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| <p>Yorkshire and the Humber Strategic Health Authority</p> <p>BOARD MEETING</p> |  <p>Yorkshire and the Humber</p> |
| <p>Date: 3rd March 2009</p> | <p>Report Author: Rob Cooper</p> |
| <p>Title of paper: Value for Money Improvement</p> | |
| <p>Actions Requested: To approve the proposed approach to VFM improvement based on</p> <ol style="list-style-type: none"> 1. Meeting SHA Audit Requirements 2. Adopting a VFM improvement framework 3. Performance management of PCTs and Trusts on VFM improvement as measured by the Audit Commission | |
| <p>Governance Requirements</p> | |
| <p>SHA Objectives supported by this paper: Objective 5. Ensuring Corporate Responsibility – Ensuring sound financial control and governance</p> | |
| <p>Risk Management:</p> | |
| <p>Board Assurances:</p> <ul style="list-style-type: none"> • This paper confirms that the SHAs commitment to Value For Money improvement | |
| <p>Risk Assessment:</p> <ul style="list-style-type: none"> • Reports on the effectiveness of financial systems and controls are provided by our auditors to the Audit Committee of the SHA • All audit recommendations are incorporated into the Operational Risk Registers as appropriate. | |
| <p>Communication (including public and patient involvement):</p> <ul style="list-style-type: none"> ▪ Not applicable | |
| <p>Resource Implications:</p> <ul style="list-style-type: none"> ▪ The resource implications are described in the paper | |
| <p>Legal Implications:</p> <ul style="list-style-type: none"> ▪ Not applicable | |
| <p>Equality and Diversity: This paper meets the requirements of the quality and diversity agenda</p> | |

YORKSHIRE AND THE HUMBER STRATEGIC HEALTH AUTHORITY

Board Meeting

3 March 2009

VALUE FOR MONEY IMPROVEMENT

Purpose of this paper

The purpose of this paper is to seek Board approval to approve the proposed approach to VFM improvement based on

1. Meeting SHA Audit Requirements
2. Adopting a VFM improvement framework
3. Performance management of PCTs and Trusts on VFM improvement as measured by the Audit Commission

Rob Cooper

Deputy Chief Executive/Director of Finance and Investment

YORKSHIRE AND THE HUMBER STRATEGIC HEALTH AUTHORITY

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VALUE FOR MONEY IMPROVEMENT

INTRODUCTION

Following discussions at the Audit Committee and SHA Senior Management Team the SHAs approach for Value for Money Improvement is being presented to the Board for consideration and approval. Value for Money improvement is a core objective of the NHS and is key to the overall SHA strategy for the region. This was most recently restated by the SHA when in 2008 we published 'Healthy Ambitions', the SHA's programme for getting the most health in the best way from the available NHS resources for the people of the region. The perennial need to maintain Value for Money (VFM) is one of the key drivers behind the changes outlined. Reason six in 'the case for change' presented in Healthy Ambitions stated:

'We need to make the best possible use of taxpayers' money: value for money to make the best use of the money taxpayers give us. Every pound wasted is a pound that could have been spent on care elsewhere. The 'demographic time bomb' that we face as a region means that we need to make sure that we are spending money effectively and efficiently, otherwise healthcare spending will consume all the economy's growth'.

This paper outlines the SHA approach to VFM improvement across the NHS in Yorkshire and the Humber based on:

1. Meeting audit requirements for the SHA on VFM – endorsed by the Audit Committee
2. Adopting a 'VFM Framework' that captures SHA activities that support VFM
3. Performance management of PCTs and Trusts achievement against the Audit Commission assessment criteria for Value for Money (Use of Resources for PCTs and ALE Theme 5 for Trusts).

MEETING SHA AUDIT REQUIREMENTS

For 2008/9 the Audit Commission assess VFM at the SHA through their Value for Money Improvement Tool. The Key Lines of Enquiry used by audit to score the SHAs performance on VFM are:

1. **Does the SHA provide strategic leadership to the health economy?** (providing evidence that there is a local vision based on national health reform policy, the SHA is developing strategic partnerships at regional level and the SHA is supporting the implementation of national projects and effectively manages corporate affairs).
2. **Has the SHA put in place sound arrangements for developing PCTs, providers and the workforce?**
3. **Does the SHA ensure that local health systems operate effectively and deliver improved performance?** (providing evidence that: the SHA has arrangements for assessing and performance managing PCTs and for ensuring NHS trust performance and the SHA benchmarks local performance).

Each of the above are broken down into detailed criteria against which the SHA is assessed. In 2007/8 the SHA was assessed as performing well in these areas and they are again covered by the 2008/9 ALE process. The Audit Committee in December and SMT in January agreed that they represented a sound approach to assessing the contribution of the SHA to VFM improvement in the region. Evidence to answer the three questions above, and meet the detailed criteria, form part of the overall SHA work programme on ALE (proper name Value for Money and Financial Management Improvement Tool) and have been submitted to the Audit Commission in February.

PUTTING A VFM FRAMEWORK IN PLACE

In 2009/10 the SHA will be assessed with regard to VFM improvement through the Use of Resources assessment process (to replace ALE). Under such an approach the SHA will put forward its own statement of what is being done to improve VFM. Value for Money is about the optimum balance of economy, efficiency and effectiveness. With no single measure and no national template a VFM framework is proposed (see Chart 1 below) to capture the different dimensions of VFM (incorporating the Audit Commissions key questions above) in terms of examples of action ie the SHAs policies processes and systems that achieve and improve VFM .

As part of the World Class Commissioning process the Department of Health is looking at how the NHS can demonstrate and deliver improvements in allocative

and technical efficiency The SHA is expected to have a role to play in this approach and will ensure that this is built into its any future VFM strategy.

Chart 1: VFM FRAMEWORK FOR THE SHA

| | <p align="center"><u>EXAMPLES OF SHA ACTION</u></p> <p align="center">In terms of policies processes & systems in place to achieve and improve VFM</p> |
|---|---|
| <p>Key VFM questions for SHAs used by Audit Commission</p> | <ol style="list-style-type: none"> 1. Strategic Leadership activities 2. PCT, provider and workforce development systems 3. Performance management and performance improvement systems |
| <p>ECONOMY (price per inputs)</p> | <p>Non-pay costs: promote the Commercial Procurement Collaborative & use professional supplies service.</p> <p>SFIs.</p> <p>Pay: promote HR benchmarking & Agenda for Change compliance</p> <p>Establishment & budgetary control systems</p> |
| <p>EFFICIENCY (inputs v outputs) / Productivity</p> | <p>Performance Management to ensure delivery of key access & cleanliness targets & financial targets</p> <p>LDA Contract Management systems</p> <p>PbR Reform & tariff development</p> <p>MPET Review – training tariff & bench-mark price</p> |
| <p>EFFECTIVE-NESS (inputs v outcomes)</p> | <p>Healthy Ambitions – a policy focus on what is most effective</p> <p>Implementation of the World Class Commissioning programme – work with PCT's to build capacity and capability in prioritisation of investment.</p> <p>High Quality Care for All and the promotion of quality accounts – a policy focus on quality</p> <p>PbR reform – linking payments to quality</p> <p>Scrutiny of use of Strategic Investment Fund</p> <p>The audit process – briefing & training by the SHA and the Audit Commission on the new UoR process</p> <p>Performance management of the PCT UoR process and ALE process for Trusts</p> |

PERFORMANCE MANAGEMENT OF PCTs AND TRUSTS

The third strand to the SHA approach to VFM improvement is the performance management of PCTs and Trusts against their achievement on the Audit Commission assessment criteria for Value for Money. For PCTs this is now Use of Resources. For Trusts this continues to be under the Auditors Local Evaluation (ALE) Theme 5.

To do this the SHA uses mainstream performance management mechanisms, obtaining plans and forecasts scores, monitoring results and the provision of training and support. A number of PCTs are beginning to put in place a their own VFM improvement strategy relevant to their own circumstances and processes.

For context Annex 1 gives a definition for VFM based on the 3 E's – this is useful as the term VFM or Value For Money is widely used and a common definition is required.

RECOMMENDATION

The Board is asked to approve the approach to VFM improvement based on

1. Meeting SHA Audit Requirements
2. Adopting a VFM improvement framework
3. Performance management of PCTs and Trusts on VFM improvement as measured by the Audit Commission

Rob Cooper
Deputy Chief Executive and Director of Finance

ANNEX 1: A DEFINITION FOR VFM

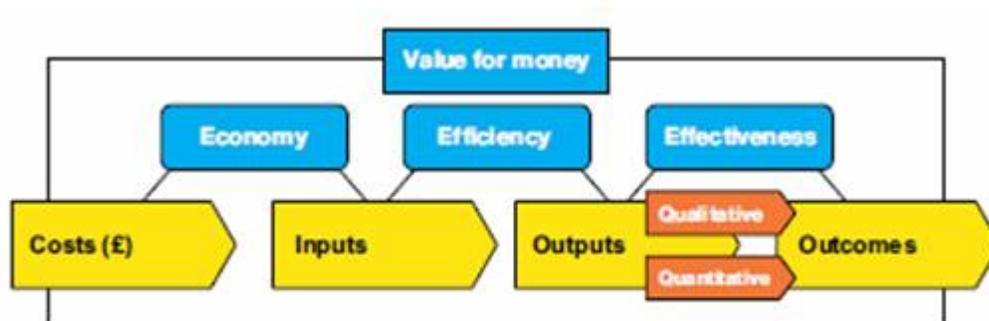
Value for Money: spending less, spending well and spending wisely

The substance of 'value for money' or VFM is at the heart of much of what the SHA is doing. Before this can be explained further it is first important to begin to define VFM in order to show what the SHA is working to achieve.

Value for money is traditionally defined through the relationship between the '3 E's'; economy, efficiency or effectiveness. This approach continues to be the approach adopted by the Audit Commission, and is used in their assessment of PCTs and the SHA. On this basis it makes sense for the SHA to use the Audit Commission approach to VFM (as set out in a recent publication and reproduced here); that VFM is about obtaining the maximum benefit over time with the resources available, about achieving the right local balance between economy, efficiency and effectiveness or, as they put it, "spending less, spending well and spending wisely" to achieve local priorities for services. Under this approach there is no single objective measure for VFM; but the aim is for an optimum balance between all three elements – when costs are relatively low, productivity is high and successful outcomes have been achieved.

Economy is what goes into providing a service, such as the cost per hour of staff, or the rent per square metre of accommodation. The whole life costs of inputs such as the (direct and indirect) costs of acquiring, running and disposing of assets or resources should be considered. **Efficiency** is the measure of productivity, in other words how much you get out in relation to what is put in. For example, the average length of stay. **Effectiveness** is a measure of the impact that has been or will be achieved, which can be either quantitative or qualitative. The VFM chain below sets out the relationship between the 3 E's.

Chart 1: VFM Chain



This definition continues to evolve to take on new requirements of the NHS, particularly recent greater emphasis on quality. What is evident is that VFM is achieved in different ways, for example:

- by reducing costs (for example, labour costs, better procurement and commissioning) for the same outputs;
- by reducing inputs (for example, people, assets, energy, materials) for the same outputs;
- by getting greater outputs with improved quality (for example, extra service or productivity) for the same inputs; and
- by getting proportionally more outputs or improved quality in return for an increase in resources.

Measuring value

Value for Money by definition brings together measures of 'value' and measures of 'money'. As VFM moves from economy, to efficiency and in particular effectiveness measuring the outputs and outcomes that make up 'value' is open to different views and requires contributions from non-finance specialists. For example measuring quality is more subjective and more difficult to measure than other elements. A long term view is also needed as 'value' can often take many years to materialise, for example in long-term contracts. What is VFM at one point in time may not be a year later. Any value assessment needs to consider local priorities which can mean what is VFM for one organisation, or locality, may not be the same for another.

Top down and bottom up

For a commissioner or a provider in the health sector, achieving VFM usually involves two approaches; a top-down or strategic approach within the business planning cycle, and bottom up or operational approach integrated into all spending decisions.

The top down strategic approach aims to ensure that the overall spending or resource allocation programme delivers the right overall balance of economy, efficiency, and effectiveness. This is akin to what health economists refer to as 'allocative efficiency'. A strategic approach complements the bottom up operational VFM systems by making sure the sum of the individual decisions are consistent with overall aims. The bottom-up operational approach is directed at each spending decision, whether a short term one-off, an annual contract or long term investment agreement should ensure that the right balance of economy, efficiency and effectiveness is being delivered for that circumstance. Efficiency in this context is what health economists refer to as 'technical efficiency'. All organisations are required, as part of their Standing Orders and Standing Financial Instructions to have systems that support VFM.