

A CIPFA INTRODUCTORY GUIDE FOR CLINICAL COMMISSIONING GROUPS
PREPARING AND EVALUATING BUSINESS CASES – OPTION APPRAISAL

JUNE 2011

Foreword

This is one of a series of CIPFA guides to the fundamental responsibilities of the Accountable Officer in a Clinical Commissioning Group.

The guides are intended as introductions to key aspects of these responsibilities. They are intended to help and support Accountable Officers, and the wider leadership and decision-making structures in the Consortia. They will also enable key staff members to recognise the requirements placed upon them, and enable them to act as critical friends to the Accountable Officers.

The guides will assist Accountable Officers in developing their non-clinical skills and abilities, enabling them to challenge effectively, and to hold to account their specialist staff and advisers.

The subjects to be covered in the first set of guides include:

- An Introduction to the NHS Reforms and Financial Challenge
- An Introduction to establishing a Clinical Commissioning Consortia
- An Introduction - Preparing and Evaluating Business cases – Option Appraisal
- An Introduction - Pooling budgets and the benefits of integrated care provision

CIPFA is keen to support the effective leadership and management of Commissioning Consortia and encourages users of these guides to raise questions and make suggestions for future guides and more in depth support

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CIPFA is one of the leading professional accountancy bodies in the UK and the only one which specialises in the public services. It is responsible for the education and training of professional accountants and for their regulation through the setting and monitoring of professional standards. Uniquely among the professional accountancy bodies in the UK, CIPFA has responsibility for setting accounting standards for a significant part of the economy, namely local government. CIPFA's members work (often at the most senior level) in public service bodies, in the national audit agencies and major accountancy firms. They are respected throughout for their high technical and ethical standards, and professional integrity. CIPFA also provides a range of high quality advisory, information, and training and consultancy services to public service organisations. As such, CIPFA is the leading independent commentator on managing and accounting for public money.

Option Appraisal for Clinical Commissioning Groups

Improving and modernising health services is a key objective of the NHS reforms.

Spending Capital funds and committing day to day revenue resources (budgets) should be considered after a consideration of the range of service options available and their financial consequences. Because investments can be large and will determine service provision for the long term it is important that these decisions are well informed.

In the context of a constrained financial environment investment decisions should be supported by a structured and transparent approach. This is equally important in ensuring that a due diligence approach is adopted in committing public money.

The range of investment scenarios within Health & Social Care, in terms of value, can be extensive and hence the supporting investment decision process should be tailored accordingly.

It can be expected that a Full Business Case (FBC) would be required for investments in excess of £1m for both revenue and capital funding, however in organisations that have been recently established a lower limit is more prudent and advisable.

There may also be a number of new developments or service enhancements for which an FBC would not necessarily be appropriate i.e. where there would be disproportionate effort required in completing a FBC; relative to the value of the investment.

The following is a guide to an option appraisal process that could be adopted. It reflects both information which the Commissioner should provide and the detail to be contained in the response from potential Providers e.g. Trusts, Independent Sector or Voluntary Bodies.

Commissioner responsibility:

Define a range of financial bandings which will determine the level of supporting information required. E.g. <£50,000, >£50,000 -<£100,000, > £100,000

Each investment proposal within these bands should include:

Strategic Context

Why is the investment required?

- Is it mandatory / optional
- Are there national guidelines e.g. NICE
- What areas of the Consortia Strategic Plan are addressed by the proposal
- Is there an integration between public health, primary care, acute sector & social care
- has it been identified as part of a needs assessment

Description

Describe the type of service to be delivered, not necessarily the specifics as this may constrain the response from Providers. This will differ according to the individual proposals e.g. a new drug may be offered to an existing patient cohort as part of an extended treatment regime but the introduction of a new service will include a more comprehensive description of the service requirement

State the proposed /potential investment in monetary terms.

Clearly outline the capital (one off) and revenue costs of the options under consideration. This involves identifying all costs and incomes and when these will fall to allow an investment appraisal to be completed. This compares the finances of all options to determine the option that provides best value for money.

The comparisons should be completed by qualified finance staff that will use discounted cash flow techniques to ensure options are consistently compared.

Process

Clearly state the structure of the process which will be followed i.e. the sequence of events in terms of provider submission, commissioner consideration, approval process etc. It may also be useful to identify a responsible officer for the proposal, in both the Provider & Commissioner organisations to ensure clear lines of communication.

Provider Response:

The Provider should state how its proposal meets the strategic context and requirement identified by the Commissioner and should include

- Description of the service to be delivered- how, where, when, to whom?
- Health inequalities that would be addressed as a result of the proposal proceeding.
- Equality impact assessment.
- Clear service description which should include associated activity
- List the options for delivering the proposal – this will be dependent on the type of service, if it is a new drug there may be no other options. If however it is a new service or enhancement to an existing service then how the service could be delivered may provide more opportunity for change e.g. using different grades of staff, adopting outpatient rather than day case treatment or supporting clients in their own homes rather than institutional care.
- State timescales for full implementation of proposal.
- Demonstrate Value for Money this may also be linked to the various options and would include benchmark analysis and possibly identify the potential for releasing funds in other areas to be used for reinvestment.
- Identify any potential risks.
- The provider should also include any assumptions they have made, this can prove useful if Providers have interpreted the strategic context in a different way.

Options should reflect the following:

- Base case (probably status quo) and alternative options identifying the differences in each.
- Full cost of each option including the impact on public health, primary care, acute sector & social care as appropriate. They should identify staff costs (grades and

numbers), consumables including high cost treatments, prostheses etc. And any additional overheads or capital costs.

This approach to determining the cost of options will afford the Commissioner the opportunity to establish VFM and also to modify the type of service proposed to ensure that the funding envelope is not exceeded.

- Potential savings that may be realised as a result of the proposal.
- Associated activity is also essential as this will determine unit costs and facilitate comparison with tariff rates / HRG's etc as part of the VFM and Benchmarking assurance.

Clinical Engagement

Clinical engagement is an essential pre-requisite when considering major reform / modernisation

GPs understand that Individuals working within the NHS have a considerable knowledge and understanding of their services and good clinical practice.

The appointment of clinical champions can:

- Support organization(s) develop their vision and strategic direction
- Ensure high-quality, clinically effective and safe services are commissioned
- Lead clinical communications within the organisation, within partner organisations and with stakeholders
- Encourage and lead innovation

It is good practice also to let staff know about changes that are being planned, developed or consulted upon, to ensure that they are informed and given the opportunity to become involved in the project from the beginning of the process.

Clinical engagement and leadership is critical for the ownership and sustainability and delivery of high quality service improvement. Engaging clinical champions within significant change projects can provide both a vision and peer pressure to facilitate change

Consultation with staff that will be affected by the proposals is important to seek their views and to build into proposals comments and considerations that reflect their valuable skills and experience.

Service User Engagement

A prerequisite to the significant modernisation / development of services is service user engagement.

Early patient involvement in the change process can have the following benefits:

- It can highlight the gaps between services in a unique way
- Challenge existing practices and deeply held views
- Bring new perspectives
- Influence others to buy into the change process
- Be a powerful force for change at clinical and organisational levels

Meaningful patient involvement includes:

- A focus on building relationships, giving a voice to those in the poorest health and those that are most vulnerable and providing the right information and background to particular projects
- Patients being involved at each stage, providing continuous patient feedback on current and future models of care
- Using patients to evaluate services, using workshops and surveys
- Patients offering peer support to each other
- Taking patients on good practice visits and sharing case study examples
- Acting on patient feedback and doing where possible what they want you to do
- Providing feedback to patients acknowledging the impact they have made.
- Providing training for patients to develop the necessary skills
- Having adequate publicity and access for patient engagement events
- Improving patient engagement processes following assessments by the Audit Commission/Care Quality Commission and other regulatory bodies who review this area.

For major investment proposals the commissioner should ensure that a comprehensive business case process is followed; in this respect a 9 step process is outlined at appendix 1

An essential element of any Investment Decision process (of which the Option Appraisal is an element) is post implementation evaluation and monitoring, therefore this should be an integral part of the approval process. Commissioners may require Providers to indicate how this will be demonstrated.

The Commissioner may also want to maintain a financial analysis of approved investment proposals. This will be of particular importance where a development covers a number of services; elements of which may span primary care, acute sector or social care.

In programme budgeting terms it will be necessary to ensure that investments are accurately assigned to the correct programme, to facilitate equity analysis or needs assessment initiatives.

The Commissioner will also want to ensure that any additional investment is reflected in the service agreement with the Provider and included within the appropriate service line both in terms of financial investment and additional activity.

This short introductory guide to option appraisal does not cover or pre-empt the approval limits or approval processes for capital investment that can be expected to be developed for Clinical Commissioning Groups by the NHS Commissioning Board.

What can Clinical Commissioning Groups expect when considering a business case for a major NHS investment? – an Introduction

<p>Step 1 Set the investment within the strategic context and strategic outline</p> <p>A full version of this step will contain:</p> <ul style="list-style-type: none"> • Appraisal of current healthcare services (commissioned or provided), including consideration of service performance, quality, range, facilities, characteristics and demand • Description of the organisation's assets, including physical (provider), information systems and equipment • Assessment of financial situation and cost structure • Analysis of the market and assessment of demand, including demography, competitor appraisal (providers), competitive analysis, future needs and demands, scope for improvement, the role of commissioners and providers, the case for change and affordability.
<p>Step 2 Outline Business Case – Define objectives and identify benefit criteria</p> <p>A full version of this step will contain:</p> <ul style="list-style-type: none"> • General objectives covering issues such as access to services, relevance to need, social acceptability, effectiveness, equity and efficiency • A ranking of objectives, achieved via consultation with stakeholders and including an assessment of the constraints to achievement, and • The identification of benefit criteria linked to the objectives and developed in consultation with stakeholders.
<p>Step 3 Outline business case – generate options</p> <p>The outcomes of this step are:</p> <ul style="list-style-type: none"> • A long list of options, including a 'do nothing' or 'do minimum' option, developed in consultation with stakeholders; • A short list of options (minimum three, maximum six), including the 'do nothing/minimum' option, developed in consultation with stakeholders and using the benefit criteria from step two to eliminate options from the long list, and; • A description of each short listed option, including intended outcomes, expected workloads and throughputs, functional content, accessibility, staffing consequences, phasing, estates implications, impact and flexibility for further development.
<p>Step 4 Outline business case – measure the benefits</p> <p>The outcomes of this step are best achieved via a stakeholder workshop and are:</p> <ul style="list-style-type: none"> • Weights are given to each benefit criteria; • Average scores for each option against each benefit criteria are developed;

- Assessment of the timings of benefits being achieved for each option
- A weighted score is derived for each option
- An assessment is made of the current position against benefits (essential in order to develop the benefits realisation plan).

Step 5

Outline business case – identify and quantify the costs

A full version of this step will include costs for each option.

A full costing process for an option will consider:

- Opportunity costs
- Marginal, average and semi-fixed costs
- Full-life costs
- Phasing of costs
- Capital costs and residual values (capital investments)
- Capital charges
- Wider effects on cost (e.g. impact on other areas of service and other organisations, such as social services);
- Transition costs
- Avoided costs (part of the wider impact assessment)
- Affordability.

Step 6

Outline business case – assess sensitivity to risk

As can be seen from the steps above, the identification of the affordable preferred option is achieved via a series of assumptions. This step considers the impact on the ranking and affordability of options if these assumptions are not correct. A full version of the step contains:

- Sensitivity testing of each benefit criteria, including the impact on weighted scores of the options.
- “What if?” sensitivity testing of cost assumptions, for example, what if prices change in real terms (that is, over or under the inflation rate), what if savings occur later than anticipated or what if demand is more or less than assumed?
- Calculation of the ‘switching value’ (i.e. how much an assumption would have to change before an option becomes non-viable), for example, “the unit cost would need to be 70% more expensive than assumed before the option ceases to save money on the current position”.
- Scenario planning, including an assessment of whether the preferred option changes if a pessimistic or optimistic scenario occurs, such as that demand is materially less or greater than assumed
- Identification of risk and the primary holder of that risk determined by considering which organisation bears the consequences of a risk and the obligations of each organisation should a risk occur.

Step 7

Outline business case – identify the preferred option

Step seven is the culmination of steps three to six.

- The final choice of the preferred option rests with the Board of an organisation or the group the Board has delegated that role to. This step identifies the recommended preferred option to the relevant group for their consideration.

Step 8

Outline business case – present the outline business case

- The outline business case is the means through which the above steps are collected and explained, step seven being the conclusion to this document.

Step 9

Produce the full business case

Following the formal identification of the preferred option, the full business case is produced. This should contain:

- A review of the robustness of steps one to eight above, including an assessment of any changes to assumptions and the conclusions that these led to;
- A benefits realisation plan for the preferred option, including an assessment of each benefit and when it will be achieved, identification of dis-benefits, actions needed to achieve benefits, identification of responsible officers for ensuring achievement of each benefit, how achievement will be measured and how achievement will be monitored;
- A risk management strategy, including the management of project implementation risks, and;
- Explanation of the project control and management system, for instance covering the project management reporting process and responsible officers.

Further Considerations

- When proposing changes to services, changes in the make up of the local population should be considered; the ageing population is a major determinant in planning for the future provision of both NHS and social services.
- Changes ideally should be based on good, evidence based, best practice
- The important contribution from public health should be taken into account, i.e.
 - A clinical public health needs assessment and health impact assessments to identify the needs of the local population in respect of the services being considered and to confirm that a preferred scheme delivers the very best health outcomes respectively are important
- Reference to The Disability Discrimination regulations 2005 should be made to confirm proposals will accommodate both disabled and non-disabled individuals.
- When embarking on a strategic change project that may require capital investment, guidance, advice and authorisation limits published by the Strategic Health Authority (for your area), Monitor (if you are a Foundation Trust), Department of Health and Treasury should be reviewed to ensure that the scheme is developed within appropriate frameworks to facilitate approval and ultimate success
- The Department of Health website provides further technical resources and guidance for many different types of change scheme linked to best practice materials from the Office of Government Commerce that can be viewed at
- Ongoing and future proposals must focus on improving patient outcomes,

consider patient choice, have support from GP commissioners and be based on sound clinical evidence

<http://www.dh.gov.uk/en/Aboutus/Procurementandproposals/Publicprivatepartnership/Privatefinanceinitiative/InvestmentGuidanceRouteMap/index.htm>