Health

Summary

November 2007

audit commission

Putting commissioning into practice

Implementing practice based commissioning through good financial management

Practice based commissioning (PBC) is a policy that enables primary care trusts (PCTs) to manage their financial risk better. Importantly, it also encourages the creation of better services for patients through service redesign, better clinical engagement and better use of resources. Under PBC, clinical and financial responsibility is being aligned. PCTs continue to be legally responsible for finances and contracting with providers, the overall commissioning strategy and for the implementation of PBC. But, by devolving indicative budgets to practices that treat and refer patients, GPs and other primary care professionals are being encouraged to manage referrals and to commission and redesign services in a way that is more cost-effective and convenient for patients.

Good financial management is critical to the success of PBC. The Commission's report *World Class Financial Management* identified a number of factors that are important to achieving excellence in financial management. Engagement with, and of, budget holders; clear understanding of the financial consequences of individual actions; the alignment of resources with strategic objectives; and the provision of timely and relevant information are all critical. These are no less relevant to PBC. In short, PCTs need to foster a culture in which there is individual and collective responsibility for the effective stewardship and use of resources.

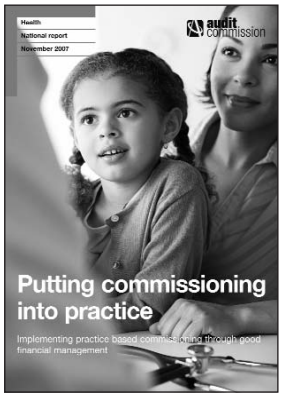
The Audit Commission visited 16 PCTs and found that some progress in implementing PBC has been made in all of them. The combination of an incentive payment to practices, together with the requirement on PCTs to provide a supporting infrastructure, has helped to introduce and implement PBC. During 2006/07 nearly all practices received incentive payments totalling an estimated £98 million. About half of this was associated with signing up to PBC and accepting an indicative budget. The remainder was conditional on practices achieving their PBC plans. Many practices had either formally or informally organised themselves into consortia or locality groups in order to share capacity and resources. We found that they were beginning to understand the financial consequences of the clinical decisions that they make, and that they were making progress in managing inpatient referrals, and new and follow-up outpatient appointments.

However, we also found that engagement of practices was variable. PBC is largely being led locally by enthusiastic practices working with supportive PCTs. The quality of the underpinning financial infrastructure was also variable, with many practices unclear how their budgets had been set, or how financial risk was to be managed. They were also critical of the information available to them and of the support provided by PCTs to help them properly manage their budget and get the best out of the resources available. These findings are echoed in the Department of Health's latest GP practice survey. PBC will not work without robust budgets and sound information. Arrangements for sharing and using any savings, which are important incentives for many practices, were also still theoretical, unclear or criticised, particularly where savings would be taken by a PCT to fund any overall deficit.

The redesign of services and their transfer from secondary to primary care had yet to gather pace. However, it was clear that many practices were more interested in using their budgets for the direct provision of new services rather than to commission others. In both cases there needs to be more consistent provision and proper assessment of sound business cases to ensure best use of the funds available. There also needs to be strong governance arrangements to overcome any potential conflicts of interest. We found that PCTs' approach to business cases were generally underdeveloped, as were arrangements for monitoring the impact of any changes. All PCTs had put in place recommended governance arrangements, but in many cases these had yet to be properly tested.

Good financial management requires that resources are properly aligned with an organisation's strategic objectives. PCTs are increasingly working with local authorities to commission services, improve health and well-being and address health inequalities. However, we found little evidence that practices were engaging with public health staff or with local authorities. Without such engagement, resources are unlikely to be matched to PCTs' strategic objectives.

2006/07 was only the second year of operation for PBC. Progress was significantly affected in those PCTs subject to reconfiguration. Most PCTs and practices we visited saw PBC as an important vehicle for improving care and making the best use of resources, and were keen to develop it further. But we saw few signs of the scale of service change envisaged by the Department of Health (DH), or any real contribution to more effective management of PCTs' financial risks. To achieve these, PCTs will have to improve the level of engagement of practices and shared ownership of objectives, but also address key points about the infrastructure for PBC. Practices will need to develop an outward looking approach, engaging with other practices; the PCT (including on public health issues); and local authorities. This will take time. But it may then be possible for PBC to deliver the scale of service change envisaged by the DH and also effectively manage PCTs' financial risks.



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Recommendations

	Recommendation	DH	SHAs	PCT	Practices
Ownership and support					
1	Develop sound partnerships, including systematic links between public health functions, local authorities and practices, so that resources can be developed to meet strategic objectives.			✓	✓
2	Review arrangements for supporting PBC to ensure practices can properly manage budgets and other relevant requirements.			✓	✓
3	Work closely with PCTs to develop and monitor contracts with local secondary care providers.				✓
4	Work closely with PCTs to develop capacity and capability to implement PBC and spread good practice	✓	✓		
Incentives					
5	Publish a clear statement on the future long-term direction of PBC.	✓			
6	Create and communicate a clear policy for identifying and sharing savings with practices, as part of an overall incentive structure.			✓	
7	Develop and share guidelines and good practice on PBC incentives.	✓	✓		
8	Implement arrangements to measure and monitor the impact of PBC in changes to referrals and service redesign.	✓		✓	✓
9	Develop a clear understanding of linkages between the new general medical services contract, local prescribing schemes and PBC.			✓	✓
Budgets					
10	Develop and share guidelines, tools and good practice on budget setting.	✓	✓		
11	Calculate practice level indicative budgets and provide these to practices by the start of the financial year.			✓	
12	Explain the budget setting methodology to practices and work with them to develop an accurate timetable for moving to fair shares indicative budgets.			✓	✓

	Recommendation	DH	SHAs	PCT	Practices
Plans and business cases					
13	Improve arrangements for undertaking assessments of cost effectiveness of business cases and for monitoring new services that are subsequently approved.			✓	✓
14	Provide clear criteria against which practices' plans and business cases will be approved and ensure that they are reviewed on a timely basis.			✓	
Data and information					
15	Review the adequacy and timeliness of the Secondary Uses Service's ability to provide activity data for PBC.	✓			
16	Work closely with practices to ensure that the information provided is relevant and timely to meet both demand management needs and to inform service redesign. Engage practices in data validation processes.			✓	✓
17	Provide benchmarking data to practices, drawing on national as well as local performance.			✓	
18	Implement data capture systems to monitor cost effectiveness of new services developed in primary care and community settings.	✓		✓	✓
Performance and financial risk management					
19	Implement robust local arrangements for monitoring and reporting PBC performance, particularly to Boards.			✓	✓
20	Develop clear policy on budget overspends.			✓	
21	Develop and share guidelines, tools and good practice on managing budget overspends and risk sharing.	✓	✓		
22	Develop arrangements for monitoring contracts with secondary care providers for PBC purposes.			✓	
23	Work closely with practices to ensure that they understand and have signed up to the financial risk management arrangements.			✓	✓
Governance and accountability					
24	Regularly review governance arrangements to mitigate potential conflicts of interest.		✓	✓	