

## **Laying the financial foundations for success**

**10 point plan to build a financially stable future for the NHS**



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### 10 point plan to build a financially stable future for the NHS

The current financial problems are not the result of one single issue nor are they solely the result of actions taken over the last 12 months. Instead they are the result of a cocktail of factors and in some cases the problems have been building up for several years. Although there has been unprecedented growth in NHS funding – funding that has fuelled a major expansion in the workforce and led to significant improvements in terms of access and quality – there have also been major cost pressures. Pay reform for practically the whole NHS workforce has proved to be more expensive than anticipated. And advances in technology and new drugs have also added to costs. Even this does not tell the whole story. Financial health has been allowed to slip down the list of priorities, viewed as less important than delivering service priorities in areas such as waiting times.

The Department of Health has now made it clear that achieving robust financial health is the prerequisite for delivering high quality health services, focused on the needs of patients. The HFMA fully supports this restatement of the importance of laying firm financial foundations for the NHS. However no single change or initiative will deliver this goal. Instead action will be needed on several fronts to deliver a well-managed, financially sound NHS that is meeting demand for healthcare and matching public expectations.

At its first Policy Forum, held in April, the HFMA and representatives from around the NHS identified 10 key ingredients that would deliver a successful, sustainable NHS. This brief publication is the result of that meeting and is a contribution to the current debate

To achieve its goals within the available resources, the NHS needs...

#### **1 ...high quality boards**

NHS Boards must understand fully their organisation's financial position and ensure that action is taken to head off or correct any problems. This will require some board members to improve their financial skills. Each member of the board must also accept responsibility for financial issues. Financial management is not about taking financial decisions but about making operational ones and in successful organisations boards will take collective ownership of financial issues and not view finance as a specialist activity.

Non-executives have a particularly important role to play. They need to have appropriate financial management skills and experience. As a basic ground rule, all non-executives should be given access to appropriate training in NHS finance. But in some cases changes in personnel may be needed to ensure the board has the right mix of skills and experience.

#### **2 ... to get the basics of financial management right**

In 2004, the Audit Commission concluded that 'overall the basics of financial management are sound at most NHS bodies and provide effective financial control'. Although there has been an increase since then in the number of organisations facing financial difficulties, for most organisations the conclusion remains true. However the importance of the basics of

financial management and tight financial control must not be overlooked. Finance directors should ensure:

- Financial reporting is understandable, timely, accurate and comprehensive
- Standing orders and standing financial instructions are fit for purpose and followed properly
- Appropriate advice is given to the board and other directors on basic financial issues
- Financial skills and understanding are diffused throughout the organisation, skill gaps identified and relevant training provided
- Audit committees are strong and provided with the appropriate information and advice so that they can robustly challenge the board, the finance director and internal and external auditors.

### **3 ...to have the right data**

Increasingly the NHS needs to become a data-driven service if it is to make the right decisions and drive value for money. Organisations need to identify the information they need – on costs, workforce, finance and activity – and ensure the information is reliable. For instance, manpower information is of vital importance for organisations as the workforce accounts for up to 70% of overall costs. As a prerequisite, NHS organisations need to ensure that workforce data can be reconciled to financial data.

### **4 ...timely accurate information on finance and activity**

If the NHS is to manage its financial position properly and be able to react to business changes, it needs to have accurate, comprehensive information delivered in a timely fashion. Primary care trusts need to be able to rely on the activity data reported by trusts so they can monitor real expenditure under the payment by results system against planned levels. Poor quality data delivered months after the period to which it relates, undermines PCTs' decision making and often arrives too late for PCTs to take corrective action. This is even more important with the expansion of practice-based commissioning, which will require activity and expenditure data to be produced quickly and accurately at a much more lower level than has been needed in the past.

NHS trusts also rely on accurate data. Accurate coding of activity is a basic building block for payment by results, ensuring that a trust receives the correct payment and PCTs pay the correct amount. Trusts need to ensure that they are counting everything and that the activity is being assigned to the right healthcare resource groups. Foundation trusts are already mastering this and the wider NHS needs to follow their example. Without an understanding of their business and, in particular, which activities make a surplus/deficit under the tariff, trusts will struggle to prosper under payment by results.

The accuracy of reference cost submissions has improved in recent years, but significant further improvements are still needed. Accurate costing at a local level will lead to a more accurate national tariff. But it will also give trusts a greater understanding of their own cost drivers and help to model the impact of changes in activity. The HFMA backs the calls from Monitor for the Department of Health to support an investment in costing systems and skills across the NHS and would welcome any initiatives aimed at improving consistency in costing across the service. In particular the Association believes there is a role for auditors in providing an opinion on the quality of reference cost submissions.

## **5 ...to act professionally**

NHS finance directors have a responsibility to comply with the standards and ethics of their profession and should not be happy with anything other than the highest possible standards. On occasion, finance directors' professional duty will require them to stand up and be counted and deliver unpopular messages to their boards and to strategic health authorities. It needs to be clear that it is unacceptable for a finance director to present a budget to the board that he/she believes is undeliverable. There has been a tendency in the past for some NHS finance managers to be overly optimistic in drawing up budgets, perhaps relying on as yet unallocated funds from the Department of Health. Budgets should not rely on uncertain sources of funding but be accompanied by a realistic assessment of risk.

There is also a responsibility on the Department of Health and strategic health authorities not to put pressure on PCTs and trusts to sign up to unrealistic plans that simply postpone difficult decisions until later in the year.

At the same time, finance directors cannot simply wash their hands of a problem by asserting that service plans are undeliverable within the available funding. Instead finance directors must take a lead role in delivering solutions and identifying the steps that need to be taken to ensure plans are delivered.

## **6 ...the right incentives in place**

Practice-based commissioning and payment by results include powerful incentives to reduce costs and develop more cost effective alternatives to existing services. These incentives have already focused boards' minds on the areas of their activity where they should concentrate their cost improvement programmes. The Choice initiative should also provide powerful incentives for providers to raise service quality. However there may still be activities where further incentives are needed to drive improvements in service quality.

Tariff accuracy is of major importance if the system is not to provide perverse incentives. However complete accuracy will never be possible with a tariff system and there will always be a level of perceived unfairness for some providers in some healthcare resource groups. This does not mean the system is unworkable and NHS bodies must accept that the tariff will deliver gains and losses across their services.

## **7 ...finance managers with the right skills**

The NHS is changing. The introduction of payment by results, patient choice, practice-based commissioning and foundation trusts means that finance managers need to develop new skills on top of the traditional financial management skills they have employed. As has been identified by the Audit Commission these skills include:

- better understanding of resource utilisation;
- better knowledge of cost make-up, costing techniques and cost drivers;
- interpersonal and presentational skills to support robust challenge;
- benchmarking skills;

- better understanding of risk management, in particular identifying and minimising risk;
- the ability to link different sources of management information, for example, costing information, activity data and financial information;
- project management skills;
- corporate finance (for NHS foundation trusts);
- better understanding of the link between financial and activity information and improved interpretation of financial and other data;
- financial modelling skills; and
- better treasury management skills, in particular around cash flow forecasting, borrowing, lending and raising debtors and creditors.

The NHS already has a high calibre finance function but it must continue to develop to meet new challenges. These development needs must be properly resourced both in terms of finance and the time to attend training or development courses. All too often the first casualty in any efficiency programme is training and development, failing to see the long-term damage that such a response can inflict.

### **8 ...to embrace transformational change**

The current financial difficulties must not be seen as purely a financial management issue. As the Audit Commission has recognised, finance directors on their own cannot magic away deficits. Recovering – or indeed retaining – financial health is an operational, not a finance issue. There needs to be greater alignment between clinical and financial aims and there needs to be a readiness to take difficult decisions around service reconfiguration that will deliver long-term benefits to the local population. Many of the organisations with financial problems need to reconfigure services to achieve a sustainable financial position. But existing financial problems are not the only driver for change. Increasing patient choice through a greater mix of public and private providers, along with moves to deliver more services in the community will demand changes in current service configuration. Managers need to be ready to take these decisions and convince local populations about the need for change. But they also need to be supported in this process by ministers and the Department of Health.

### **9 ...to be based on good relationships and trust**

To maximise the potential of the new systems and ways of working, the NHS will need better co-ordination between organisations within the same local health economies. For example, local delivery plans produced by trusts and PCTs must be based on consistent assumptions on activity and agreed services. The NHS needs to build on the notion of 'one NHS' and foster a spirit of trust and co-operation between NHS organisations including foundation trusts. Organisations cannot take decisions in isolation and need to realise that any decisions taken will impact on other organisations in the local health economy and beyond.

## **10 ...a more transparent and inclusive Department of Health**

The Department is responsible for determining the accounting rules and framework for the NHS. These need to be clear and concise, with as little divergence from general accounting practice as possible. This will ensure that NHS accounts are understandable and reflective of the real NHS financial position.

The Department also needs to announce allocations and guidance well in advance of the start of the financial year to enable NHS health economies to plan properly. Guidance, setting out priorities and targets as well as the detailed technical rules covering the tariff operation must also be published. Late publication of the operating framework, and the drip feed of supplementary but important detail, is an obstacle to medium term planning.

The Department of Health should also work more closely with the NHS in delivering a financially sustainable service. One practical way to do this would be to involve the service more in the costing of major initiatives. A proportion of the current financial difficulties are a result of pay deals that cost more than anticipated and which exceeded the resources included in NHS bodies' allocations. Greater involvement may have tempered the optimism of the Department's costings.

Future initiatives must be robustly costed with the methodology and assumptions used shared with the NHS in advance. Targets and 'must dos' have to be challenging, to ensure value for money, but realistic. Requiring NHS bodies to deliver more than can be realistically expected within the resources available encourages short-term measures that are unlikely to promote sustainable solutions.