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Key issues for clinical commissioning groups

April 2019

Welcome to our latest key issues bulletin for clinical commissioning groups.

Stubborn issues

Financial position

NHS England's latest (month 8) financial performance report highlights the difficult position faced by CCGs. Whilst the financial position of CCGs is broadly holding up in aggregate in 2018/19, many individual CCGs are struggling. The key messages in the report are:

- The CCG sector will overspend by £45.3 million by year-end.
- Savings of £3.3 billion (3.1% of allocation) for CCGs were originally planned in 2018/19. At November 2018, savings are forecast to be £3.1billion (2.8% of allocation and 90% of planned).
- There has been a marked rise in year to date overspends at CCGs between month 6 and 8. In September 2018 36 CCGs were reporting year to date overspends, by November 2018 this had increased to 49. 15 CCGs forecast they will end the financial year with overspends (4 more than at month 6), the most significant being an overspend of £34.2m. If achieved, this would however be an improvement from 2017/18 where CCGs overspent by £213m (after release of the risk reserve). Two CCGs (Croydon and New Devon) who have previously had large deficits are currently forecasting to break-even in 2018/19.

In discussions with CCGs, common themes impacting the financial position are: difficulties in obtaining cheaper versions of drugs; over-performance on acute contracts; and slippage of savings plans, particularly on the ambitious schemes.

The 'NHS Long Term Plan' published in January 2019 commits to reduce each year the number of NHS organisations individually in deficit, with all NHS organisations in balance by 2023/24. Due to the growing pressures on the services and funding of both public health and social care it's clear that this will continue to be challenging. Despite the additional funding provided, many CCGs' financial difficulties will continue into 2019/20.

System working presents new challenges and the tension of managing integrated system working and individual statutory accountability for NHS organisations. It will become vital for providers and commissioners to work collaboratively delivering services in partnership to improve quality and reduce costs rather than working in competition where costs are simply moved around. The development of Integrated Care Systems (ICSs), the 2019/20 national tariff payment system proposals and closer working of regulators (NHSE and NHSI) should assist a greater degree of collaboration.

Our report 'Healthy Savings – Delivering CIPS and QIPPS' to be published later this year will provide an insight into the delivery of savings plans across both NHS providers and commissioners. The report will use case studies to share examples of successfully delivered savings schemes and their key success factors.

If you want to discuss your financial position in more detail please contact your local engagement team.

Emerging Issues

The future provision of GP services

The provision of primary care services faces many challenges, including recruitment, CQC inspections and increased demand primarily caused by an ageing population with increased co-occurring diseases. As a result, many GP practices and CCGs are considering whether current structures are appropriate. This, in turn, means there is an increased interest in new models of working across boundaries, such as multi-specialty community providers (MCPs) as well as the vertical integration of GP practices with local acute trusts such as in Wolverhampton which is discussed later in this bulletin. A number of super companies have also been created such as Our Health, Modality and Lakeside.

Over recent years we have heard increasing numbers of GPs looking into solutions including becoming a super company. And it is easy to see why given the potential opportunities for economies of scale and greater clinical specialism. If well run they can also improve work life balance for employees which in turn have a positive impact on recruitment and retention. Super practices are also better placed to tender for and deliver new contracts for integrated care in the community and have a stronger voice in the local STP. They are well placed to take forward Primary Care Networks described in the NHS Long Term Plan. There are many forms of super companies and it is vital that partners take time to consider which model they are both comfortable with and will best deliver their objectives

Grant Thornton has assisted some of the largest super companies in developing their arrangements such as business planning and tax management. Please see our latest report "GP super practices: a prescription for sustainability in primary care" or contact Terry Tobin for more details.

Vertical Integration in the NHS

Grant Thornton provide regular opportunities for CCG Lay members to come together and learn about innovative initiatives elsewhere In January 2019, our Non Executive Director and Lay Member discussion panel in Birmingham explored vertical integration (VI) between GPs and secondary care providers in light of the issue of the NHS Long Term Plan. With VI, the Trust brings together partners to blur the line between primary, secondary and community care; breaking down the barriers between them for the benefit of all. Sultan Mahmud who is Wolverhampton NHS Trust's Director of integration described how the Trust now employs the GPs and staff for practices covering over a third of patients in the area and the challenges and many benefits this has brought. Appendix 1 contains a summary of the discussion. Please contact Terry Tobin for more details.

Accounting update

With the 2018/19 accounts preparation and audit commencing shortly, we have highlighted a few of the key accounting changes which finance teams will need to respond to:

- New Accounting Standards – both IFRS 9 in respect of Financial Instruments and IFRS 15 on Revenue Recognition are being applied for the first time in 2018/19 and these have been adopted in full by the Department of Health. CCGs will need to make an assessment as to whether either of these standards will have a material impact on their financial statements. Initial discussions with CCGs indicates that the impact is expected to be limited, auditors will expect to see the CCG's assessment of these standards.
- The adoption of IFRS 16 has been deferred for another year, CCGs should use the time to ensure they have a complete list of all their leases so they can adopt the new Standard in a timely and accurate manner once the Standard is adopted by the Department of Health.
- The Department of Health issues FAQs to support the Group Accounting Manual and it is important that finance teams review FAQs to ensure that any relevant updates are considered.

We facilitated external training sessions and highlighted issues which we continue to see with Remuneration Report disclosures and Pooled Budgets disclosures with the intention finance teams are able to improve both areas this year.
In terms of the key dates, draft CCG Accounts need to be submitted to external audit by 9am on Wednesday 24 April 2019, and audited Accounts need to be submitted by 9am on Wednesday 29 May. We are aware that NHS England would like to receive the audited Annual Report by noon on Tuesday the 28 May and CCGs should liaise with their external audit team to agree the detailed timing.

If you or your finance teams would like any further information or support in respect of these areas, then contact your audit team, or matthew.dean@uk.gt.com.

Our high-five tips for the accounts and audit season

As the accounts season approaches again, many audit committee members ask our teams about how they can add value to the review of the financial statements when they may not have any accounting background. Many CCG audit committees have a mix of members from different backgrounds, for example from business owners through to medical professionals. Even for those with an accounting background, a CCG's financial statements do look different to other sets of accounts in both the public and private sector. A set of accounts without a Profit and Loss account or any Land and Buildings on the Balance Sheet looks strange even to seasoned financial accountants.

To help members therefore, we thought it would be useful to set out how you can add value when considering the financial statements. Appendix 2 contains our top tips.

Issues on the horizon

CCG mergers

Across England there is a growing appetite for formal CCG mergers. Several, for example in Birmingham and around Bristol became new statutory bodies on 1 April 2018. This reduced the total number of CCGs from 211 in 2013 to 195 in 2018. For the remaining CCGs, the majority have already set up shared management teams and innovative structures across STP areas to help tackle the issues they face.

The trend is expected to continue as commissioners and providers respond to the challenges posed by the NHS Long Term Plan including the reduction of running cost allocations by 20% in 2020/21. Discussions with CCGs across the country suggest that local solutions are being developed to respond to the challenging financial position and the shift from competition to collaboration. A range of solutions are being implemented from formally merged CCGs, further integration with local government, smaller place-based systems involving commissioners and providers in a place and providers taking on commissioning responsibilities. The drive and ambition to respond to the challenge in the NHS Long Term Plan is leading to changes being made rapidly with many implementing new structures by 1 April 2020. There is a need to establish appropriate governance arrangements with transparency over where decisions are made where the change in structure is being implemented ahead of any legislation change.

Shared management structures have demonstrated many advantages to date, including greater capacity and resilience, economies of scale and an enhanced skills base. The move to joint working and shared responsibility helped those CCGs who were currently struggling to tackle common issues with NHS providers or social services.

Achieving effective joint working is easy. Regardless of the method chosen, key concerns include governance structures as well as people and culture issues amongst governing bodies, members and employees. CCGs should therefore ensure that for the joint working arrangement:

- board and committee meetings consider the business of more than one CCG in an effective and efficient way using senior management time more productively
- everyone remains engaged with the new strategic direction
- a shared positive culture for the new organisation is developed
- governance challenges from individual CCG are welcomed - balancing statutory responsibilities against system priorities.

Contact us

If you would like to discuss in more detail any of the issues raised in this bulletin please contact one of the team below or your Grant Thornton contact.

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Appendix One – Primary care reconfiguration-vertical integration

In January 2019, our Non Executive Director and Lay Member discussion panel explored vertical integration (VI) between GPs and secondary care providers.

What is Vertical Integration?

With VI, the Trust brings together partners to blur the line between primary, secondary and community care; breaking down the barriers between them for the benefit of all.
This is an exciting option for GPs at a point where most people agree that the structure of primary care needs to change. VI could be the answer to the provision of effective patient care, removing issues of scope, dat sharing, responsibility, funding or differing objectives through better coordination of healthcare delivery.

Introducing VI

We invited Sultan Mahmud to discuss his experience at Royal Wolverhampton NHS Trust, where he is director of integration. Sultan's work has seen the integration of doctors and staff from nine former practices, now employed by the Trust, which went live on 1 June 2016. These nine practices provide primary care to over a third of registered patients in the area (approximately 262,000 people).

VI In Wolverhampton

The initiative was conceived because the Trust recognised that GP practices have an amazing capacity to support improvements in healthcare. An excellent example of where VI can improve services is in multi-morbidity, where patients may move from one pathway to another. This can quickly become chaotic and difficult to manage, with multiple appointments, diagnostic tests and other interventions that could be could be delivered much more efficiently.

In this form of sub-contracting; the GP's name remains attached to the surgery, but the GP is effectively an employee of the Trust, who also handle CQC registration. This means practices remain active members of the CCG. There are additional benefits for GP Practices in the area not employed by the Trust, including access to the innovative Integrated Data System.

The Trust recognised that combining data with that of GP practices would provide better information on public health.

The benefits

This approach has exciting potential. Significant positive impacts are already showing in Wolverhampton, with patients having better access to their GPs and primary care professionals like physiotherapists and pharmacists etc. Vertical integration also gives patients a voice in practice meetings.

Trust assessments provide valuable insights. For example the Trust found that "5% of patients will use 60% of the practice budget" and as a result GPs have been able to put in place longer appointments to deal with complex cases"

For GPs this system provides support where it is most needed. In Wolverhampton the GPs were running small businesses, with all the distractions of practice management instead of practicing medicine. Through VI the Trust offered access to its HR department, business development and a space to do things with the data.

GPs are seeing record attendance, but funding has remained relatively flat, and since this shows no sign of improvement there is definitely an appetite for a new way of working.

The future

The big question now, is how to deliver and scale VI into other areas and how it would work in various scenarios. The Trust has a very clear view of how to approach VI
"You start with one practice and get them up and running before you move on. If it grows organically, you adapt as you go on. Every health economy is different and this should not curtail or prevent progress which directly benefits the patient and the public purse."

The Trust has developed a manual to support other health economies setting this arrangement up, saving considerable costs like legal advice, in implementation.

The Trust is confident that this model is scalable and is working with other Health Economies on their plans.

Appendix Two – Our high-five tips for the accounts and audit season

As the accounts season approaches again, many audit committee members start to ask our teams about how they can add value to the review of the financial statements when they may not have any accounting background. In CCGs many Committees have a mix of members from different backgrounds, for example from business owners through to medical professionals. Even for those with an accounting background, a CCG's financial statements do look different to other sets of accounts in both the public and private sector. A set of accounts without a Profit and Loss account or any Land and Buildings on the Balance Sheet looks strange even to seasoned financial accountants.

To help Members therefore, we thought it would be useful to set out how you can add value when considering the financial statements.

1. **Start at the back:** This may seem a strange thing to suggest however one of the most important notes within your accounts appears towards the end of the statements. The Financial Performance Note shows how the CCG has performed against its key financial targets including:
   a. Expenditure not exceeding income
   b. Revenue resource use (net expenditure) does not exceed the amount specified in the Directions (your resource limit)
   c. Revenue administration use does not exceed the amount specified in the Directions

Looking at the note the main questions you can ask yourself is:

- 'is the financial performance recorded in the note consistent to what we have been told during the year'

If in doubt then ask the finance team for clarification, as the information in the note can impact on other aspects of the audit, including our VfM Conclusion and s30 referrals.

2. **Why are there so many nil entries in our accounts?** CCGs are given a template to complete which has to be submitted to NHS England. The template is used as the basis for the financial statements that appear in your annual report. Many CCGs have decluttered their accounts by removing nil entries or notes that are not applicable to that CCG. Some CCGs still feel that they have to include every note or account figure, even if this means rows of nil entries. Reasons given include:
   a. Concerns that auditors will say that there are inconsistencies between the template and the accounts
   b. Wanting to include as much information in the accounts as possible

However, both auditors and general readers of the accounts share the view that including lots of unnecessary entries detracts from the important issues within the financial statements and disclosure notes. Disclosures on key judgements or unusual material transactions can be missed due to the inclusion of unnecessary entries.

Therefore, if you see lots of zeros in a table, do ask 'is this really needed' and 'does it detract from the important information in the accounts'?

3. **I didn't know we had foreign currency transactions?** Usually, the first note to support the financial statements is to set out the Accounting Policies of the CCG. The Group Accounting Manual issued by the Department of Health includes a standard set of accounting policies and some CCGs still feel that they need to reference all of these policies in their financial statements. However, this is not the case. The GAM reaffirms accounting standards requirements by stating that: 'Entities may omit policies that are not relevant or have immaterial effect.'

However, despite this we still find CCGs replicating the standard policies on issues such as:

- Subsidiaries
- PPE
- Foreign Currency Transactions

when no such arrangements or transaction exist or occur at the CCG.

Therefore, do have a read of the accounting policies in your accounts and, if in doubt, do ask the finance team whether all the policies are all really necessary, as again important issues may be hidden by detail that is not required.

4. **Why has revenue income increased by 500%?** One easy way of gaining an understanding on the financial statements is to quickly compare the current year to the prior year's figures recorded in the accounts. Usually finance teams will produce a separate report to explain some of the key variances, however this is not a practice shared everywhere.

   Some variances are easily explained. In recent years co-commissioning has resulted in large increases in income and expenditure which were wholly expected. However, the accounts can include variances which are individual to circumstances at the CCG or are linked to an unusual transaction. If an accounting entry has increased from £1 million to £10 million then understanding the reasons behind the increase is important in fulfilling your role when approving the accounts.

5. **Phone a friend:** We work with many great CCG finance teams with highly skilled team members. They are more than happy to assist to answer your concerns. However sometimes you feel you want to hear the auditors' view on an issue, such as materiality or key accounting judgements made by the CCG. As the largest provider of NHS audit services our teams have the knowledge and expertise to help explain these key concepts and issues. Therefore, please do remember that your Engagement Team are always happy to meet and discuss issues with Committee members.

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