, performance against budget reporting, treasury management; over time, year-on-year comparisons will build more valuable information about performance than the NHS's usual mantra of achievement versus plan
- financial strategy – including capital planning and recommendations for approval, investment appraisal, assessing the implications of funding remaining as block grants
- cost improvement, transformation, use of resources and regulatory ratings, benchmarking model hospital and reference costs
- pay planning, budgeting and monitoring including use of bank and agency resource
- procurement – business cases, tenders, contract management and commercial issues
- winter planning in terms of financial deployment
- risk as delegated by the board from the board assurance framework.

The committee is also likely to look for assurance on how the trust interacts financially with the integrated care system. Indeed, as the legislative mists clear and the draft bill is enacted the extent to which finance is handled across the system will bring a new set of challenges for finance committees to deal with. Finance committees will need to be aware of the implications for their organisations of moves to block grants, changes to commissioning – especially specialist commissioning – so they fully understand the implications where assessments are made across the system.

Capital allocations will no longer be the sole responsibility of foundation trusts, though having undertaken capital projects, managing them and the later revenue consequences will be an important job for the trust and the finance committee.

Altogether, this set of requirements should fill the committee's obligation to devise and gain assurance on its part of the trust's strategy, design and transform finances, respond quickly and effectively to emerging complex challenges and support the delivery of safe, effective care at all times through rigorous financial control and husbanding.

What does a good finance report look like?

Any report about organisational finances should include a summary at the outset giving a basic overview and drawing attention to hot spots and concerns. Any following detail should be to illuminate and show what will be shared externally and/or published. The current enthusiasm for RAG rating reports is not always helpful as they can be unsubtle with no indication of scale or seriousness, so they draw the eye but not necessarily to the most serious issues. A deteriorating amber in cash may be more significant than a red in longer-term capital spend; better to find a way for red to mean red and a more effective method of drawing the committee's attention to what it should be concerned about. A chart or graph often offers greater immediate understanding, especially as this is where comparative figures can be plotted.

The finance report headings and linked annexes are likely to include:

- general situation overview
- regulatory ratings
- income
- financial position using the single oversight framework criteria – financial sustainability, efficiency and controls
- capital expenditure
- debtors and payments
- risks
- income and expenditure forecast
- cashflow.

Information should show plan, actual and variance for the year to date alongside plan forecast and variance for the full year and may also give year-on-year comparisons where these might be helpful.

Over time there will be increased focus on collaborative achievements in the use of NHS resources across ICSs. Increased 'regional' interest is being signalled and reporting will need to reflect this set of broader responsibilities and accountability.

Above all the story should be clear to the non-expert reader so that the committee can usefully focus its time on the issues that really matter and look forward rather than back.

Feeder groups

It is good practice for non-executive directors to ask what senior managers' and clinicians' views are on a subject – questions not always asked – so where a finance committee gets its information and support is important. The four obvious executive groups include capital planning, finance and resource planning, pay review and clinical workforce planning.

When being asked to approve a proposal, it should be clear where it has been previously considered, that note has been taken of comments and that the board committee is the culmination of a process and not a stop along the way.

Papers for a finance committee should match those of other trust groups by being action driven, concise and practical but they will need, usually in annexes, the numbers (and, preferably, charts) to back up the cases being made. These should not be an unbosoming of all the information known to the person writing the paper but should contain enough data and information (not necessarily the same thing) to enable the committee to reach a conclusion that is auditable and evidence based.

Annual Rhythm

It is all too easy for a finance committee to become a nodding dog as paper after paper is submitted for the purposes of 'assurance'. The chairman and secretary should be constantly asking what value is being added. How much better it would be if the reports were made available and a cover paper drew the committee's attention to issues it should be aware of and on which its views were needed.

If the terms of reference do not give it powers of approval – and provided a proper quorum is present there is no reason why business cases and tenders to an agreed delegated level at least cannot be approved – then its time is best spent discussing issues and making recommendations to the board or remitting issues back to the executive for further work.

The relentlessness of reporting to regulators on performance and planning will dictate much of the regular business of a finance committee but with good planning (and luck) about half of each agenda could be devoted to discussing financial strategy, planning (business and capital) and periodic consideration of either areas facing particular challenges or emerging areas of financial interest – for example changes to payment regimes.

Conclusion

It is possible to make a strong case for a board-level group to spend time on finance. But given the large number of trusts struggling financially and which will continue to find it difficult to make the figures balance in the future, the effectiveness of a finance committee should be reviewed regularly. Finance is an enabler of other things and not an end in itself.

The decisions the NHS makes are always complex and multi-faceted. So, by all means run your trust's finances through a specially designated committee but always bear in mind it is nearly always too late for a non-executive to intervene in 'this year's' finances, given the length of time reporting takes in the NHS, and the committee's value is more likely to come from longer term, strategic financial thinking.

Hopefully, this paper will provide food for thought but however you deal with this important aspect of governance, make sure it adds value overall.

BAP Tool
Model Terms of Reference - finance committee

Duties

The committee will make recommendations to the board in relation to its duties as described below.

Strategic financial planning

- To scrutinise the development of the trust's commercial and financial strategy (including both revenue and capital), including the underlying assumptions and methodology used, ahead of review and approval by the trust board.
- To review the trust's two- and five-year financial plan before presentation at the board and ensure it is aligned to the strategy of the wider health economy, particularly the local integrated care system.
- To recommend to the board the disposal/acquisition of estates in relation to strategic financial planning and to recommend the strategic use of estates to the board.
- To consider major transformation and productivity in relationship to forward strategy including workforce, ICT and Estates.
- The consideration of strategic estates plan (and understanding of funds flows, programme management of estates plans).
- To set a framework and relevant criteria for evaluating capital investment proposals within the trust.
- To review any post-implementation investment audits undertaken by or on behalf of the trust.
- When appropriate, the committee will recommend the incorporation of start-up companies to the trust board, for agreement, in relation to any due diligence, warranties, assignments, investment agreements, etc. related to start-up companies.

Business planning process

- To ensure alignment of plan, budget and workforce plan, seeking assurance that the plan is produced and owned by the service lines / corporate divisions.
- To understand the impact of plan delivery on clinical quality and be assured that there are QIA processes in place.
- To ensure that the resource to deliver the plan is understood and allocated.
- To seek assurance that estates and IT strategies are aligned to service plans.
- To seek assurance that all associated costs are validated (e.g. estates, IT).
- To review all risks and opportunities to future business and their link into business planning.
- To seek assurance on the achievement of business plans and major change programme.

Annual budget setting and monitoring

- To review the impact of cost improvement plans (CIPs) on forward financial planning.
- To scrutinise the financial plan underpinning the annual operating plan.
- To scrutinise the draft budget prior to approval at the board.
- To review and scrutinise the capital programme in relation to estates.

Treasury management

- To agree the treasury management policy and the subsequent review and implementation of the policy.

Financial recovery programme and financial control

- To review funding sources and budgets.
- To review levels of recurrent / non-recurrent CIPs and overall level of savings.
- To review the risks and opportunities schedule as a tool to manage the in year-end forecast outturn.
- To review the progress against key milestones of major benefit realisation plans.

Business management

- To have oversight of activity and capacity data in relation to individual service lines.
- To evaluate, scrutinise and review individual investment/divestment decisions, as defined by the SFIs and to monitor on behalf of the trust board.
- To annually review financial policies and procedures.
- To approve the investment policy.
- To seek financial governance assurance regarding major work programmes, such as CGI contract reset and CRS project implementation.
- To seek assurance on the achievement of the key performance targets in the trust's strategic plan.

Finance and commercial group

- To receive an 'exceptions and recommendation' report from the finance and commercial group, detailing business transacted and to receive and review recommendations from the group on:

- investment decisions over £X00,000 per annum
- proposals for IT and estates transformation over £X0,000
- contract changes over £X0,000
- capital programmes
- operating plan

Other duties

- At the request of the trust board, the committee may review in-depth aspects of financial performance where the board requires additional scrutiny and assurance (for example the delivery of the CIP programme) while recognising that the primary responsibility for the monthly monitoring and review of the trust's financial performance rests with the full trust board.
- The committee may examine any matter referred to it by the trust board or the audit and risk committee.

Membership

The committee will consist of:

- three non-executive directors, as appointed by the board
- the chief executive
- the director of finance and performance.

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