tuning up the processes

Many organisations set about improving their finance processes but use the wrong solution or fix the wrong problem. A new diagnostic tool could put them on the right track, reports Bill Shields

With the NHS facing its greatest financial challenge in a generation, the finance function needs to change to provide a more relevant, value-focused level of support. Many NHS finance organisations have undertaken (or are thinking of undertaking) some form of change initiative to respond to this. These range from projects focused on improving a particular functional area to more holistic, wide-scale, finance transformation programmes.

The cases for change can differ, but the desired outcome is typically the same: finance teams want to move from a cost perspective to a value perspective. This requires a shift in the proportion of the finance function's resource, away from transactional activities to value-adding activities. The finance function has the skills to lead the transformation, but must work closely with clinical colleagues in doing so.

Using the full functionality of technology – ensuring processes are designed to work for the 'customer' and removing any non-value added steps – is exactly what the future-focused finance initiative is about. It aims to set a vision for NHS finance over the next five years to ensure we add value for patients and the taxpayer.

The 'Efficient systems and processes' workstream is looking at the enablers needed to optimise this. As the workstream lead, I am supported by a project team and a working group of finance directors and senior finance staff from every type of organisation in the NHS and commercial partners including EY, BT, Steria, CIMA and KPMG.

Transformation traps

This may sound simple. But history has shown that organisations fall into the same traps when delivering finance transformation. The level of benefits outlined at the beginning of the programme are frequently not realised to the extent expected. Many organisations have 'implemented' a new, more business partner-focused finance structure, only to have people quickly regress back into performing transactional work. This is often because the process efficiencies have not materialised – people feel comfortable continuing to extract data and manipulate it in spreadsheets rather than use a business intelligence tool.

Why is this? It is often because the solution developed to improve process efficiency was not fit for purpose, and this is driven by people not understanding the root causes of the problem.

People often confuse symptoms with cause. For example, a healthcare organisation discovered its average cycle time to pay suppliers was in excess of 55 days. By mapping the end-to-end process, it diagnosed the cause – invoices sitting with budget holders waiting for approval too long. So it introduced a tough policy whereby budget holders had to review and action all invoices within three days or the matter would be escalated to a director. What was the outcome? The average payment day did reduce marginally. But the much bigger impact was a 400% increase in the rejection rate of invoices. The root cause of the problem was not the lack of action by budget holders but that most invoices came into accounts payable without a purchase order number, which clogged up the system when processed. A better action may have been to implement a strict 'no-purchase order, no pay' policy with suppliers.

In another private sector organisation, the month-end close was typically on day 12 – significantly more than the standard close period for their industry. The cause was attributed to management accounting taking too long to analyse data and reconcile financial performance reports back to the general ledger.

As is often the case, the people were blamed. But detailed investigation showed the root cause of the problem to be a difference in the hierarchy between the general ledger and a data analysis tool being used, which resulted in cost categories being calculated differently. By dealing with the problem at source and ensuring the two system hierarchies matched, the analysis period was cut by two days.

It is an easy mistake to make – jumping straight into solution design without diagnosing the cause of the problem and the issues people see and feel. And this is exactly what a key part of the 'Efficient systems and processes' workstream is about. We want to help the NHS diagnose issues correctly, think about appropriate solutions, and so create the foundation for the other FFF work. To take this forward, a self-diagnostic tool has been developed. The tool has two purposes. First, it allows NHS organisations to understand, at a detailed level, their maturity across different process areas and across the dimensions of process, systems, performance management and staff capability. The tool consists of a series of questions on each finance process, each with four possible responses, each with an associated score of 1 to 4 – developing, established, advanced and world class.

In the current version of the tool, which remains a work in progress, there are eight process areas, two examples being procure-to-pay and business partnering. Each of these processes is broken down into its core components. For example, treasury breaks down into governance, cash management, reporting and team. Business partnering includes costing, governance, influence, planning and education. Answering a series of questions provides scores for the component areas, which combine to provide an overall process score.

The matrix then works from the top down, giving an at-a-glance

"We want to help the NHS diagnose issues correctly, think about solutions, and so create the foundation for the other FFF work"
Bill Shields

Figure 1: An example output

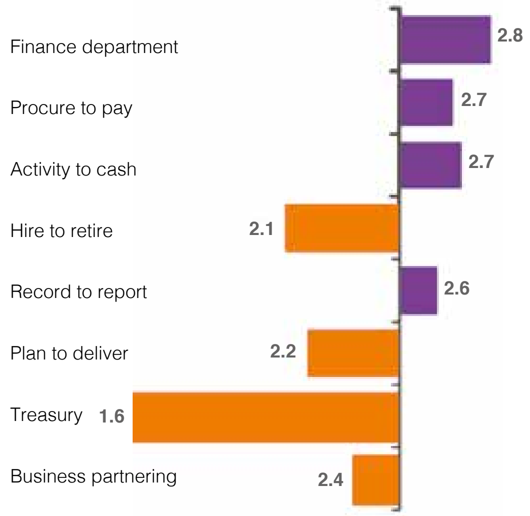
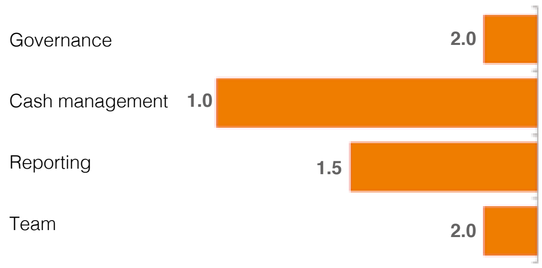


Figure 2: Components of the treasury process



indication of 'problem' or 'good practice' areas. It then supports managers drilling down into those areas to understand the potential root causes.

Figure 1 provides the top-level results for one finance department testing out the matrix. Here, there are four areas above the average (2.5), but the clear problem area is treasury. Further analysis is possible by drilling down to the next level and figures 2 and 3 give additional outputs from the tool showing the areas within treasury. This enables finance leaders to see what they have to change to improve their score and overall efficiency.

A further output of the tool (figure 4) shows the maturity of a finance organisation across the different dimensions of the operating model: process, system, people, performance management. The tool also collects metrics including function costs, staffing levels and invoices processed.

Benchmarking role

This enables the tool to fulfil its second purpose – allowing NHS organisations to benchmark themselves across a range of cost and volumetric measures. Figure 5 shows an output that benchmarks the finance function against other industries – in this example focusing on cost as a percentage of revenue.

The tool can help organisations assess their maturity and provide a holistic view of weaknesses and strengths across the entire NHS finance function.

The workstream also sets out a vision and blueprint for finance processes and systems, drawing on the experience of the working group and the external commercial advisers, and a review of available literature. It focuses on what 'good' looks like in transactional processing and what is needed to underpin decision support and business partnering.

Some of the work overlaps other FFF workstreams. However, as this workstream is an enabler to the others, this is to be expected and will lead to more joined up solutions. We anticipate completing this phase of the workstream by the end of this calendar year and in the new year will focus on communicating the proposals.

Bill Shields is chief finance officer at Imperial College Healthcare NHS Trust. This article was supported by John Yarnold (project manager) and Sunny Sanghera (project lead). For more on the tool or workstream email ssanghera@uk.ey.com or john.yarnold@imperial.nhs.uk

Figure 3: Questions underpinning the treasury process

	Developing			World class
T1 To what extent is documentation available for policies and procedures for the treasury process?		2		
T2 How developed is the process for updating documentation?			3	
T3 How accessible are policy and procedure documents?	1			
T4 How developed are the cash forecasting techniques?	1			
T5 What timing conventions are used in cash forecasting?	1			
T6 To what extent is a sensitivty analysis on cashflow forecast completed?	1			
T7 How developed and automated is the treasury reconciliation process?	1			
T8 How developed is the treasury reporting process?		2		
T9 To what extent are treasury reports utilised?	1			
T10 To what extent are expected values and behaviours defined?		2		

Figure 4: Analysing the results over different dimensions

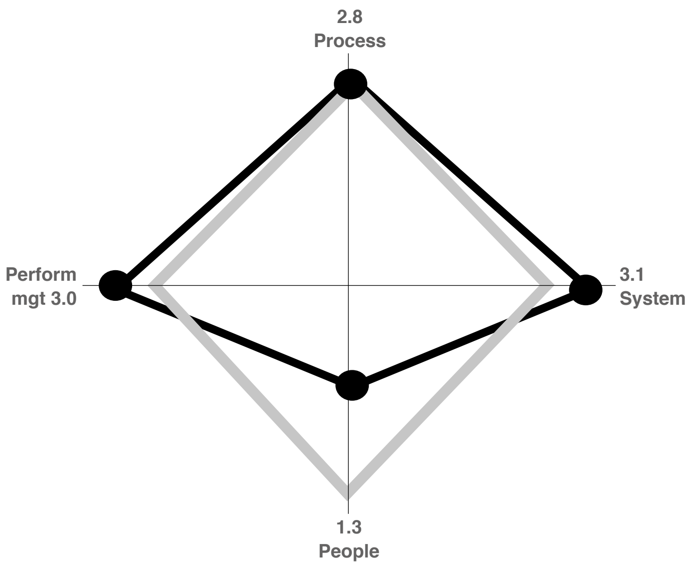


Figure 5: Cost of the finance function as % of revenue