

COVID-19

28 April 2020

When do we need finance committees?

Today we ask an important and perhaps surprising question: do NHS boards really need finance committees right now?

The only committees required by statute are audit, nomination and remuneration. It is significant that these are non-executive committees and, while they rely on executive input, they make recommendations to the board or, in the case of the Council of Governors' nominations committee, to the full council.

The only reason to set up any other committee should be if there is a need for it. Boards should keep the work of all committees under review, including how they work together and avoid duplication of effort, and they should test the terms of reference regularly – annually is usual.

Can you consider financial matters in isolation from others? The trade-off between finance and quality or finance and risk, between capital, affordability and need, and between business planning, budgeting and strategic finance and operational must be balanced.

Alternatives to a finance committee include the board as a whole taking the lead on finance, although this would likely skew the board's agendas, allowing insufficient time to consider the huge range of issues it faces in normal times, let alone during and after this pandemic.

Combining finance and quality into an integrated assurance committee brings the two key ingredients of good governance together, as would setting up committees along time horizons: one to be responsible for the current operating period, one for the next two-to-three years covering major capital projects and a committee looking at the longer term strategy of the trust.

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.

What should a finance committee be responsible for?

The committee must have a real job to do and it must add value to the organisation's governance.

Over the coming months there are some COVID-19 related issues that will need to be dealt with. Trusts whose debt is to be "written off" will need to plan how to manage this windfall and work to protect the trust from finding itself in a similar position in the future.

Trusts must also assure themselves that they can justify the decisions made for COVID-19 in financial terms – procurement, remuneration, operations, estates, 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.

Anything linked to operational activity and its funding is the business of a finance committee. It is also likely to take the lead on how the trust interacts financially with the ICS – this is a matter that will assume greater importance and significance over the lifetime of the NHS long-term plan.

Taken together, the job is to devise and deliver its part of the trust's strategy, design and transform finances, firefight complex challenges – including COVID-19 – and support the delivery of safe, effective care at all times through rigorous financial control and safeguarding.

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What does a good finance report look like?

Any report about organisational finances should include a helpful summary at the outset giving the basic overview and drawing attention to hotspots and concerns. Any following detail should illuminate and show what will be shared externally and/or published. 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
- I&E forecast
- cashflow

Information should show plan, actual and variance for the year to date alongside plan forecast and variance for the full year.

Over time there will be increased focus on collaborative achievements in the use of NHS resources across integrated care systems signalling regional interests. Reporting will need to reflect this set of broader responsibilities and accountability.

Feeder groups

It is good practice for non-executive directors to ask what senior manager and clinicians' views are on a subject – questions that are 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 staff 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 on 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 contain enough data and information to enable the committee to reach an evidence-based and auditable conclusion.

Annual rhythm

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 some luck) about half of each agenda should 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 such as changes to payment regimes.

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

Call to action

It is possible to make a case for a board-level group to spend time on finance. But given the large number of trusts struggling financially, which will continue to find it difficult to make the figures balance in the future, how effective such a committee can be must be open to question.

Finance is an enabler of other things – service delivery – and not an end in itself. NHS decisions 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 the current 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. Make sure it adds value overall.

We are keen to hear your views. If this briefing prompts any questions or comments, please call us on 07732 681120 or email us at advice@good-governance.org.uk. We will aim to respond within 24 hours.