HFMA introductory guide to NHS finance

Chapter 18: Value and efficiency

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Overview

Value and efficiency are the building blocks of financial sustainability – keeping all costs within the annual allocation and avoiding overspends year on year.

This chapter describes how the NHS can improve its financial sustainability by focussing on value and efficiency.

18.1 Maximising the use of resources for patient care

When the government published the *NHS long term plan*[319], it made it clear that the plan needed to ensure that the NHS allocation is well spent. In the background to the plan, it states that every penny must be invested on the things that matter most. This includes high quality lifesaving treatment, care for patients and their families, reducing pressure on staff, and investing in new technologies. In essence, the need for a plan that delivers value, getting the best outcomes for the least cost.

The move to greater system working through integrated care systems (ICSs) supports the aim of the *NHS long term plan* to improve population health in a financially sustainable way. Value and efficiency are now considered at system level as well as within individual organisations. This is so important that it is embedded in the Health and Care Act 2022.

In light of current challenges to financial sustainability[320], workforce pressures, increasing waiting times, the impact of rising inflation, the focus on value and efficiency has increased. Focusing on value is essential to ensure that resources are being used efficiently and effectively to deliver long term financial sustainability. Consequently, expectations are high around the improvements that can be achieved through changing working practices.

18.2 What do we mean by value?

Value in the NHS '…is about achieving better health outcomes for patients, improving the experience of patients and staff, and ensuring the most efficient use of resources'[321]. Value-based healthcare builds on this and can be defined as 'the equitable, sustainable and transparent use of the available resources to achieve better outcomes and experiences for every person'[322].

The value equation and technical value

The notion of value in healthcare has largely been based on the work of Professor Robert Kaplan and Professor Michael Porter of Harvard Business School in the US, who stated that the value of healthcare should be measured in terms of patient outcomes against cost. This is often referred to as the value equation[323] or technical value and is used to examine the actual deployment and use of resources in the healthcare setting.

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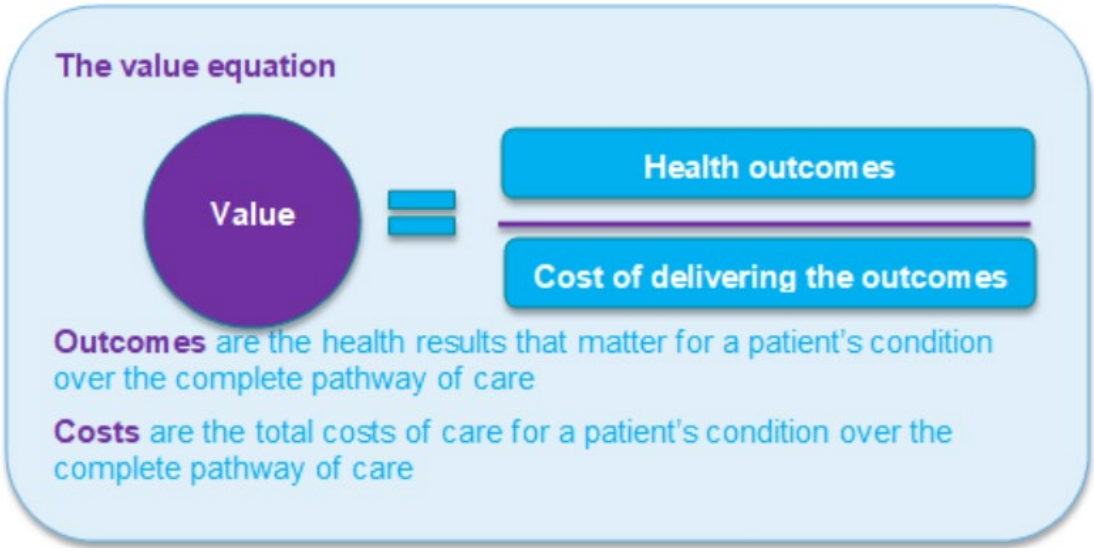
[319] NHS England, *The NHS Long Term Plan*, 2019
[320] NHS Providers, *Stretched to the limit*, July 2023
[321] HFMA, *Financial sustainability*, August 2023
[322] Centre for Evidence-Based Medicine, *Defining value-based healthcare in the NHS*, 2019
[323] Porter, M. E., *Value-based health care delivery,* 2012



Source: *Porter, Value-based health care delivery (2012)*

Technical value is concerned with ensuring that the delivery of an individual healthcare intervention is as low cost or effective as possible while achieving the best possible outcome. It is focused on an individual patient or pathway of care. Achieving technical value is important for both individual organisations and systems.

Allocative value

Integrated care systems (ICSs) are also asking themselves how healthcare resources should be allocated across the system to maximise outcomes for the local population. This is often described as allocative value.

The NHS needs to consider allocative value as well as technical value. A hospital might optimise its treatment pathway such that admitted patients receive the best possible care in that setting. But this is only part of the patient's pathway; real value might be delivered if the patient had not been admitted in the first place. If a patient had been identified earlier as needing support and then that support had been provided in a community setting, it may well have delivered better outcomes for the patient by avoiding a hospital admission and – at a system-level, reducing overall costs of treatment.

Personal value

In his definition of value, Sir Muir Gray combines technical and allocative value with personal value using measures of patient opinion. After all, it is the patient who is at the centre of the healthcare process. This means that healthcare professionals need to ensure that decisions are based on the things that matter to the individual patient.

Societal value

The European Commission has added a fourth dimension to the definition of value - societal value. This is concerned with ensuring that resource allocation promotes social cohesion, based on the principles of participation, solidarity, mutual respect and recognition of diversity.

The triple aim

The Institute for Healthcare Improvement (IHI) Triple Aim is a framework that describes an approach to optimising health system performance. Population health is a key component. It believes new ways of working must be developed to simultaneously pursue three goals:

- improving the patient experience of care (including quality and satisfaction)
- improving the health of populations
- reducing the per capita cost of healthcare.

The triple aim[324] concept continues to evolve, and has been expanded to a quintuple aim[325], with two further aims that address:

- improving the work life of healthcare staff – for example, to address stress
- health equity for all individuals.

Outcome measures

Outcome data is a key building block when measuring value. Although the NHS collects a lot of clinical data, many of the measures focus on inputs, processes, or outputs, rather than outcomes.

As well as looking at clinical outcomes, it is important to measure value in terms of the outcomes that matter to patients - for example, patient-reported outcomes measures (PROMS) and experience measures (PREMS).

The International Consortium for Health Outcomes Measurement (ICHOM)[326] has developed standard sets of outcome measures for a wide range of medical conditions.

Patient-level costing

Patient-level costing is also fundamental to measuring value. It involves allocating costs, wherever possible, to an individual patient. This provides opportunities for a much greater understanding of how costs are built up and can help in the engagement of clinicians and service managers because they can see where and when the costs were incurred. This can help identify inefficiencies and pinpoint areas of the service that need to be reorganised. You can find out more about costing in the NHS from chapter 17.

Looking at healthcare through the value lens provides a framework for the NHS to maximise the use of resources for patient care. This means focussing on outcomes across the whole patient pathway, the cost of treating individual patients and what value means to everyone involved.

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[324] Institute for Healthcare Improvement, *IHI Triple Aim Initiative*, n.d.
[325] Nundy S, Cooper LA, Mate KS. *The Quintuple Aim for Health Care Improvement: A New Imperative to Advance Health Equity,* JAMA, January 2022
[326] International Consortium for Healthcare Outcomes Measurement, *Our mission,* n.d.

18.3 What do we mean by efficiency?

The National Audit Office (NAO) defines efficiency as 'the relationship between the output from goods or services and the resources to produce them – spending well'[327]. Therefore, efficiency is about doing the same while minimising waste or costs – there is no reduction in quality.

When looking to improve efficiency, the focus is on either using existing resources in a more efficient way - for example, increasing the number of patients treated within a theatre session, or reducing the level of resources required to deliver the same level of healthcare services; both are ways of improving productivity.

Productivity is defined as the relationship between the volume of outputs and the volume of inputs for any process.

The government considers there to be five drivers of efficiency[328]:

- using markets and competition to control input costs
- the organisations and the workforce – notably, their design and capability
- re-designing services including how services are delivered
- implementing digital and technological solutions to reduce costs
- digital transformation – for example, substituting manual processing with a digital solution.

18.4 Financial sustainability

The HFMA defines financial sustainability within the NHS as the:

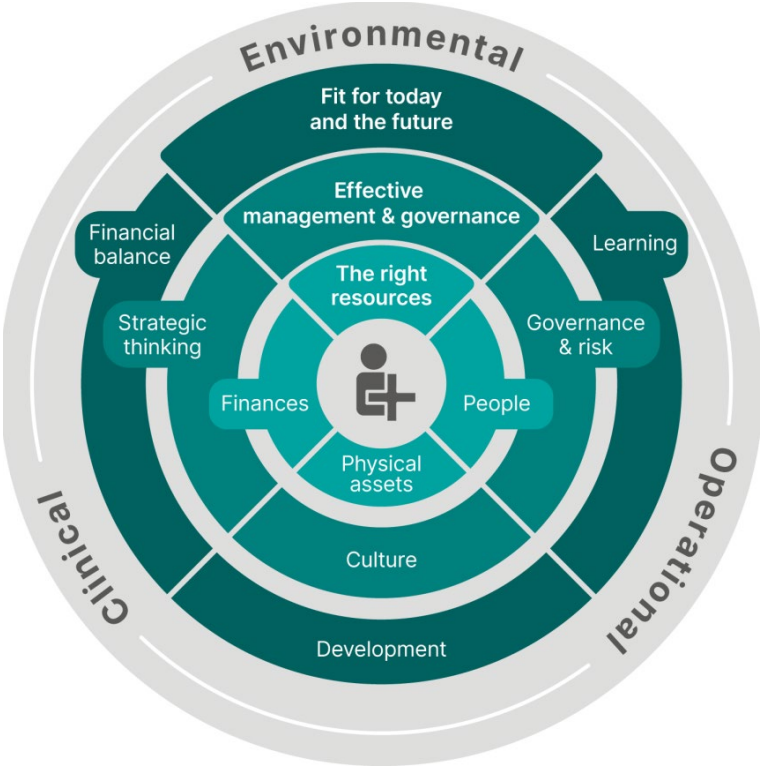
> 'Provision of safe and quality healthcare services within the resources available that meet the healthcare requirements of the population, and with the flexibility/ capability to maintain those services over the longer term, responding to emerging health challenges and developments.
>
> NHS bodies deliver financial sustainability within a partnership environment. All decisions reflect financial, operational, environmental and societal issues across the local health and care system. Services are delivered in an equitable manner across society and incorporate the relevant environmental factors beyond the health and care setting.'

Achieving financial sustainability requires a wide outlook, one that that considers all aspects of the service, and the environment within which it is delivered. This must consider how financial sustainability is delivered and the way that it is achieved.

The context within which NHS organisations seek to achieve financial sustainability is illustrated in the diagram below.

[327] National Audit Office, *Assessing value for money*, n.d.
[328] HM Treasury, *The Government Efficiency Framework*, July 2023

Figure 18.1 Financial sustainability



An NHS organisation must achieve financial sustainability taking account of the following factors:

- **Environmental** – meeting today's needs without compromising the environment for future generations.
- **Operational** - designing operational solutions for today that do not compromise the ability to deliver future service needs.
- **Clinical** - the ability to maintain structured clinical care practices over time and to evolve and adapt these practices as needed.

Within this, an NHS organisation must aim to:

- Be **fit for the future** - flexible to developments and capable of delivering future service needs.
- Employ **effective management and governance arrangements** - a management structure supports service provision and development now and in the future.
- Deploy the **right resources** - effectively use all business resources.
- Focus on the **patient** – the needs of current and future patients and service users are at the heart of the service model.

18.5 Financial efficiency programmes

NHS organisations must implement on-going efficiency plans to support the delivery of high-quality care within the limited resources available. These plans are often known as cost improvement programmes (CIPs) or waste reduction programmes.

The approach can involve maximising the use of resources required to deliver current service models, or more fundamentally changing the way services are delivered by redesigning clinical pathways. This is commonly known as transformational change.

There are several national initiatives in England that support organisations to measure efficiency and effectiveness including:

- Getting It Right First Time (GIRFT)[329]
- the model health system[330]

GIRFT

Led by frontline clinicians who are expert in the areas they are reviewing, GIRFT is designed to improve the quality of care within the NHS by reducing unwarranted variations. By tackling variations in the way services are delivered across the NHS, and by sharing best practice between trusts, GIRFT identifies changes that will help improve care and patient outcomes, as well as delivering efficiencies such as the reduction of unnecessary procedures and cost savings.

There are over forty clinical workstreams underway, covering acute surgical and medical specialties, as well as mental health.

The model health system

The model health system is a digital information service containing comprehensive activity, performance and cost data from a wide variety of sources that enables NHS bodies and systems to compare performance to help improve productivity and efficiency.

18.6 Cost reduction

Cost reduction means providing a service at the same or better quality for a lower unit cost, through new ways of working that eliminate excess costs. The costs that are reduced could be ongoing or future pay or non-pay expenditure. A simple example is the use of a different orthopaedic prosthesis offering the same or improved clinical quality for a lower unit cost.

Cost reduction savings are typically cash-releasing allowing resources to be reallocated elsewhere. Cash can be released on a recurrent, ongoing basis (if, for instance, staff costs are reduced) or a one-off, non-recurrent basis. They differ from non-cash releasing savings that provide economic value and deliver more activity or services for the same cost or for an additional contribution.

18.7 Value for money

The National Audit Office (NAO)[331] uses three criteria to assess the value for money of government spending, which it describes as the 'optimal use of resources to achieve the intended outcomes':

Economy: minimising the cost of resources used or required (inputs) – spending less

[329] GIRFT, *Getting it right first time national programme*, n.d.
[330] NHS England, *Model health system*, n.d.
[331] National Audit Office, *Assessing value for money,* n.d.

Efficiency: the relationship between the output from goods or services and the resources to produce them – spending well

Effectiveness: the relationship between the intended and actual results of public spending (outcomes) – spending wisely.

18.8 Tackling health inequalities

The NHS has been legally required to tackle health inequalities since the introduction of the Health and Social Care Act 2012 but the covid-19 pandemic has dramatically increased the imperative. The unequal impact of the pandemic across different sectors of society has highlighted existing inequalities and potentially created new ones.

This was recognised in the 2023/24[332] planning guidance that required NHS bodies to specifically address health inequalities and reduce inequalities across communities.

As well as the moral imperative for reducing health inequalities, the 'cost of doing nothing' means that tackling health inequalities also has an impact on value and efficiency. The Core20PLUS5[333] initiative provides resources to support the reduction of health inequalities at a national and system level.

Each ICS is expected to identify its 'Core20PLUS' population and its specific healthcare needs with a view to reducing avoidable mortality and narrowing the health inequalities gap. This will enable the ICS to plan measurable achievements in healthcare service access, experience and outcomes for their local populations.

18.9 The role of clinical and financial collaboration in improving value

Good collaborative relationships are required between clinicians, operational staff and finance, to ensure value is at the centre of decision-making. Every clinical decision is a financial decision, and clinical and finance professionals need to share responsibility for deciding priorities and allocating resources. Quality and productivity improvements become possible when clinical and finance staff collaborate, as their joint efforts can highlight inconsistencies in service delivery, reduce waste, improve patient safety, and identify new pathways of care.

The lack of appropriate finance training, early in their career, means that senior clinicians often do not have the expertise they need in this area. Likewise finance staff can struggle to understand the clinical world and need to think about how best to present financial information and data to clinical teams. Getting the right people in the room with the relevant skillsets, looking at activity, outcome and cost data that is clinically meaningful, is a powerful driver for service transformation and quality improvement.

The HFMA briefing *Exploring the role of the NHS finance business partner*[334] notes the important role of business partners in supporting the delivery of safe, effective and financially sustainable clinical services. They have a critical role in supporting the decision-making of those responsible for the commitment of resources, both clinicians and operational managers.

[332] NHS England, *2023/24 priorities and operational planning guidance*, January 2023
[333] NHS England, *Core20PLUS5 (adults) – an approach to reducing healthcare inequalities*, n.d.
[334] HFMA, *Exploring the role of the NHS finance business partner,* November 2019

Key learning points

- Focusing on value is essential to ensure that resources are being used efficiently and effectively.
- The value equation and allocative value provide the NHS with a framework for maximising the use of resources for patient care at an organisational and system level.
- Efficiency is about doing the same while minimising waste or costs – not compromising quality.
- Financial sustainability is a long term objective of the NHS. Consequently, the NHS must continually consider how to improve value and efficiency.
- Tackling health inequalities is fundamental to the value agenda.
- Collaboration between finance staff and clinicians is vital to success.

Additional HFMA resources

The HFMA maintains a directory of resources which provides links to other HFMA outputs such as briefings and webinars across a range of subjects, including sections dedicated to quality, costing and value, and delivering efficiencies. It also highlights online learning courses that are available. The directory of resources can be found here.