Value for Money Strategy
2014/15
1. Purpose of the document

This paper examines the role of Value for Money (VFM) initiatives in securing the ongoing health of the organisation and proposes the VFM strategy to be adopted.

2. Recommendation

The Finance and Performance Committee is asked to note this strategy as a basis for developing a systematic approach to securing Value for Money across the CCG and the services it commissions.

3. Defining Value for Money

VFM is defined as the relationship between economy, efficiency and effectiveness. VFM is a term used to assess the extent to which the organisation has obtained benefit from goods and services it both acquires and provides within the resources available.

It not only measures the cost of goods and services, but also takes account of the mix of quality, cost, resource use, fitness for purpose, timeliness and convenience to judge whether or not, together, they constitute good value.

The components of VFM can be illustrated as follows:

- **Economy** ("Doing things at the right price") is the underlying price paid for a service, whether the annual cost of a provider service or the cost of a service commissioned from an NHS or non-NHS provider.

- **Efficiency** ("Doing things in the right way") is a measure of productivity – what are the measurable outputs in relation to the inputs e.g. how much activity is delivered by the service commissioned or provided?

- **Effectiveness** ("Doing the right things") is a measure of the impact achieved and can be quantitative or qualitative. Outputs should be equitable across communities. Effectiveness is primarily associated with the outcomes for service users and the extent to which objectives are met, and can be long term, e.g. changes in life expectancy trends, or short term, e.g. reduced readmission rates after surgery.

**VFM is high** when there is an optimum balance between all three - relatively low costs, high productivity and successful outcomes. This is known as ‘best value’ and is the optimum of whole life costs and benefits to meet the customer’s requirements.

To achieve ‘best value’ the CCG needs to be assured that services:
• meet the needs of the population
• address any relevant health inequalities
• are provided at a level and quality that is appropriate and affordable
• benchmark well with other suppliers in cost terms
• demonstrate compliance with current best practice
• are capable of securing continuous improvement over time

The CCG needs to be satisfied that all new investments demonstrate value for money, but also that ongoing services are structured to seek improvements in economy, efficiency and effectiveness on an ongoing basis.

This is essential for the future, given;
• the expectation of reduced resource growth
• closer working with other agencies including Local Authorities
• the requirement to realise year-on-year efficiency gains

Although the CCG needs to ensure that resources are being utilised appropriately, it must be able to demonstrate that:

• services are of the right quality, and that they are fit for purpose;
• services are planned, managed and delivered with due regard to clearly defined objectives;
• services are delivered efficiently through streamlined processes that link seamlessly internally and with partner organisations, wherever possible; and
• services that are commissioned or provided meet the needs of the local population and are influenced by feedback from users, carers, families and partner organisations.

4. Value for Money Strategic Objectives

To maximise VFM, the CCG will pursue the following objectives:

• **Target resources** towards meeting the needs of local people

• **Ensure equity of outcomes** across all areas of the service in order that services do not exclude any sectors of the community

• **Integrate VFM principles** within existing corporate, business and financial management, planning and review processes

• ** Adopt recognised best practice** where appropriate

• **Promote a culture** of continuous improvement

• **Undertake benchmarking** of services requiring review

• **Undertake structured reviews** of services and functions
• Ensure that all staff are trained to recognise their obligation to seek VFM for the CCG as part of their routine activities and to raise the profile of VFM across the organisation

• **Engage** with the population, users, carers, partner organisations and other key stakeholders so that they are consulted and play an active role in securing VFM in the services delivered

• Where services are being significantly changed, satisfy the Executive Management Team that VFM is being achieved on behalf of the Governing Body and Practice Council.

• Demonstrate actively to internal and external stakeholders that the achievement of value for money is sought in all activities taken.

### 5. Assurance of Value for Money Objective

The following processes will provide assurance to the Finance and Performance Committee, Governing Body, stakeholders, partners, and the general population that VFM is being achieved:

- The Local Delivery Plan process
- External and Internal Audit reviews
- Targeted Budget reviews
- Benchmarking of services against other local and national comparisons
- Contestability and market testing where appropriate
- Strong performance management of Providers
- An effective CCG performance management function
- A focus on outcome measurement provided by the Local Authority
- Evidence of adherence to the Prime Financial Policies and Standing Orders
- Reviews by the Executive Management Team
- Output from the annual Programme Budgeting process for CCGs

### 6. Good Management

The success or failure of the CCG will be down to its people. Good management is all about having the right people with the right tools, the right education, and the right culture and motivation. Ultimately getting this right is the key factor to successful commissioning and successful VFM.

- Do we have the right people?
- Do they have the right tools?
- Are they sufficiently trained?
- Do we have the right culture?
• Are staff motivated to be the best they can be? Are they working smart? Are they being creative with problem areas?

From a VFM perspective, the starting assumption is that whilst an organisation may be improving, none of these factors are optimised. In fact the philosophy of continuous improvement assumes no organisation is ever optimised.

It is probable that looking at VFM in such a strategic way will require some significant changes. By their nature, these will take time and therefore must be viewed as a long term strategy with long term initiatives. Having said that, if value is generated as a result, then naturally such changes should be undertaken as quickly as possible.

7. Responsibilities

Responsibility for achieving VFM lies with all staff. It is not restricted to those with financial responsibility or to the members of the Finance Department.

The CCG Governing Body has a responsibility to ensure that a culture of VFM is embedded within the organisation and that it seeks evidence to gain assurance that this is being adhered to. In turn, managers have the responsibility to keep up to date and maintain an awareness of developments in good practice in their own service areas. Managers should actively seek comparative data to satisfy themselves that the areas for which they are responsible continue to offer value for money.

8. The Way Forward

In terms of “Good Management”, clear responsibilities, ownership and appropriate rewards have to be essential ingredients in any successful organisation. Planning and budgeting have to be completely aligned from top to bottom so that high level strategic plans are mapped through to individual responsibilities via the appraisal process. The CCG Governing Body will receive feedback on the achievement of the QIPP Work Programme through various committees during the year.

9. Conclusions

The CCG needs to continue to embed and maintain a VFM ethos to manage the current and future financial challenges it is facing. The approach to securing VFM needs to be systematic and methodical to provide robust assurance to the CCG Finance and Performance Committee and the Governing Body. This Strategy aims to provide a framework for the ongoing use and development of this approach.
Appendix A - The detail of how VFM will actually work and the principles that need to be applied as part of the process:

“Value for money in healthcare provision is attained by successfully achieving economic inputs, efficient processes and effective outputs in clinical pathways and management systems.

It is essential, in reforming healthcare, to assess that the proposed new pathways will succeed in attaining value for money, if their operation is managed appropriately. If this is not demonstrably possible, organisational Governing Bodies cannot be assured in their decision-making on new investments and cases for change.

In order to maximise the achievement of efficiencies in the NHS, it is not solely proposals for change that should undergo the rigour of value for money assessments. There should also be a rolling programme of such assessments on the current service base. That is, alongside value for money assessments being a standard part of any investment process, services that are not currently being changed must be investigated. Such a programme will assist in heading off the need for recovery plans by achieving efficiencies that enhance the financial health of an organisation before the need for a recovery plan surfaces.

Programme budgeting can support the VFM process as the information can highlight areas of potential inefficiency compared with the norm. This in turn can help in prioritising areas within a rolling programme of assessment.

Value for money assessments, or management/ performance audits as they are sometimes known, look to identify waste in the system of provision (or demonstrate that there is no waste). The identification of waste then leads to the recommendation of how to eradicate it. That is, how to move to a position of achieving value for money.

Value for money assessments need to focus on three areas:

1. Managerial processes and systems;
2. The inputs and processes by which services are provided, by and/ or for the organisation, and;
3. The achievement of outcomes in line with intent. That is, outcomes that meet the appropriate objectives of the service.

There are numerous ways of ensuring value for money and assessing its achievement, ranging from international models such as Lean to locally developed systems suited to the skills and culture of individual organisations. Regardless of the model employed, they should contain all or most of the following elements:

- Benchmarking
- Management systems review
- Needs assessment
- Business planning processes
- Focus on waste
- Delivery V. Objectives review
**Benchmarking**

It is not always possible to benchmark, in particular with innovative reforms and efficiency drives for which there is no one to compare with. However, it needs to be established that this is the case before benchmarking does not occur. Even in instances where there is no equivalent service to benchmark against, it is still often possible to compare projects, inputs and outcomes. For instance:

- are cost and level of staff inputs comparable with other models of providing a service; Consideration of an “in house” service versus services provided by contractual arrangement through the Commissioning Support Unit.
- are outcomes as good or better;
- where cost and level of staff input is greater than in other models, are the outcomes better (to justify the greater input levels), and/ or;
- has a comparable reform/ efficiency been unsuccessfully attempted elsewhere and what lessons are there for the organisation to avoid similar problems?

Benchmarking is a key tool for VFM assessments on services not currently being reformed as it highlights relative inefficiencies and so can be used to identify areas to be reformed and made more efficient. As mentioned earlier, programme budgeting information is a useful high-level benchmarking tool and the NHS Benchmarking Club ([www.nhsbenchmarking.nhs.uk](http://www.nhsbenchmarking.nhs.uk)) is a useful resource.

**Management systems review**

This is not a fit for purpose review of an organisation’s corporate structure and system. A review within a service specific VFM assessment should instead consider how efficient the management processes pertaining to that particular service are. For demonstrating the VFM of a new service, the assessment should focus on ensuring the management processes to be implemented to support the operation of the reform are in line with the most efficient available to the organisation.

The areas on which a management systems review should focus are:

- The setting of objectives;
- The development and implementation of policies, and;
- The monitoring of performance.

**Needs assessment**

For the NHS these take the form of joint strategic needs assessments (JSNA) and are conceptually similar to VFM assessments in that, as with efficiency being achieved, they determine whether health needs are a being met by current service models or would be met under proposed new models.

The results of JSNAs are also similar to those of VFM assessments (see below) and can be categorised as:
- Needs are being met (consequence – move on to next assessment);
- Needs are not being met because no service exists (consequence – put forward for reform proposal), or;
- Needs are not being met because current service is not fit for purpose.

The types of questions a JSNA needs to ask include:

- What are the required public health outcomes of the service area?
- Is the target population clearly identified?
- Is the targeted population appropriate?
- What are the different models for achieving the outcomes and which is most suited to the local population?
- Does the management structure for the service facilitate the most suitable model?
- What are the local health inequalities and access issues pertaining to the service and does the proposed/ current service model facilitate resolving them?
- What are the preventative measures available pertaining to the service and does the proposed/ current service model facilitate achieving them?

**Business planning processes**

Business planning processes in relation to VFM assessments are from the context of assuring that the identified best value service model is being followed in the most efficient and effective manner. Such assurance is achieved by considering whether:

- There are inputs and processes within the service model that do not add value. That is, actions that do not support the achievement of the required outcomes/ objectives of the service. One method for this is to assess whether the omission of an input or process would change the outcome achieved, and;
- Outcomes are reviewed against objectives, review systems effectively alert the organisations when outcomes are not aligned with objectives and management react effectively following alerts.

**Delivery versus objectives**

The purpose of this part of a VFM assessment is to determine whether or not the outcomes of the area assessed achieve what is required of the service. The stages to this are:

- Establish the objectives the service currently work to;
- Clarify that these objectives are fit for purpose (if not, develop objectives that are fit for purpose);
- Determine the outcomes achieved by the service;
- Determine whether these outcomes meet the fit for purpose objectives, and;
Assess (by using the findings from the stages of the VFM assessment described above) whether there are more economic and/ or efficient means of achieving the desired outcomes and objectives.

Who to benchmark against

Benchmarking has been mentioned a number of times in this section and it is worth considering who best to benchmark against. There is no point doing so against an organisation that has little in common with your own. For instance, a cottage hospital assessing its processes against those of a multi-specialist urban university hospital is unlikely to lead to useful conclusions, other than that next time a more suitable comparator should be identified.

It is also the case that comparing with near-identical organisations is not the only answer. Instead, different types of organisations with similar processes can be looked at, such as hotels for bed management or banks for transactions system management.

Within the NHS there are ready made systems that compare organisations or identify organisations to compare with.

For benchmarking at a more detailed level than the national comparators, organisations can make contact with their comparators and share success stories and input/ process techniques and models. For instance, in the context of this CCG, what reforms have CCGs with similar populations successfully implemented that have had a significant health impact and, as importantly, what have they done that has not worked?

Results

The result of a value for money assessment on a service will be one of three categories:

1. Value for money is being achieved;
2. Value for money is not being achieved because the objectives of the service are not fit for purpose, or;
3. Value for money is not being achieved because service delivery is not fit for purpose.

Each of these has a consequence, which is described below.

Value for money is being achieved

On demonstrating this, move on to the next assessment.

Value for money is not being achieved because the objectives of the service are not fit for purpose

For this to be the case, the assessment will have demonstrated that value for money is not being achieved, but that the service is being provided as required via the
service specification. This assumes that service specifications exist for all services. Where no such specification exists (that is, if value for money is not being achieved and there is no service specification), the consequences remain the same.

The recommendation of the assessment will therefore be that a reform needs to occur. That is, the organisation needs to determine what the service should be achieving and, in the case of a provider organisation, how. This then needs to pass through the business planning process for Governing Body approval and on to the project implementation process.

Value for money is not being achieved because service delivery is not fit for purpose

In this case, the assessment will have demonstrated that value for money is not being achieved but that the service specification is fit for purpose. That is, the service is not delivering what is required of it, whether in terms of outcomes and/ or processes (that is ‘what’ and/ or ‘how’).

The recommendation of the assessment will therefore be that a business planning process is required to bring delivery back in line with requirements. This may be achieved via more robust performance management. That is, requiring the service provider (whether a separate organisation or an internal department) to realign its inputs and processes to meet the required outcomes. Or, it may be achieved via the tendering process. That is, generating competition to ensure the required outcomes are achieved in the most efficient manner. The current provider will have the option to bid and therefore reform itself in line with requirements.