

# Key issues for clinical commissioning groups

December 2018

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

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## Stubborn Issues

### Financial position

NHS England's latest financial performance report highlights that whilst the financial position of CCGs is broadly holding up on aggregate in 2018/19, many individual CCGs are struggling. The key messages in the report (covering the period up to the end of month four), are:

- CCGs are reporting a net overspend of £41.2 million
- 29 CCGs have a combined overspend of £48.9 million
- The forecast position for the year is expected to meet the position agreed by CCGs with NHS England – however, this masks identified risks of £458 million (net), which CCGs are reporting
- Agreed efficiency targets are unlikely to be met, for example the London area is forecast to achieve 86.8% of its target

Delving more deeply, messages from individual CCGs continue to be mixed. Some CCGs continue to report that, despite the many challenges, the overall financial performance and QIPP targets will be met. It is clear however that the challenges, for example managing increased patient activity, are becoming more difficult to overcome and some previously financially sound CCGs are beginning to struggle to meet increasing QIPP targets at a time of rising demand for health services.

CCGs are now recognising such challenges and have increased the scrutiny on both the identification and delivery of QIPP schemes. Additional scrutiny undertaken by CCGs includes:

- Weekly meetings of senior managers from across a CCG scrutinising the QIPP performance and full recognition that it is not simply a 'finance issue'
- Increasing acknowledgement that only transformation of services will reduce the level of spending to the required level
- Enhanced reporting of QIPP and financial reporting by the governing body and other committees, such as finance, within the CCG
- More joint working with partners to achieve the level of efficiencies required

## 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-speciality community providers (MCPs); as well as the vertical integration of GP practices with local acute trusts such as in Yeovil and Wolverhampton. A number of super companies have also been created such as Our Health, Modality and Lakeside – many of which have had initial financial and other support from the host CCG.

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. 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.P.Tobin@uk.gt.com for more details.

### Governance in partnerships

Increasingly, our audit teams are finding CCG audit committee members are concerned when decisions in relation to their own CCG are made externally, for example through Committees in Common. Concerns include:

- Potential lack of accountability for such decisions
- Clarity of decisions
- Uncertainty that decisions could potentially be made beyond delegated powers

Such views are not new. For example, in 2017, an HFMA survey found that 42% of CCG Chief Finance Officers were concerned about governance in Sustainability and Transformation Partnerships (STPs), with the alignment of STP decision-making with organisation accountability being the key governance concern (largely due to STPs not being statutory bodies).

Given how STP arrangements are developing, it is understandable that members are raising concerns. For example, STP areas often cover wide geographical areas with significant variations in healthcare needs. As an example, one STP in the North West covers a population of 2.6 million and

includes nine councils, 12 CCGs, 21 providers and a mix of urban and rural populations.

The key question CCG audit committees are therefore asking is “*what can they do to ensure that governance arrangements with, and at the partnerships, are in place and working appropriately?*” STP websites often include a summary of their board arrangements but, these alone, do not give committee members sufficient assurance on the governance of decision making at the partnership.

So, what can the audit committee member do to help them get the assurance they require? The constitution of individual CCGs is a good starting point given they contain details on partnership and joint working. CCGs therefore need to consider whether the arrangements set out in their constitution for this type of working practice are sufficiently robust to meet the complex arrangements that are developing. The standard NHS Scheme of Delegation includes a section on partnerships, which states the governing body should be approving both the partnership arrangements, and the individuals who will be representing the CCG within partnerships. This includes ensuring delegated financial limits are adhered to when representing the CCG. Furthermore the governing body should be receiving minutes and reports from the partnership arrangement meetings to provide the assurance that the constitutional requirements of the CCG are being met.

Many CCG audit committee terms of reference make it clear that it is the remit of the committee itself to request evidence that appropriate arrangements are in place for partnership governance. Across England we have seen this operate in a range of ways and each audit committee needs to identify how it obtains assurance over partnership governance arrangements. This could include, for example, assurance over the processes in place to monitor whether third parties are complying with expected governance arrangements.

### Final accounts in 2017/18

In 2017/18, Grant Thornton audited over 37% of all CCGs in England. We found that the quality of the accounts submitted, and the supporting working papers were generally of a good standard. All submitted their unaudited accounts by the deadline and in only one case was the deadline for submission of audited accounts missed – and then only by one day.

Audit opinions for CCGs have three elements: the statement of accounts; the regulatory opinion; and the value for money (VfM) conclusion. No statements of accounts opinions were qualified. However 45% received a qualified regulatory opinion for breaching their revenue resource limits and 36% received a qualified VfM conclusion which reflects weaknesses in financial arrangements.

Appendix 1 [on page six] sets out national findings and our experience from this fifth year of CCG external audits in more detail.

## Contracting and Payment Reform Proposals

[Initial reform proposals](#) for the NHS national tariff payment system in England have been published for consultation by NHS England and NHS Improvement. Paragraph 12 of the document states:

*‘Good quality activity and cost data will continue to be essential for making optimal decisions on service design and improving efficiency and improving patient outcomes’.*

This was also a key message in our 2018 report *‘Getting the data right first time’*. Our work with both CCGs and Trusts has shown that too often historical, current and potentially future contract activity levels are based on inaccurate data. To address these types of issues, we recommend:

- ensuring there is clear leadership, accountability and the engagement of clinicians with data
- improving clinical recording and documentation so that data reflects the care being delivered
- CCGs and Trusts working collaboratively to understand issues and ensuring data and resulting contracts reflect new pathways and models of care.

Ensuring contract activity baselines are accurate is key to both the current challenges health systems have and the successful development of new more collaborative contract models and payment reforms. Please contact [Peter.G.Saunders@uk.gt.com](mailto:Peter.G.Saunders@uk.gt.com) for more details.

## Brexit

With the continued uncertainty of Brexit, it is vital for all public sector bodies to consider the potential risks and challenges that leaving the EU will bring, irrespective of whether a deal is reached or not. For CCGs, areas of concern include:

- Workforce challenges – to date there is no clear narrative on how the employment of EU nationals will be affected after March 2019. As employers, CCGs should be communicating with those affected and providing support as appropriate. As commissioners, CCGs need to be engaging with their providers on plans to reduce the impact on delivery of healthcare
- Pharmacy drugs and medical devices – there have already been several media reports highlighting that many medicines and devices are provided by supply chains outside of the UK. The resilience of these supply chains is a concern for many NHS organisations and there are increasing reports of how accessible drugs will be in the UK following Brexit. Local CCGs need to work with national teams to ensure the supply of drugs and medical devices does not impact on patient safety. CCGs should ensure they are aware of any potential issues in their supply chains post-Brexit, and develop plans accordingly
- Cost pressures – when resources become scarce without a corresponding reduction in demand, prices will rise. As noted earlier many CCGs are under significant financial pressure and any additional financial burden caused by Brexit will only increase this challenge. As CCGs commence the planning round for 2019/20 they must understand the extent to which these pressures will impact at a local level

This is a challenging time for everyone, and all organisations should seek to find solutions that maximise any opportunities and minimise any challenges created by Brexit. Grant Thornton is operating a ‘Brexit Room’ where we can challenge an organisation’s existing thinking and create practical tailored plans for any eventuality. If you wish to explore this further then do not hesitate to contact your Grant Thornton contact or visit [www.grantthornton.co.uk/Brexit](http://www.grantthornton.co.uk/Brexit) for more information.

## 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. The total number of CCGs in England now stands at 195. A significant number of CCGs have already set up shared management teams and innovative structures to help tackle the issues they face and many are now considering whether to apply to formally merge. At least 15 out of England's 44 STPs have a single chief officer working across their area. Only around nine smaller CCGs (with populations less than 150,000) are not sharing a chief officer.

Some CCGs have also moved to formal collaboration arrangements with local government. For example Cornwall Council is planning to set up an integrated strategic commissioning function to take over the operations of Kernow CCG. There are also two devolved health and social care systems based on a STP footprint in Greater Manchester and Surrey Heartlands. In Greater Manchester five out of the nine councils now share an accountable officer/chief executive with their local CCG.

Shared management structures have many advantages, including: greater capacity and resilience; economies of scale; and an enhanced skills base. The move to joint working and shared responsibility will be particularly welcome for those CCGs currently struggling to tackle common issues with NHS providers or social services.

However, achieving effective joint working will not be 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 arrangements:

- 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 members are welcomed – balancing statutory responsibilities against system priorities.

We published our [All Together Now](#) report to share insights and best practice. In addition, our cross-sector report on board effectiveness, [The Board: creating and protecting value](#), provides useful hints and tools for newly forming governing bodies, including a board survey questionnaire.

We expect to see further developments whether through mergers or joint ways of working as CCGs respond to NHS England's recent letter indicating a 20 per cent reduction of administration budgets by 2020/21 with new administrations limits being issued for 2019/20.

### Technology in the NHS

Keeping up to the speed with the latest technology developments is vital for all organisations. Clearly this area is not new to the NHS, as shown by the recently launched "GP at hand" services. However, it is vital to ensure that any advances in technology are open to all and that they do not end up generating a significant financial burden for organisations with no real benefit to the end user.

As has been discussed in by the press, "GP at hand" has faced significant financial challenges in its early stages, with Babylon, the company behind the app, reporting a £23 million loss in its 2017 financial year. The aim of the service, which is being run in conjunction with a Hammersmith GP practice, is to get people booked in with GPs via the app and, despite its challenges, it is credited already with getting many more young people to see their GPs. Critics claim, however, that the investment is not benefitting elderly patients as much.

Despite the challenges, the app is potentially the first of many in this area, given the potential benefits for the patient. But any organisation that follows suit needs to make sure that appropriate due diligence is undertaken. For example, a detailed consultation exercise with all stakeholders would be the first step to identifying potential demand, along with what patients would want from the service. Detailed financial forecasts would also need to be drawn up, which need to include a realistic assessment of the costs involved against the savings which are likely to be generated. The upfront costs are likely to be significant and these may take some time to recoup, so all parties would need to be invested over the medium-long term. This could be difficult for some commissioners given their current financial standing – however, there may be further room for collaboration between NHS bodies across this area. In addition, before any such app "goes live" there needs to be a rigorous level of testing to ensure all technical issues have been ironed out.

Overall, there are many other areas where technology could play a role in the enhancement of the NHS so it is important every organisation develops a clear digital and IT strategy, which also takes into account any ethical considerations. This will help ensure that any policy decisions can be traced back to the overall aims and objectives, and reduce risks of failure. As technology advances it is likely that existing structures will need to adjust to reflect changes for example the "GP at hand" app has shown that the current payment mechanism linked to patient lists may not reflect the current funding mechanism linked to residential populations.

## 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 1 – final accounts in 2017/18

### Introduction

The production of a statement of accounts is one of the main ways that CCGs demonstrate their accountability to stakeholders for the stewardship of large sums of public money. Producing and submitting audited accounts on time with an unqualified audit opinion reflects well on the financial management arrangements of a CCG and provides assurance to the governing body and external stakeholders, such as the Department of Health (DH) and NHSE.

From the 1 April 2017 CCGs were able to select and appoint their own auditors, this meant that 2017/18 was the first year that a report was not produced by PSAA (the body previously responsible for managing audit contracts) summarising the results of auditors work. This paper provides an assessment of the fifth year of CCGs audit accounts, of which we audited over 37% in 2017/18. It includes findings from our audit of 77 CCGs undertaken across the country and draws out lessons learnt to help improve the process in future.

### Key messages

The timeliness of submission of draft and audited accounts was very good with all CCGs we audit submitting their draft accounts by the deadline and in only one case was the deadline for submission of audited accounts missed, in this instance the delay of one day was not reflective of the CCG or accounts preparation. The draft accounts submitted by our clients for audit and the quality of the working papers and supporting documents were generally of a good standard.

Under the NAO Code of Audit Practice, we are required to:

- report on whether a CCG's financial statements give a true and fair view of its financial position
- provide a regularity opinion on whether the income and expenditure included in the financial statements has been applied for the purposes intended by parliament
- provide an opinion on elements of the remuneration and staff report
- report if, in our opinion we have not been able to satisfy ourselves that the CCG has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

In addition, we are required to make a referral to the Secretary of State where we have reason to believe that the CCG was about to make, or had made, a decision involving unlawful expenditure (section 30 referral), had issued a public interest report or made written recommendations which should be considered by the CCG and publicly responded to.

For CCGs nationally:

- Section 30 referrals were made to the Secretary of State for Health and NHSE for 45% (35) of CCGs audited by Grant Thornton which also resulted in a qualified regularity opinion, reflecting the challenging financial position continuing to face many CCGs. This was consistent with the level of referrals in 2016/17. These referrals related to breaches of the CCG revenue resource limit
- Emphasis of matter paragraphs<sup>1</sup> highlighting the demise of the organisation and establishment of newly merged organisations were included in the accounts of a number of CCGs where a merger was due to take place from 1 April 2018
- No going concern material uncertainty disclosures<sup>2</sup> were included in the 2017/18 accounts opinions of any CCGs audited by Grant Thornton. A material uncertainty relating to going concern was included in both the 2016/17 and 2017/18 accounts opinion of one CCG highlighting uncertainty that may cast doubt on the CCG's ability to continue because of the level of cumulative deficit and QIPP savings required
- Non-standard<sup>3</sup> VfM arrangement conclusions were issued at 36% of CCGs audited by Grant Thornton (28/77), consistent with 36% in 2016/17 (24/67). In 2017/18, the vast majority of these (27) were 'except for'<sup>4</sup> conclusions and related to CCGs breaching their revenue resource limit, setting deficit budgets for 2018/19, not achieving control totals agreed with NHSE, failure to deliver QIPP targets due to lack of developed plans. An adverse<sup>5</sup> VfM conclusion was given to one CCG audited by Grant Thornton in 2017/18 (3 in 2016/17 and eight nationally across all firms) this related to weaknesses around not setting a sustainable budget with sufficient capacity to absorb emerging cost pressures, forecasting a further deficit for 2018/19 and not having a substantive finance team in place which resulted in a lack of financial controls contributing to inadequate financial forecasting to the Governing Body

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1. Auditors may add an 'emphasis of matter' paragraph after their opinion. This draws the attention of users of the accounts to a matter, or matters presented or disclosed in the accounts, which are of such importance that they are fundamental to users' understanding of the accounts. This does not affect the auditor's opinion on the accounts.

2. From 2017/18 auditing standards require audit opinions to include narrative in relation to the going concern assumption, either confirming that there is nothing to report in relation to the basis of preparation and no material uncertainties have been identified or where a material uncertainty has been identified and adequate disclosure is made in the financial statements the auditor's report would include a 'material uncertainty related to going concern' section. If adequate disclosure about the material uncertainty are not made in the financial statements, the auditor would express a qualified opinion or adverse opinion.

3. An adverse and 'except for' VfM conclusion is known as 'non standard'

4. A 'except for' VfM Conclusion is given where the auditor has identified one or more weaknesses that are sufficiently significant in their professional judgement to warrant reporting, but are limited to specific issues or areas. In such circumstances the auditor may conclude that the body does have proper arrangements in place, 'except for...' the issue concerned.

5. Adverse VfM Conclusion is given where the auditor concludes that the weaknesses in arrangements that they have identified are either so significant in terms of their impact, or so numerous in terms of the number of different aspects of proper arrangements affected, that they are unable to satisfy themselves that the body has proper arrangements in place to secure value for money.

### Assisting CCGs in the fifth year of producing accounts

To help our CCG audit clients to minimise the impact of risks in the fifth year, we:

- ran regional accounts workshop before the year end
- produced tailored benchmarked 2016/17 annual reports for CCGs to assist in the production of the 2017/18 reports
- discussed technical issues early with individual CCGs
- held regular meetings and shared working paper requirements before the year end.

### Common errors and problems

Remuneration reports continued to be an issue for some CCGs. Residual issues associated with the remuneration report remaining in 2017/18 included:

- Changes made by officers after submission of accounts and annual report for audit
- Incorrect calculation of fair pay multiple and average staff numbers
- Shared costs of staff and senior officers not disclosed in line with Department of Health GAM
- Incorrect banding disclosures for salary and pension costs
- Not clearly identifying which sections of the remuneration report were subject to audit

Other common errors and problems identified included:

- The financial performance note was incorrectly disclosed with the incorrect allocation and expenditure figures disclosed in some cases
- Accounting policies and disclosure notes in relation to pooled budgets not meeting the Department of Health GAM requirements
- CCGs experiencing delays in receiving data from the NHS Pensions Agency leading to delays in preparing the remuneration report
- CCGs who delivered co-commissioning in 2017/18 experienced delays in receiving data from the external supplier of the GP Payments system, causing auditors delays in obtaining satisfactory evidence to verify co-commissioning payment
- Failure to submit the correct version of the NAO group audit return caused largely by NHSE requiring CCGs to re-submit returns and CCGs not informing their auditors of this

### Planning for 2018/19 accounts

With the introduction of the Commissioner Sustainability Fund (CSF) more pressure than ever will be placed on those CCGs with a deficit control total to ensure they are able to access the CSF and come back to financial balance. The audit of the financial statements will provide key assurances to the Governing Body and NHSE as to whether the CCG are entitled to this funding.

Planning for the preparation of CCGs' 2018/19 financial statements should begin now, starting with a review and assessment of the whole process from 2017/18. To assist with this, we will:

- run final accounts workshops early in 2019 to highlight and discuss emerging technical issues
- continue to work with the NAO and HFMA to identify any updates and further support that might help CCGs
- issue model working paper requirements based on the experience of what worked well and less well in 2017/18
- consider the impact of other emerging issues such as changes in staff and finance teams as a result of CCG mergers and collaboration, the impact of mergers and shared management on accounts and annual report disclosures and impact of sustainability and transformation footprints and development of integrated care system models and local delivery systems.

In 2018/19 external auditors will be required to formally consider the reported Mental Health Improvement Spend (MHIS), Grant Thornton are currently working with NHSE to agree on the scope and timing of this work. We will engage early with finance teams to ensure they are aware of the new requirements and consider any potential issues or challenges.