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# A prescription for partnership

Engaging clinicians in financial management

A briefing for clinicians

## About *A Prescription for Partnership: Engaging Clinicians in Financial Management*

Clinical engagement in financial management has always been important. It is clinicians who are responsible for the way in which services are delivered and who commit resources. The importance of clinical engagement has been highlighted in recent Audit Commission reports, such as *Learning the Lessons from Financial Failure in the NHS* (Ref. 1) and *Financial Management in the NHS 2004/05* (Ref. 2), produced jointly with the National Audit Office (NAO). Now a new Audit Commission report, *A Prescription for Partnership: Engaging Clinicians in Financial Management* (Ref. 3), published in December 2007, develops this theme further.

In spring 2007 the Public Accounts Committee (Ref. 4) recommended that ‘the Department of Health should identify models of successful joint working between financial and clinical management and promote them across the NHS’. *A Prescription for Partnership: Engaging Clinicians in Financial Management* aims to help the Department of Health and the NHS in implementing that recommendation.

In the past, managing the money was often seen as the preserve of the finance department, but this approach will not stand up to the demands of the new NHS. Closer alignment of finance staff with the ‘front line’ will improve the way in which services are delivered and resources used. Without such alignment, progress can be very slow and services can suffer.

This is even more important as NHS bodies strive to do better than achieve financial balance and are looking to service redesign to improve productivity and efficiency. There are real benefits to be gained if engagement can be achieved, in terms of efficiency savings that can be reinvested in improved services for patients. Good financial management and greater efficiency go hand in hand with better patient care.

Our report reviews how better finance department engagement with clinicians leads to improvement in the quality of financial information, and how non-finance and finance staff can work together to improve service delivery and efficiency and, by doing so, provide better patient care. This is what clinicians and finance staff need to be aiming for.

It is perhaps unsurprising that clinical engagement depends on effective communication and good working relationships. Or that it is more easily achieved when finance staff are proactive and knowledgeable, and that the structure of the finance department is less important than the style within which its staff operate. But there are processes that underpin it. They can be summarised, however, as:

- a clear organisational structure where management and clinical responsibility are aligned with financial accountability;
- prompt provision of accurate financial information, tailored to the needs of clinicians and linked to clinical activity data. Delays, for example, as a result of making sure accruals are precisely right in departmental budget statements can have a detrimental effect on the usefulness and relevance of the information in the eyes of clinicians;
- training for clinicians in financial management and for finance staff in raising their knowledge about the delivery of care;
- service-line reporting and patient level costing in hospitals and practice based commissioning in primary care trusts (PCTs). Service-line reporting techniques can be applied in other sectors as well as acute trusts. Programme budget information enables PCTs to take a similar approach by comparing expenditure in specific disease areas with the outcomes achieved; and
- a management style that enables entrepreneurialism to flourish within clear rules of financial accountability.

This briefing note summarises the core findings of the report and its principal recommendations for clinicians working in and with the NHS.

## What do we mean by clinical engagement?

By 'clinicians' we mean the full range of clinical staff working within the NHS, including, but not restricted to, the medical, nursing, pharmacy and allied health professions.

By 'engagement' we mean mutual understanding and cooperation between what are sometimes markedly different cultures and ways of working. Engagement is a two-way activity, which involves the finance and clinical cultures coming together.

There are two aspects to clinical engagement in financial matters. Firstly, clinicians' acceptance and understanding of the emerging NHS business model and its financial systems; an acknowledgement of why it has been introduced; and active participation in its processes. Secondly, the engagement of managers and finance professionals with the clinical culture and its values. In any field of enterprise, managers who 'walk the patch' and genuinely understand how goods and services are delivered are respected. Healthcare is no different.

## Key findings

Among the key findings of *A Prescription for Partnership: Engaging Clinicians in Financial Management* are:

### **Giving clinicians responsibility for their use of resources can result in improved patient services**

- High quality clinical care and financial discipline are not mutually exclusive. Our report highlights examples of service reconfigurations that have brought about improvements in outcomes and timeliness of care and saved money at the same time.
- Clinicians respect clear financial procedures and visible leadership. Formal structures vary but there must be clarity about where financial management responsibility lies. Lines of accountability below board level must be transparent and unambiguous.
- Clinical directors have a key role in promoting the best use of resources and in securing compliance with financial management arrangements.

### **Finance staff structures seem to be less important than style and professionalism**

- Some finance staff structures have directorate accountants managed by clinical directors or directorate general managers; others retain directorate accountant posts within the finance department. The report finds that it does not seem to matter which is chosen: the overriding success factor is that finance staff are visible, proactive, knowledgeable and confident. These are the qualities valued by clinicians.
- Finance staff have a key role in organising financial management training across the organisation and for all the different staff groups.

- Continuity of finance staff is important as it helps with the development of long-lasting productive relationships.

### **Clinicians and finance professionals can view the world quite differently**

- There are differences of culture as well as differences of language but, in the main, clinicians respect the professionalism of senior finance staff and that finance staff respect the clinical excellence of doctors, nurses and other health professionals.
- Some clinicians express concern about the adequacy of their training in management and finance issues, given the expectations now being placed upon clinical managers. They are willing to build their knowledge, but some are anxious in case involvement in these areas might impact on their clinical work.
- For clinicians, the NHS finance role is often perceived as one of 'gate-keeping' and control. Finance staff and general managers are frequently viewed as preoccupied with achieving financial balance rather than delivering high quality efficient services.

### **Good, timely, useful information is the key to clinical engagement**

- There is considerable support among senior hospital clinicians for the service-line reporting currently being implemented in many acute trusts.
- There is also extensive support for the introduction of patient level costing systems. The level of detail they offer, which allows financial information to be directly related to actual practice and individual patients, particularly attracts clinicians, especially when reports can be produced promptly.
- Clinicians find access to real time information immensely powerful.
- The report finds that many clinicians are suspicious of any finance department apportionments or adjustments that are not fully transparent. This applies particularly to the allocation of support function and overhead costs. Many of the management accounting processes that delay the production of financial reports appear to be little valued by clinical budgetholders.
- In PCTs, programme budgeting techniques coupled with health outcomes information are providing public health professionals and commissioning staff with vital information on which to base decisions about the level of investment in different areas of care.
- It is critical that finance departments rise to the challenge of providing timely and sufficiently detailed information to gain the support of their clinical colleagues.

### Where clinicians lead commissioning or purchasing negotiations the result can be very positive

- The introduction of practice based commissioning in the NHS has resulted in general practitioners becoming increasingly involved in commissioning and financial management. However, the report observes, very few hospital clinicians have so far become involved in discussions with commissioners.
- The report offers examples of where clinician involvement in the negotiation of the procurement of goods and services has been extremely beneficial and has led to savings.

### There is a crucial tension between entrepreneurialism, risk taking and financial prudence

- As well as noting the difference in culture between clinicians and finance professionals, the report highlights what in many cases is a fundamentally different attitude to entrepreneurialism and risk taking. Many senior clinicians, both in hospitals and in primary care, run successful businesses in their own right. Some express frustration at a perceived lack of similar entrepreneurial business awareness among NHS finance professionals.
- There is evidence that an entrepreneurial approach to the management of a clinical directorate need not be inconsistent with sound financial control.
- Under the payment by results system, NHS bodies are developing internal performance management systems that reward economy and the generation of additional income.

## Good practice guidance for clinicians and clinical managers

### Taking on responsibility for budgets

If the positive benefits of aligning responsibility for the delivery of services and management of the finances are to be realised, it is vital that clinicians are willing to take on management roles and responsibilities within NHS organisations, and to see these as a normal part of a clinical career.

Accountability is an essential component of management. Clinicians taking on managerial roles should expect to be held to account for their performance, and have a right to expect accountability processes to be transparent, understandable and consistently enforced.

## Encouraging entrepreneurialism

The report challenges NHS boards and finance professionals to establish ways of working that allow entrepreneurialism to flourish, yet contain the overall level of risk associated with it. We encourage clinicians, especially those holding significant budgets, to ensure that this becomes a reality.

Within NHS provider organisations, an entrepreneurial approach to the management of a clinical directorate need not be inconsistent with sound financial control and the operation of standing financial instructions and levels of delegation. It does however require robustness and clarity in three key areas:

- Linkage between income and expenditure budgets. The entrepreneurial culture that some clinicians envisage allows ‘overspending’ of an expenditure budget provided it is more than offset by extra income that will follow. This requires budgetary control at a ‘bottom line’ level, and a transparent regime for the allocation of the extra income that any extra activity will earn.
- Linkage between clinical directorates and the total organisational position. If any part of the organisation finds itself in significant financial difficulty during the year, the board needs to be able to recognise this and, if necessary, constrain the freedom of action of other parts of the organisation. Entrepreneurial freedom therefore depends partly on the performance of others, as in the relationship between a subsidiary and a holding company in the commercial world.
- A clear relationship between activity levels and income. Payment by results makes income from commissioners as a consequence of extra, or less, clinical activity predictable. But not all activity is covered by the tariff, and some will often be attributable to support functions within the organisation. So robustness in this area involves clarity about the overall quantum of any additional, or reduced, income, and the way it will be distributed internally.

*A Prescription for Partnership: Engaging Clinicians in Financial Management* suggests there is no reason why trusts and foundation trusts should not adopt the more entrepreneurial financial control culture that some clinical directors are advocating. It does not, however, find any real scope for introducing a similar entrepreneurial culture within commissioning beyond the freedoms and rewards of the practice based commissioning regime.

## Skills and knowledge

The report finds that although many clinicians are keen to have greater involvement in the management and financial direction of their organisations, some are apprehensive about this change of direction and what it may mean for clinical priorities. Others recognise that a lack of structured training in management and finance issues may leave them exposed if they take on new responsibilities.

Specific needs are:

- training in human resource management skills and knowledge, recognising the extensive line management responsibilities that many senior clinicians acquire;
- training in financial skills and knowledge: the generic principles of costing, budgeting and other aspects of financial management, the specifics of the NHS finance regime, and measuring the efficiency and effectiveness of clinical care; and
- management and leadership skills development.

These needs apply across the whole spectrum of clinical professions.

## Access to financial information

*A Prescription for Partnership: Engaging Clinicians in Financial Management* notes how clinicians have responded enthusiastically to the implementation of patient level costing processes in some acute trusts, and how clinical directors and managers appear to warm to the concept of service-line reports, also known as business unit reports, trading accounts or directorate income and expenditure accounts, for clinical directorates.

Service-line reporting treats segments of an NHS organisation as if they were discrete trading entities. As well as traditional expenditure budgets, indirect costs, and sometimes of overheads, are allocated; so is income. Monitor, the NHS foundation trust regulator, has recommended that NHS provider organisations implement service-line reporting to understand the relative profitability of individual directorates. Patient level costing is a more detailed approach to costing that aims to identify the total costs associated with each individual patient episode.

Our report encourages finance staff to review their financial reporting arrangements to identify how they can be improved to add most value to clinicians.

We encourage clinicians, especially those working within acute hospitals, to keep pace with these developments and ensure these far-reaching improvements in financial information are implemented in a way that meets their information needs. This applies equally to clinicians working in areas, such as diagnostics and therapies, that are not been funded directly by the payment by results tariff.

## Clinicians and commissioning

Practice based commissioning in the NHS is aimed at getting primary care clinicians, particularly GPs, more actively involved in commissioning and financial management. It offers a powerful financial incentive for GP practices to alter care pathways and change referral patterns in the interests of both efficiency and effectiveness.

In November 2007 we published the report *Putting Commissioning into Practice: Implementing Practice Based Commissioning Through Good Financial Management*. The report found that the factors central to success were:

- timely provision of robust budgets which were well understood and accepted by the GP practices which would commission services;
- regular, accurate and easily understood information which enabled GPs to monitor progress;
- freedom and support for practices to make changes and to generate and use savings for the benefit of their patients;
- sound governance arrangements for approving business plans and overcoming any potential conflicts of interest when practices use their commissioning budgets to purchase services from themselves; and
- greater shared ownership between PCTs and practices on how resources should be used to support strategic objectives.

The programme budgeting initiative introduced by the Department of Health is providing valuable information that is helping public health clinicians review relative levels of investment in different diseases. It is a powerful tool for encouraging clinical involvement in resource allocation, and can also help with public and patient involvement and in engaging with local strategic partnerships.

## Conclusions

The organisations visited during our research reported that, given the right frameworks and the right information, clinicians, and especially medical consultants, take easily and willingly to financial and business management. Our research shows that there are considerable benefits to be gained from clinicians managing budgets and being involved in the decision-making process, not least in terms of the improved services that can be delivered as a result.

It is clear that clinical engagement depends on effective communication and good working relationships. There are, nevertheless, processes and techniques that can help improve clinical engagement in financial matters. Engaging Clinicians includes a checklist of these factors, with a recommendation that chief executives, finance directors and medical directors consider it and discuss whether there is scope for improvement in their organisations. It is reproduced below.

## Checklist for chief executives, finance directors and medical directors

### Governance and accountability

- Is there a shared vision for the organisation? Was this vision developed with input from all staff groups? Does it include the aims of delivery of high quality services as well as financial stability?
- How does the Board actively promote the importance of good financial management?
- Is there a devolved management structure? If so, has responsibility for financial performance been devolved so that it is aligned with accountability for the effective delivery of clinical care? Have corporate support services also been similarly aligned?
- Is there clarity about where responsibility for financial performance lies and the lines of accountability that exist below board level?
- Are accountability structures regularly reviewed to ensure they remain fit for purpose and facilitate effective financial control? Are they sufficiently flexible to ensure the engagement of clinicians and to encourage entrepreneurialism?
- What evidence do you have that clinical directors understand the importance of financial management and encourage best use of resources?

## Communication and culture

- Have all staff that manage resources or have authority to commit significant resources received financial management training?
- Is there a structured training programme in place for finance staff to build familiarity with current clinical practice and with the culture and aspirations of clinicians?
- Do you have a training programme that encourages finance staff to be more than competent finance professionals and to develop influencing and interpersonal skills? Does your performance development system encourage this?
- Are directorate accountants visible outside the finance department? Are they proactive in dealing with financial issues and part of the team overseeing the management of the directorate?
- Do you have regular meetings with clinical directorates to discuss management issues, including financial management?
- What proportion of consultants do you have a working relationship with? This could be evidenced by the number you are on first name terms with.

## The importance of good information

- Has your organisation implemented service-line reporting and patient level costing? If not, why not? Are you aware of the benefits that this information provides? What skills and systems will your organisation need to put in place in order to implement them? (Trusts only)
- If service-line reporting and patient level costing have been implemented how have the costs of support services and overheads been apportioned? Have you considered alternative models?
- How soon after the month end is financial performance reported? What steps are there in place to improve this? Has any analysis been undertaken to look at the trade-off between accuracy of financial information and its earlier production?
- Are finance staff proactive in challenging clinicians and managers to take corrective action where overspends have occurred? Do finance staff promote the use of financial information to improve decision-making and in identifying opportunities to deliver efficiency savings?
- Does your organisation plan to break-even or to achieve a surplus? Are you aware that the financial regimes for both PCTs and NHS trusts allow resources not consumed in one year to be utilised the following year?
- Could you identify a number of areas where consultant entrepreneurialism has helped the organisation? Should this be encouraged in other areas?

- Have you linked income and expenditure budgets at a directorate level? Are there clear and agreed rules on how these should be managed in relation to the trust's overall position and how changes in income will be managed?

## Commissioning and purchasing

- Has your organisation attempted to involve clinicians in the procurement of goods and services? Has this been successful?
- Are provider clinicians involved in commissioning discussions with PCTs? Has this been successful?
- How has the PCT's programme budgeting information been used? Has it been linked to health outcomes? Has it been used to help decide levels of investment in different services or to address spending issues? (PCTs only)

## General

- How would you rate your level of clinical engagement on financial issues in the light of the case studies in this report?

## References

- 1 Audit Commission, Learning the Lessons from Financial Failure in the NHS, 2006.
- 2 Audit Commission/NAO, Financial Management in the NHS 2004/05, June 2006.
- 3 Audit Commission, Engaging Clinicians in Financial Management, December 2007.
- 4 House of Commons, Select Committee on public Accounts, Seventeenth Report, 2007.

 Copies of the full report are available at: [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)  
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