

Board Governance Assurance Framework for Aspirant Foundation Trusts

*Financial Governance Module
(Development Module)*

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Document Purpose

Procedure - new

Gateway Reference

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Financial Governance

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Description This document sets out the structure, content and process for undertaking a development module which focuses on Financial Governance for aspiring Foundation Trust Boards. This module is one of three of modules as set out in the Board Governance Assurance Framework

Cross Ref Board Governance Assurance Framework - Board Governance Memorandum

Superseded Docs N/A

Action Required Aspirant Foundation Trusts should be aware of the contents of the Financial Governance Development Module as part of the Board Governance Assurance Framework

Timing N/A

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For Recipient's Use

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Executive Summary

Good governance is a hallmark of high performing organisations. We need NHS Boards that are primarily focused on care quality and excellent patient experience, are effective at understanding their business, can articulate and oversee the delivery of a strong strategic vision, and are able to demonstrate robust financial control.

The best Boards know how much quality matters to their patients, public and staff. They recognise that patients will choose services, and providers will compete on this basis. They understand how patients need healthcare services that are clinically and financially sustainable now and in the future.

To deliver this we will require strong leadership from NHS Boards. Boards who are prepared to ask probing questions and challenge mindsets. Boards who can take difficult decisions, working collaboratively across care pathways and beyond organisational boundaries. Boards who can radically challenge traditional models to deliver truly integrated services that patients tell us they want.

NHS Foundation Trust (FT) Boards are in the best shape to take up these challenges. This is because they have faced rigorous assessment of their capability and capacity by Monitor, the FT regulator. FT Boards also benefit from increased accountability for their decisions through the involvement of locally elected governors. This combination gives FT Boards the confidence and mandate to set the compass for a sustainable future, rooted in the needs of the local communities they serve.

For this reason, FTs remain at the heart of the Government's plans to modernise the NHS. At least 140 NHS bodies have now been authorised as FTs. The strong expectation is that remaining NHS trusts will achieve FT status by 2014, either on their own, as part of an existing FT, or in another organisational form under new management arrangements.

Each NHS Trust Board has made an explicit public commitment to achieve this by signing and publishing a Tripartite Formal Agreement (TFA). This sets out their trajectory towards becoming a FT, and the key milestones along the way.

Becoming a FT is not just a destination. The process of authorisation as an FT helps equip NHS Trust Boards more effectively to meet future challenges, by testing both clinical quality and financial viability.

Not all Boards pass these tests. Half of all aspirant NHS Trusts whose FT application is deferred during the authorisation process do so due to a failure of governance. More expressly, it means that there have been issues with capacity and capability of the Board.

In the past, to prepare for assessment by Monitor, many Trusts have undertaken Board development work. This work has varied in both cost and quality across the country. It has not always focused on the real governance challenges facing NHS Boards today.

Executive Summary (cont.)

In response, the Department of Health has commissioned the development of a **Board Governance Assurance Framework (BGAF)**, which will assist Boards through a combination of self and independent assessment processes to ensure that they are appropriately skilled, and prepared to achieve FT authorisation.

Using the Board Governance Assurance Framework means patients and the public can have confidence that their Trusts are undergoing a standardised, high quality process to help the Board build on their strengths and address any weaknesses.

All aspirant FTs (AFTs) are required to use the Board Governance Assurance Framework prior to submitting their FT application to the Department of Health. This is an important aspect of a Trust's application.

It is crucial to note that like other aspects of the TFAs, NHS Trusts must locally own the issues and solutions arising from the use of the framework. National support from the DH will only be available where needed.

Boards will therefore want to consider carefully the questions raised by the Board Assurance Framework, and the steps that they will take locally to address them.

The **BGAF** is structured on two key stages:

- **The Board Governance Memorandum** – where Boards self assess their current capacity and capability, which is supported by appropriate evidence and then externally validated by an independent supplier;
- **Development Modules** – where Boards can opt to gain a deeper level of assurance into the specific areas of Strategy, Quality and Finance.

This framework allows for flexibility in use and concentrates on the key elements of effective functioning for all board members. The delivery of the framework will be through a range of quality assured suppliers, at a nationally determined fixed price and met by the NHS Trust.

Co-design and Approach to development

The Department of Health (DH) commissioned Deloitte LLP to develop the Assurance Framework with key partners and stakeholders from across the NHS. The approach to co-design has consisted of:

- Forming a 'Network of Experts' from the NHS, academia, policy think tanks and beyond to provide insights and expertise and peer review the draft iterations of the Assurance Framework;
- A review of key Board effectiveness and governance good practice publications, including the *Intelligent Board* series, the *Healthy NHS Board*, and Monitor's *Governance Code*;
- Consultation and focus groups with Monitor, the Foundation Trust Network and Appointments Commission;
- Consultation with SHA Directors of Provider Development; and
- Working in partnership with six Foundation Trust Test Sites:
 1. Central Manchester University Hospitals NHS FT
 2. Chelsea and Westminster Hospitals NHS FT;
 3. Derbyshire Mental Health NHS FT;
 4. Northumberland, Tyne and Wear NHS FT;
 5. South East Coast Ambulance Service NHS FT; and
 6. The Royal Marsden NHS FT.

Introduction

The Development Modules (Stage 2) of the Board Governance Assurance Framework comprises 3 key modules which seek deeper levels of assurance and supporting AFTs with key development points in each across:

- Financial Governance
- Organisational Strategy and Values
- Quality Governance

How to use this module

This module has been designed to be developmental and help you as an aspirant FT identify how you can improve in and across core elements of **Financial Governance**.

Within the Module, similar to the Board Governance Module (BGM), there are a number of key areas to assess and identify core strength and areas for development. For the Financial Governance Module, these are:

- Financial Planning
- Financial Reporting and Monitoring
- Board and Organisational Financial Awareness and Involvement

Each of these is further broken down into more detailed sections. For example Financial Planning is broken down into:

- Board oversight of the financial plan
- Effectiveness of Financial Planning Processes
- Planning of CIP / QIPP Schemes

If the aspirant FT Board undertakes this module, they should RAG rate each section based on the criteria outlined overleaf. In addition, the Board should then identify the key actions / areas for development which the Module has raised.

Introduction

Completion of the checklist and scoring criteria

It is recommended that each section is completed and recorded using the Financial Governance Checklist attached (page 34). In addition, for consistency, the scoring criteria used for the main Board Governance Memorandum (BGM) is also used for this module.

This should help your Board identify areas of strength, areas of development and from the best practice guidance - areas for improvement to be made.

The scoring criteria for each section is as follows:

Green if the following applies:

- All good practices are in place unless the Board is able to explain why it is unable or has chosen not to adopt a particular good practice.
- No Red Flags identified.

Amber/ Green if the following applies:

- Some elements of good practice in place.
- Where good practice is currently not being achieved, there are either:
 - robust Action Plans in place that are on track to achieve good practice; or
 - the Board is able to explain why it is unable or has chosen not to adopt a good practice and is controlling the risks created by non-compliance.
- One Red Flag identified but a robust Action Plan is in place and is on track to remove the Red Flag or mitigate it.

Amber/ Red if the following applies:

- Some elements of good practice in place.
- Where good practice is currently not being achieved:
 - Action Plans are not in place, not robust or not on track;
 - the Board is not able to explain why it is unable or has chosen not to adopt a good practice; or
 - the Board is not controlling the risks created by non-compliance.
- Two or more Red Flags identified but robust Action Plans are in place to remove the Red Flags or mitigate them.

Red if the following applies:

- Action Plans to remove or mitigate the risk(s) presented by one or more Red Flags are either not in place, not robust or not on track

Financial Planning

1. Financial Planning

Overview

This section focuses on Financial Planning, and specifically the following areas:

1. Board Oversight of the Financial Plan

- Strategy and Vision
- Key Risks and Assumptions
- Alignment / Integration with other enabling plans/strategies
- Track record of delivery

2. Effectiveness of Financial Planning Processes

- Engagement with Stakeholders
- Impact Assessment
- Capital Plan approval process

3. Planning of CIP/QIPP schemes

- CIP Impact
- CIP Implementation
- QIPP Achievement

1. Financial Planning

1.1 Board Oversight of the Financial Plan – Strategy and Vision

| Red Flag | Good Practice |
|---|---|
| <ol style="list-style-type: none"> 1. Unrealistic objectives that are poorly aligned with the views of commissioners and other key stakeholders. 2. The Trust's income plans are not consistent with the expenditure plans of its key Commissioner(s). 3. Financial and quality implications of proposed investments and disinvestments are not fully reflected within the strategic plan. | <ol style="list-style-type: none"> 1. The Board has clearly articulated the strategy and vision of the Trust and the parameters within which Financial plans should be based: <ul style="list-style-type: none"> • Implications of changes in national tariff have been fully thought through and there are clear plans in place to address significant changes. • Assumptions made within the financial plan are aligned to external indicators (e.g. Inflation) and also the overarching vision for the Trust. • Local commissioning changes have been fully thought through and clear plans in place to accommodate significant changes. • The Board has considered Monitor's Assessor and Downside cases on tariff efficiency. • The Board has considered productivity and efficiency. |
| <p>Examples of evidence to support the RAG rating.</p> | <ul style="list-style-type: none"> • Trust Strategy and Vision (as per the Integrated Business Plan (IBP)) • Strategic intentions and expenditure plans of local key commissioner(s) • Trust LTFM and Quality plans • Trust Investment and Disinvestment plans |

1. Financial Planning

1.1 Board Oversight of the Financial Plan – Key Risks and Assumptions

| Red Flag | Good Practice |
|--|---|
| <p>1. Key financial risks are not agreed and understood by all members of the Trust Board.</p> | <p>1. The Board can clearly articulate the key risks, areas of judgement and assumptions made within the Financial Plan:</p> <ul style="list-style-type: none"> • Consistency and agreement in articulation of key risks and assumptions within the financial plan. • A broad range of stakeholders have been consulted as part of the financial plan's development, and there is congruency of assumptions regarding growth, activity projections etc. across the health economy. • Demonstrates robust assessment of the external environment, market, competition and alignment with key commissioners within the health economy. • The base case has been fully tested with a range of scenarios and contingency plans are in place, including Monitors assessor and downside case. |
| <p>Examples of evidence to support the RAG rating.</p> | <ul style="list-style-type: none"> • Key risks facing the organisation, rationale and mitigation plans • Trust's Financial plan/LTFM • Trust's Stakeholder Engagement Plan • Market Analysis and Competitor Assessment (IBP – Chapter 4) • Base Case, Scenario planning and Downside with contingency planning (IBP – Chapters 6 and 7) |

1. Financial Planning

1.1 Board Oversight of the Financial Plan – Alignment with other enabling plans/strategies

| Red Flag | Good Practice |
|--|---|
| <ol style="list-style-type: none"> 1. The Financial Plan is a standalone document . 2. Lack of congruence between the Financial Plan and other supporting enabling plans/strategies. 3. Inadequate assessment of resource required to deliver the Financial Plan. | <ol style="list-style-type: none"> 1. The Financial Plan maps to and is integrated with other key internal enabling plans/strategies such as Workforce, IM&T and Estate: <ul style="list-style-type: none"> • There is clear alignment between the financial plans and supporting plans. • The financial implications of other plans including workforce, IM&T, and capital plans, have been considered and vice versa. |
| <p>Examples of evidence to support the RAG rating.</p> | <ul style="list-style-type: none"> • Trust's Financial plan, / LTFM and CIP plans • Trust's IBP • Corresponding enabling plans/strategies for workforce, capital plan, IM&T |

1. Financial Planning

1.1 Board Oversight of the Financial Plan – Track Record of Delivery

| Red Flag | Good Practice |
|--|--|
| <ol style="list-style-type: none"> 1. EBITDA outturn was greater than 30% than set at start of financial year. 2. The Trust failed to achieve against its CIP plan by > 15% of the initial plan in the last financial year. | <ol style="list-style-type: none"> 1. There is a track record of delivering against financial plans on a comparative scale without compromising the Trust's overall objectives. The Board has taken action to address key financial issues in previous years and is monitoring progress against these: <ul style="list-style-type: none"> • The Trust can demonstrate that key financial targets have been met and there are no significant variances between outturn and the annual financial plan. • There are no significant variances in the performance reported to the Board in the current year against plan. • The Trust has a good track record of delivering >90% of CIP plans and can demonstrate that this has predominantly been met through recurrent schemes. |
| <p>Examples of evidence to support the RAG rating.</p> | <ul style="list-style-type: none"> • Trust's Financial /LTFM and CIP plans • Variance analysis • Trust's CIP trend analysis (historic , current , projected) • Trust Board Financial Papers and Sub-Committee Papers |

1. Financial Planning

1.2 Effective Financial Planning Process – Engagement with Stakeholders

| Red Flag | Good Practice |
|---|--|
| <ol style="list-style-type: none"> 1. There is no clinical engagement in setting the financial and supporting CIP plans. 2. Material concerns have been raised by the Trust's main commissioner (PCT or Clinical Commissioning Group) in relation to the Trust's financial viability, which the Trust is unable to demonstrate have been fully debated as part of the development of the financial plan/LTFM. 3. Activity is significantly in excess of plan during the first quarter of the current financial year. | <ol style="list-style-type: none"> 1. The Board has oversight of the financial planning process and can demonstrate that there has been engagement with a range of stakeholders (both internal and external) throughout the development of the Financial Plan: <ul style="list-style-type: none"> ▪ The process for the development of the Financial Plan clearly articulates roles and responsibilities with evidence of broad clinical engagement throughout the process. ▪ The process is timely and detailed CIP and service line plans are in place at the start of the financial year. Robust procedures are in place to ensure CIP plans are developed with high levels of engagement and robust challenge by clinicians and other staff groups. ▪ A broad range of external stakeholders have been consulted in the development of the plan and there is alignment in the financial priorities, activity profiles and performance expectations with risks identified, quantified and reflected within the Financial Plan. |
| <p>Examples of evidence to support the RAG rating.</p> | <ul style="list-style-type: none"> • Trust Stakeholder Engagement Plan (internal and external) • Trust Board Papers and Sub Committee Papers • Trust's Financial plan (revenue and capital) procedures / process • Trust's Service Line Reporting (SLR) plans • Trust's CIP plans |

1. Financial Planning

1.2 Effective Financial Planning Process – Impact Assessment

| Red Flag | Good Practice |
|--|---|
| <p>1. Numerous changes made to Financial Plan during year.</p> | <p>1. Strategic decisions taken at the Board during the year are assessed for their impact on the financial position:</p> <ul style="list-style-type: none"> • Only a small number of minor changes made to the plan during the year with rationale clearly understood and approved by the Board. • All strategic decisions taken at the Board are supported by a clear log identifying amendments made, with an assessment provided of their impact on the financial position. • Finance reports demonstrate clear tracking of performance against both the initial and revised trajectory. |
| <p>Examples of evidence to support the RAG rating.</p> | <ul style="list-style-type: none"> • Trust Board Papers and Sub Committee Papers • Trust's Financial plan (revenue and capital) • Record / log of original Financial Plan and changes proposed and actioned throughout the year to date |

1. Financial Planning

1.2 Effective Financial Planning Process – Capital Plan approval process

| Red Flag | Good Practice |
|---|--|
| <ol style="list-style-type: none"> 1. Capital spend during the last financial year was > 20% variance from the initial plan. 2. Evidence of significant slippage against key capital schemes. 3. There is an increasing trend in the level of backlog maintenance over the last three years. 4. Capital plans are not clearly aligned to service development strategies, cash planning, and capital investments. 5. Inadequate plans for the timing and funding of significant capital investment to meet the Trust's development strategies. | <ol style="list-style-type: none"> 1. There is a clearly articulated process for approving the capital plan, with clear links of delegation and consideration of Monitor's Risk Evaluation for Investment Decisions (REID) guidance: <ul style="list-style-type: none"> • There is a clear process for the review and approval of capital schemes, including alignment to overarching strategy with evidence that the Trust has considered and utilised best practice as outlined in the Monitor REID guidance. • The Trust undertakes a risk assessment on the capital plan and models the impact of undertaking the scheme on key financial metrics (e.g. FRR rating / cashflow) to demonstrate affordability. • There is evidence that significant schemes / plans to address backlog maintenance have been delivered in line with budget and timescales. • There is a credible plan in place to address backlog maintenance. |
| <p>Examples of evidence to support the RAG rating.</p> | <ul style="list-style-type: none"> • Trust Board Papers and Sub Committee Papers • Trust's Financial plan (revenue and capital) • Capital schemes / plan risk assessment |

1. Financial Planning

1.3 Planning of CIP / QIPP – CIP Impact

| Red Flag | Good Practice |
|--|--|
| <p>1. There is no clinical engagement in setting CIPs or no mechanism for feedback from staff.</p> | <p>1. The Board has an appreciation of the potential impact of CIP projects on quality and is assured that there are robust systems in place for listening to feedback and acting on this where concerns about quality are raised:</p> <ul style="list-style-type: none"> • The Board can clearly articulate the potential impact of CIPs on quality within the organisation. • Robust procedures are in place to ensure CIPs are developed with high levels of engagement and robust challenge by clinicians and other staff groups. • CIPs align to the future strategy of the organisation, and the Trust can demonstrate that progress is being made against longer term / transformational schemes. There is evidence that clinicians are engaged throughout the whole process. • The Board can demonstrate that CIP schemes were not approved or were delayed as a result of a review of the potential impact on quality. • The Board can demonstrate post-implementation reviews are conducted. • The Board can demonstrate early-warning mechanisms are in place to flag when CIP / QIPP are not on track for being delivered. |
| <p>Examples of evidence to support the RAG rating.</p> | <ul style="list-style-type: none"> • Trust’s Stakeholder Engagement Plan (especially – CIP) • CIP Plans and supporting documentation • CIP procedures and processes • Trust Board Papers and Sub-Committee Papers • Year end CIP results |

1. Financial Planning

1.3 Planning of CIP/QIPP – CIP Implementation

| Red Flag | Good Practice |
|--|--|
| <ol style="list-style-type: none"> 1. Finance reports do not separately identify performance against the CIPs, including major schemes. 2. CIPs are predominantly made up of non-recurrent savings (with less than 60% planned to be delivered recurrently). 3. Greater than 50% of the total CIP target is planned to be delivered in the last 6 months of the financial year. | <ol style="list-style-type: none"> 1. There are clear plans in place to support the implementation of significant CIP schemes: <ul style="list-style-type: none"> • The CIP is risk assessed and this is kept under ongoing review. The CIP is made up of predominantly recurrent savings, delivery of which is phased throughout the financial year. • The Trust has a contingency in place in the event that it fails to deliver on elements of its CIPs. The process of identification of schemes is an iterative process which is performed throughout the financial year. • Significant schemes are supported by robust project implementation plans and have executive level ownership. Robust PMO arrangements are in place. |
| <p>Examples of evidence to support the RAG rating.</p> | <ul style="list-style-type: none"> • CIP plans and supporting documentation • CIP procedures, processes, systems and structures (e.g. PMO) • Trust Board Papers and Sub-Committee Papers • Year end CIP results |

1. Financial Planning

1.3 Planning of CIP / QIPP – QIPP Achievement

| Red Flag | Good Practice |
|--|---|
| <p>1. CIPs have not been tested against any economy QIPP schemes within commissioner financial plans (and specifically Level 1 Schemes).</p> | <p>1. There are clear plans in place to support the achievement of economy QIPP schemes:</p> <ul style="list-style-type: none"> The Trust has its role / responsibility to Level 1 QIPP schemes clearly identified and progress reported upon. |
| <p>Examples of evidence to support the RAG rating.</p> | <ul style="list-style-type: none"> QIPP plans and supporting documentation QIPP procedures and processes Trust Board Papers and Sub-Committee Papers Year end QIPP and current year projected results |

Financial Reporting and Monitoring

2. Financial Reporting and Monitoring

Overview

This section focuses on Financial reporting and monitoring, and specifically the following areas:

1. Financial Accountability and Control

- Organisational ownership and responsibility
- Framework of authority
- Financial Resource and Risk Management

2. Financial reporting

- Organisational Performance and Risks – Strategy and Operational levels
- Compliance with Statutory and Regulatory requirements

3. CIP reporting

- KPIs
- Tracking of Achievement / Delivery Systems and Structures

2. Financial Reporting and Monitoring

2.1 Financial Accountability and Control – Organisational Ownership

| Red Flag | Good Practice |
|--|--|
| <ol style="list-style-type: none"> 1. Lengthy process of agreement and sign-off of annual service/ departmental budgets. 2. Material variation from the Financial Plan early in the financial year e.g. From the first quarter, and which recur for more than one month. 3. Responsibility for achievement rests with Trust’s finance department, with no evidence of ownership or assignment to senior staff beyond the finance function. 4. Lack of clear understanding, interpretation or consistent application of key elements of the Financial Plan throughout the Trust’s senior workforce tiers. | <ol style="list-style-type: none"> 1. The Board can demonstrate that there is ownership of the Financial Plan throughout the organisation and that responsibility for managing delivery has been appropriately assigned: <ul style="list-style-type: none"> • Annual budget-setting has been informed by Service Line Reporting with clinical and service professionals engaged in process. • Senior managers and clinicians beyond the finance function have objectives reflecting financial plan achievement. • Financial authority delegated to individuals is formally outlined within the Trust’s governance procedures, with financial responsibilities clearly defined within contracts of employment and/or job descriptions. • The framework for delegating financial authority is reviewed annually. |
| <p>Examples of evidence to support the RAG rating.</p> | <ul style="list-style-type: none"> • Trust’s Budget Setting Procedures / Process • SLR plans, and supporting documentation • Trust Scheme of Delegation, Standing Orders, Standing Financial Instructions |

2. Financial Reporting and Monitoring

2.1 Financial Accountability and Control – Framework of Authority

| Red Flag | Good Practice |
|--|--|
| <ol style="list-style-type: none"> 1. Ineffective audit and/or Finance Committees – unable to assure the Board in financial governance matters. 2. Audit reports regularly indicate control weaknesses in key financial systems. 3. The Board’s Statement on Internal Control (SIC) indicates considerable gaps in financial controls or assurances without proposals for addressing these. | <ol style="list-style-type: none"> 1. The Board has established a framework for exercising financial accountability and control which clarifies (inter alia) the financial authority and responsibilities delegated to managers, service lines and Board Committees: <ul style="list-style-type: none"> • Operation of the Audit Committee is formally reviewed on an annual basis and reflects recognised good practice in relation to financial governance (e.g. As outlined by the HM Treasury and the Financial Reporting Council). • The Trust can demonstrate that the Sub-Committee structure is reviewed on a regular basis, with evaluation of the effectiveness of the Audit Committee undertaken, actions implemented in a timely manner, Directors held to account with the outcome of this process being used to inform subsequent work plans of audit and management. • The Board seeks formal assurance from the Audit Committee (and where applicable Finance / Investment Committee) that financial risks are being appropriately managed. • The Assurance Framework is actively maintained throughout the year as integral part of Board’s workplan and is used to inform the development of the Board’s agenda. The Assurance Framework indicates that there is good awareness of financial risks by the Board. |
| <p>Examples of evidence to support the RAG rating.</p> | <ul style="list-style-type: none"> • Trust Board and Sub-Committee Papers. • Audit Reports • SIC, and proposals to address |

2. Financial Reporting and Monitoring

2.1 Financial Accountability and Control – Financial Resource/Risk Management

| Red Flag | Good Practice |
|---|---|
| <ol style="list-style-type: none"> 1. Track record of material variation from the Financial Plan being resolved only at year-end and /or through one-off amendments. 2. Persistent or recurring adverse financial performance issues being reporting to the Board. 3. Trend of declining financial performance. 4. Evidence of increase in contractual penalties. | <ol style="list-style-type: none"> 1. The Trust can demonstrate effective management of financial resource and financial risk: <ul style="list-style-type: none"> • There is a track record of delivering on corporate Financial Plans on a normalised basis and in line with the organisations' medium-term strategy. The Financial Plan demonstrates achievement of FRR score of at least 3 post-mitigation. • The Board undertakes a formal and detailed Going Concern review at least annually and as part of the final accounts process and post-transaction appraisals to confirm quality of decision-making or benefits realisation. • The Trust regularly reviews its assessment of financial risks – current and potential future. Mitigation strategies are well formulated, proportionate and readily executable. • The Trust can demonstrate it undertakes post-transaction appraisals to confirm quality of decision-making or realisation of potential benefits. • Service Line Reporting arrangements are beginning to mature and embed into the organisation and is routinely being used by clinical professionals and the Board to evaluate performance and inform decision making. |
| <p>Examples of evidence to support the RAG rating.</p> | <ul style="list-style-type: none"> • Trust Board and Sub-Committee Papers. • Historic Going Concern reviews/Post-transaction reviews undertaken. • Financial risks and mitigation strategies / plans. • SLR performance and achievement to date. |

2. Financial Reporting and Monitoring

2.2 Financial reporting – Organisational Performance and Risks

| Red Flag | Good Practice |
|---|--|
| <ol style="list-style-type: none"> 1. Lack of continuity between successive financial reports, without explanation. 2. High level of ad hoc reports routinely being required by the Board. Much of the financial information presented is contextual and does not appropriately highlight key areas for Board attention. 3. Internal financial information cannot readily be reconciled to corresponding statutory reporting. 4. Adverse audit commentary on the content of reports, related processes, systems, and/or underlying estimates and assumptions. 5. Accounting policies appear to be periodically amended to support reported financial position / performance. 6. Significant issues raised in the quality accounts of the Trust. | <ol style="list-style-type: none"> 1. The Trust has established financial reporting arrangements which provide robust information on organisational performance and enable key risks to be identified and managed, in both operational and strategic terms: <ul style="list-style-type: none"> • Board reports are produced in a timely manner, standardised format and provide a clear understanding of performance in relation to all key objectives outlined in the Financial Plan. • The Corporate Finance Report facilitates the Board in making the required financial certifications under the Monitor Compliance Regime. • The Trust demonstrates integrated reporting with a high degree of correlation between the Board's Assurance Framework and the Corporate Finance Report to the Board / management in respect of key financial matters. • An organisational strategy is in place for developing the quality and maturity of financial reporting within the Trust, which has clear Board support, investment and involvement in defining organisation-wide performance metrics. • The Board consistently demonstrates understanding and recognition of its statutory duty for quality as an integral element of financial decision-making and oversight processes. • Trust quality accounts demonstrate no significant issues raised, and that work has been undertaken to prepare and maintain reporting in this area. • Good financial planning analysis e.g. Rolling 12 month cashflow, budget/actual to outturn, clear explanation of adverse variance (e.g. Activity, budget control, GP under activity) |
| <p>Examples of evidence to support the RAG rating.</p> | <ul style="list-style-type: none"> • Trust Board and Sub- Committee Papers • Board's Assurance Framework (BAF) • Annual accounts and reports. |

2. Financial Reporting and Monitoring

2.2 Financial reporting – Compliance with Statutory and Regulatory requirements

| Red Flag | Good Practice |
|---|--|
| <ol style="list-style-type: none"> 1. History of late and inaccurate returns to Department of Health and other statutory bodies, requiring re-submissions. 2. Increased level and severity of audit issues reported. Recurring audit recommendations. Non scope driven fees increases. 3. Audit qualification or major issues flagged by Internal Audit or External Audit. | <ol style="list-style-type: none"> 1. The Trust complies with statutory and regulatory reporting requirements: <ul style="list-style-type: none"> • Processes for the production of annual accounts and report have attracted favourable feedback from External or Internal Audit. • Statutory and regulatory reporting requirements and deadlines are routinely exceeded, with minimal impact on business as usual processes. • Submissions and declarations are evidence-based and receive appropriate Board / Committee consideration. • No history of being required to re-submit statutory or regulatory returns. • The Board undergoes formal and detailed Going Concern review at least annually and as part of the final account process. This is based on a review of the validity of key assumptions, risks and management arrangements which will impact on the financial performance and financial position of the organisation at least 18 months from the date at which the statutory accounts are approved by the Board. |
| <p>Examples of evidence to support the RAG rating.</p> | <ul style="list-style-type: none"> • Trust Board and Sub- Committee Papers. • Annual accounts and reports. • Audit Reports (External / Internal). • Going Concern Reviews. |

2. Financial Reporting and Monitoring

2.3 CIP reporting - KPIs

| Red Flag | Good Practice |
|---|---|
| <ol style="list-style-type: none"> 1. Lack of robust challenge by Board members to key financial assumptions and the impact of other external financial risk factors. 2. Lack of financial awareness training sessions provided to staff within the organisation. 3. No mention of the importance of financial awareness and staff individual/collective roles made at induction. 4. No mention of financial awareness and responsibility in job descriptions. 5. Financial awareness restricted to finance function and key members of the Trust Board. 6. Culture of “silos” and blame / fear where individuals do not feel confident in challenging or querying matters of a financial nature. | <ol style="list-style-type: none"> 1. The Trust Board leads in and promotes the development of a culture of financial awareness across the organisation: <ul style="list-style-type: none"> • The Trust actively supports the development of senior / key staff capabilities through regular Board level exposure and engagement in supporting strategic processes of the Board. • Trust Board members are appraised on their progress in developing and demonstrating greater financial knowledge and understanding – including the degree of challenge provided on financial matters at Trust Board. • All staff members are introduced to financial awareness through the induction process and regularly informed of progress through cascade briefings and financial awareness training sessions. • Open culture where queries around financial matters can be raised and discussed. |
| <p>Examples of evidence to support the RAG rating.</p> | <ul style="list-style-type: none"> • Induction programme coverage. • Training sessions provided to staff on financial awareness. • Job descriptions / profiles. |

2. Financial Reporting and Monitoring

2.3 CIP reporting – Tracking of Achievement, Delivery Systems / Structures

| Red Flag | Good Practice |
|---|---|
| <ol style="list-style-type: none"> 1. There is no executive lead for CIPs. 2. There is no central co-ordination or monitoring of performance against CIPs. 3. The Board does not understand who is responsible for the delivery of individual schemes at Director and Manager level. 4. The CIP is viewed as ultimately the responsibility of the Finance Department. 5. Capacity requirements in supporting functions required to deliver CIPs are not understood and/or deliverable. | <ol style="list-style-type: none"> 1. The Board is assured that the Trust has in place appropriate systems and structures to track savings against CIPs in real time, provide support (e.g. PMO / Project Office or equivalent) and executive leads who are held to account for the delivery of savings: <ul style="list-style-type: none"> • There is a PMO / Project office or equivalent in place that tracks and reports on CIP progress and savings achieved in real time. • Executive leads are held to account for delivery of their individual CIP savings. • Good planning is demonstrated through the evidence of robust CIP PIDs / plans. • PMO is appropriately resourced with clear accountability through to delivery system. |
| <p>Examples of evidence to support the RAG rating.</p> | <ul style="list-style-type: none"> • CIP plans and monthly reports • CIP PMO / Project structure |

Board and Organisational Financial Awareness and Involvement

3. Board and Organisational Financial Awareness & Involvement

Overview

This section focuses on Board and Organisational Financial Awareness and Involvement and specifically the following areas:

1.Capacity and Capability

- Required Composition and Skills
- Finance Function and Organisational Financial Skills

2.Involvement and Engagement

- Organisational Culture

3. Board and Organisational Financial Awareness and Involvement

3.1 Capacity and Capability – Required Composition and Skills

| Red Flag | Good Practice |
|--|--|
| <ol style="list-style-type: none"> 1. Unfilled vacancies or high turnover within financially related Board positions. 2. The Director of Finance is not appropriately qualified and/or unable to deliver robust information / advice. 3. No NEDs possess a recognised financial qualification and/or or recent relevant experience. 4. No analysis of Board financial skills as part of wider analysis of the Board. 5. No formal Board Development Programme. 6. Insufficient challenge to Director of Finance and Executive Directors responsible for delivery of financial plans. | <ol style="list-style-type: none"> 1. The Trust Board has the required financial capacity and capability: <ul style="list-style-type: none"> • The Trust has substantive appointments for all (or the majority of) Board members (Executive and Non-Executive) with key roles within financial governance. Of these, at least two NEDs have a professional financial qualification and numerical literacy and experience in areas relevant to the delivery of the business strategy. • The Board periodically undertakes an independent formal evaluation of its financial skills, capabilities and capacity. A Board Development Programme has been established to address any gaps identified at individual and collective levels. Progress and assessed impact of this Programme are maintained under regular Board review. • There is evidence that all Board members adequately participate in active debate on financial matters. |
| <p>Examples of evidence to support the RAG rating.</p> | <ul style="list-style-type: none"> • Board retention information. • Board profiles and supporting qualifications / experiences. • Board Development Programme and Finance Skills Programme. |

3. Board and organisational financial awareness and involvement

3.1 Capacity and capability – Finance Function and Organisational Financial Skills

| Red Flag | Good Practice |
|---|---|
| <ol style="list-style-type: none"> 1. No recent review of Finance function or finance skills required in future to support delivery of business strategy. 2. No evidence of strategy for development of technical financial skills, capability and capacity across the Trust. | <ol style="list-style-type: none"> 1. The Trust has assessed the adequacy of the finance function and broader financial skills requirements across the organisation, and keeps this under regular review: <ul style="list-style-type: none"> • The Trust has undertaken a recent capacity and capability assessment of its present finance function, and a programme is in place to address any key gaps identified from recruitment to training/ development and succession planning. • The finance function meets the organisation’s transaction processing and information production requirements effectively and provides effective support to financial governance processes – and this is supported by independent assessment (e.g. Internal and External Audit). • There is evidence that the finance function contributes to the Trust’s strategic business processes (e.g. Financial planning / forecasting, investment appraisal etc). • There is a strategy in place to support the future development of the Trust’s technical finance capabilities and associated investment requirements. Plans have been agreed and actions are in place. |
| <p>Examples of evidence to support the RAG rating.</p> | <ul style="list-style-type: none"> • Board retention information. • Board profiles and supporting qualifications / experiences. • Board Development Programme and Finance Skills Programme. |

3. Board and Organisational Financial Awareness and Involvement

3.2 Involvement and engagement – Organisational Culture

| Red Flag | Good Practice |
|---|---|
| <ol style="list-style-type: none"> 1. Lack of robust challenge by Board members to key financial assumptions and the impact of other external financial risk factors. 2. Lack of financial awareness training sessions provided to staff within the organisation. 3. No mention of the importance of financial awareness and staff individual/collective roles made at induction. 4. No mention of financial awareness and responsibility in job descriptions. 5. Financial awareness restricted to finance function and key members of the Trust Board. 6. Culture of “silos” and blame / fear where individuals do not feel confident in challenging or querying matters of a financial nature. | <ol style="list-style-type: none"> 1. The Trust Board leads in and promotes the development of a culture of financial awareness across the organisation: <ul style="list-style-type: none"> • The Trust actively supports the development of senior / key staff capabilities through regular Board level exposure and engagement in supporting strategic processes of the Board. • Trust Board members are appraised on their progress in developing and demonstrating greater financial knowledge and understanding – including the degree of challenge provided on financial matters at Trust Board. • All staff members are introduced to financial awareness through the induction process and regularly informed of progress through cascade briefings and financial awareness training sessions. • Open culture where queries around financial matters can be raised and discussed. |
| <p>Examples of evidence to support the RAG rating.</p> | <ul style="list-style-type: none"> • Induction programme coverage. • Training sessions provided to staff on financial awareness. • Job descriptions / profiles. |

4. Financial Governance

Module checklist

Coverage

Overview

Applicants completing the Financial Governance Module should use this checklist to ensure that they have:

- responded to each section;
- outlined their key supporting evidence; and
- provided their self-assessment judgement.

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4.Summary results

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1. Financial Planning

1. Financial Planning

1.1 Summary position

| Area | Self Assessment rating | Key Actions / Areas for Development |
|---|------------------------|-------------------------------------|
| 1.Board Oversight of Financial Plan | | |
| 2. Effective Financial Planning Process | | |
| 3. Planning of CIP / QIPP | | |

2. Financial Reporting and Monitoring

2. Financial Reporting and Monitoring

2.1 Summary position

| Area | Self Assessment rating | Key Actions / Areas for Development |
|---|------------------------|-------------------------------------|
| 1. Financial Accountability and Control | | |
| 2. Financial Reporting | | |
| 3. CIP / QIPP Reporting | | |

3. Board and Organisational Financial Awareness and Involvement

3. Board and Organisational Financial Awareness and Involvement

3.1 Summary position

| Area | Self Assessment rating | Key Actions / Areas for Development |
|-------------------------------|------------------------|-------------------------------------|
| 1.Capacity and Capability | | |
| 2. Involvement and Engagement | | |

6. Summary results

6. Summary results

6.1 Overview – sections 1 to 3 inclusive

| Financial Planning | | | |
|--|--------------------------------------|------------------------|-------------------------------------|
| Ref | Area | Self-Assessment rating | Key Actions / Areas for Development |
| 1.1 | Board Oversight of Financial Plan | | |
| 1.2 | Effective Financial Planning Process | | |
| 1.3 | Planning of CIP / QIPP | | |
| Financial Reporting and Monitoring | | | |
| 2.1 | Financial Accountability and Control | | |
| 2.2 | Financial Reporting | | |
| 2.3 | CIP / QIPP Reporting | | |
| Board and Organisational Financial Awareness and Involvement | | | |
| 3.1 | Capacity and Capability | | |
| 3.2 | Involvement and Engagement | | |

Board Governance Assurance Framework

Financial Governance Development Module

Appendices

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Appendix 1

Glossary

| Abbreviation and full term | |
|----------------------------|---|
| AFT | Aspirant Foundation Trust |
| BGM | Board Governance Memorandum |
| CIP | Cost Improvement Plan |
| DH | Department of Health |
| ED/NED | Executive Director / Non-Executive Director |
| FGM | Financial Governance Module |
| FRR | Financial Reporting Requirements |
| FT | Foundation Trust |
| IM&T | Information Management and Technology |
| IBP | Integrated Business plan |
| KPI | Key Performance Indicator |
| LTFM | Long Term Financial Model |
| NHS | National Health Service |
| PCT | Primary Care Trust |
| PMO | Programme Management Office |
| QIPP | Quality, Innovation, Productivity, Prevention |
| RAG | Red Amber Green |
| REID | Risk Evaluation for Investment Decisions |
| SIC | Statement of Internal Control |
| SLM/R | Service Line Management/Reporting |

Appendix 2

Individuals contributing to the development of the BGAF Development Modules

Individuals from the following organisations contributed to the development of the BGAF:

- Appointments Commission
- AQuA (Advancing Quality Alliance)
- Deloitte LLP
- Department of Health
- Foundation Trust Network
- Monitor
- North West Leadership Academy
- SHA Provider Development Leads from the 10 former SHAs
- The Leadership Academy
- The National Leadership Council

In addition, contributions were sought from a Network of Experts drawn from across the NHS and leading academics in the field of Board and Leadership Development. These individuals are summarised below and on the next pages:

| Name | Position and organisation | Reason for inviting them to be part of the network |
|--------------------|--|---|
| Tracey Allen | CEO, Derbyshire Community Services NHS Trust | Provide advice from an aspirant Community FT perspective. |
| Amanda Rawlings | Director of HR and OD, Derbyshire Community Services NHS Trust | Provide advice from an aspirant Community FT and HR perspective. |
| Jackie Daniel | CEO, Manchester Mental Health and Social Care Trust | Provide advice from an aspirant Mental Health FT perspective. |
| Simon Featherstone | CEO, North East Ambulance Service NHS Trust | Provide advice from an Ambulance FT perspective and FTN Board member. |
| Suzanne Hinchliffe | Chief Operating Officer and Chief Nurse | Provide advice on quality governance and CIPs. |
| Dr Umesh Patel | Medical Director, Wrightington, Wigan and Leigh NHS FT | Provide advice on quality governance and clinical engagement. |

Appendix 2

Individuals contributing to the development of the BGAF Development Modules

| Name | Position and organisation | Reason for inviting them to be part of the network |
|-----------------------|---|--|
| Jane Burns | Trust Secretary, Salford Royal NHS FT | Provide advice from a FT Company Secretary perspective. High-performing FT. Recently won an award for Board effectiveness. |
| David Dalton | CEO, Salford Royal NHS FT | High-performing FT. Recently won an award for Board effectiveness. |
| Jim Potter | Chairman, Salford Royal NHS FT | High-performing FT. Recently won an award for Board effectiveness. |
| Sir Hugh Taylor | Chairman, Guy's and St Thomas' NHS FT | Large acute FT. Previous DH Permanent Secretary. |
| Phil Morley | CEO, Hull and East Yorkshire NHS FT | Large acute aspirant FT. |
| Ian Baines | Finance Director, Dudley and Walsall Mental Health Partnership NHS FT | Financial governance advice. |
| Adrian Roberts | Finance Director, Central Manchester NHS FT | Financial governance advice. |
| Paul Olive | Audit Chair, Blackpool Teaching Hospitals NHS FT | Financial governance advice. |
| Simon Barber | CEO, 5 Boroughs Partnership NHS FT | High performing FT providing mental health and learning disability services. |
| Dr. Gillian Fairfield | CEO, Northumbria, Tyne and Wear NHS FT. | Taken 2 Trusts through to FT status. |
| Rob Webster | CEO, Leeds Community NHS Trust | Experience of Capability Reviews in Central Government. |
| Brian Stables | Chairman, Royal University Hospitals Bath | Chairman and Board Member on the FTN. |
| Steve Wilson | Finance Director, Wirral Community NHS Trust | Provide financial governance advice from aspirant FT. |

Appendix 2

Individuals contributing to the development of the BGAF Development Modules

| Name | Position and organisation | Reason for inviting them to be part of the network |
|----------------------------|--|--|
| Dr Tracey Long | Founder, Boardroom review | Established Board development consultant providing services to the FTSE 100 and 250. |
| Professor Andrew Kakabadse | Cranfield University | Leading academic in the field of corporate governance and effective chairs. |
| Professor Bob Garrett | Cass Business School | Leading academic in the field of Board effectiveness. |
| Professor Paul Stanton | Northumbria University | NHS Governance expert. |
| Professor Stuart Emslie | Birkbeck | NHS Governance expert. |
| Dame Sue Street | Strategic Advisor to Deloitte LLP. | Significant experience of central government Boards and governance. |
| Lord Philip Hunt | Chairman, Heart of England NHS FT | Large acute FT. Previous junior health minister. |
| Peter Mount | Chairman, Central Manchester NHS FT | Large high performing FT. Previous Chairman of the NHS Confederation. |
| Steve Bundred | Strategic Advisor to Deloitte LLP. | Ex-CEO of the Audit Commission, significant experience of NHS and Local Authority regulation and corporate governance. |
| Robin Staveley | Partner, Gatenby Sanderson (Recruitment consultants) | Significant experience of recruiting to NHS Board-level positions in both FTs and non-FTs. |
| Andrew Foster | CEO, Wrightington, Wigan and Leigh NHS FT | Existing FT and previous HR Director for the DH. |
| Julian Hartley | CEO, University Hospital South Manchester NHS FT | Existing FT with large flow of specialist tertiary services. Chair of NWLA. |

Appendix 2

Individuals contributing to the development of the BGAF Development Modules

| Name | Position and organisation | Reason for inviting them to be part of the network |
|--------------------------|---|---|
| Andy Chittenden | Trust Secretary, University Hospital South Manchester NHS FT | Provide advice from a FT Company Secretary perspective. |
| Gary Graham | CEO, Dudley and Walsall Mental Health Partnership NHS FT | Mental health and learning disabilities aspirant FT. |
| Glyn Shaw | Chairman, Dudley and Walsall Mental Health Partnership NHS FT | Mental health and learning disabilities aspirant FT. |
| Professor Naomi Chambers | Head of Health Policy and Management, Strategy Research, Manchester Business School, University of Manchester | Leading health academic. |

| Steering Group Member | Programme Role | Organisation |
|-----------------------|-------------------------------|-------------------------------|
| Matthew Kershaw | Director of Provider Delivery | Department of Health |
| Miranda Carter | Monitor Engagement Lead | Monitor |
| Steve Phoenix | Engagement Lead | NHS South East Coast |
| Deborah Chafer | Engagement Lead | North West Leadership Academy |
| Laura Roberts | Programme Sponsor | Department of Health |
| David Barron | Programme Lead | Department of Health |
| Dr Jay Bevington | Deloitte Engagement Partner | Deloitte LLP |
| Claire Heaney | Deloitte Engagement Lead | Deloitte LLP |

Appendix 3

Foundation Trusts contributing to the development of the BGAF Development Modules

| Ref | Name |
|-----|--|
| 1 | Central Manchester University Hospitals NHS Foundation Trust |
| 2 | Chelsea and Westminster Hospital NHS Foundation Trust |
| 3 | Derbyshire Healthcare NHS Foundation Trust |
| 4 | Northumberland, Tyne and Wear NHS Foundation Trust |
| 5 | South East Coast Ambulance Service NHS Foundation Trust |
| 6 | The Royal Marsden NHS Foundation Trust |