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A prescription for partnership

Engaging clinicians in financial management

A briefing for finance professionals

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 key aspects of financial management, such as financial planning and costing, by increasing awareness of cost drivers and the accuracy of financial forecasting.

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.

It is not sufficient for financial skills to reside only within the finance department. An excellent finance function will ensure that these skills are spread throughout the organisation, with financial responsibility being devolved to those who have responsibility for delivering the service. The finance department has a key role in facilitating this; in supporting clinicians and managers on financial matters; and in providing them with finance training where it is required. The Audit Commission’s *World Class Financial Management* report (Ref. 5) states that:

‘Financial management is a key management discipline. It is not just what accountants do, but something that every manager within an organisation is responsible for. In that respect, an excellent finance function is a necessary, but not sufficient, condition of good financial management within an organisation, although it obviously has a key role to play as a catalyst for improving financial management.’

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.

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 key findings of the report and its principal recommendations for finance professionals 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 co-operation 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:

Making clinicians accountable for their use of resources can bring significant benefits

- 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 budget holders.

- 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 finance professionals

Increasing real clinical accountability for budgets

While decisions on the scale of devolution and the extent of clinical influence must rest with individual boards, our research shows the positive financial impact that unleashing the power of clinical leaders can have in NHS organisations.

During our research, we found that the majority of the acute trusts we visited explained their decision to adopt a devolved structure as being motivated by a shared corporate vision of the future organisation. Even where the starting position was one of financial pressure, the future vision would extend beyond mere financial stability to improved patient treatment and care. Many now attribute their level of clinical engagement to a decision to make quality of care a priority, rather than a simple preoccupation with money.

With devolution comes accountability. The methodology for holding budget holders to account needs to be transparent, understandable and visibly enforced.

Simple and clearly understood financial incentives can motivate desired behaviours. This applies particularly to the 'sharing', within trusts, of additional tariff income generated by extra clinical activity.

Encouraging entrepreneurialism

The challenge for senior finance professionals is to establish ways of working that allow entrepreneurialism to flourish, yet contain the overall level of risk associated with it.

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.
- 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.

If these three criteria are met, and the whole is contained within reporting and accountability processes that safeguard board control, we see no reason why trusts and foundation trusts should not adopt the more entrepreneurial financial control culture that some clinical directors are advocating.

We see no real scope, however, for introducing a similar entrepreneurial culture within commissioning beyond the freedoms and rewards of the practice based commissioning regime.

Finance staffing structures and style

Finance staff stability is an important issue. We found that medical consultants in particular value continuity in their relationships with finance staff, and express frustration at patterns of relatively high staff turnover in finance and at good individuals moving on.

Successful directorate accountants are already responding to the demands of devolved structures and the growing expectations of clinicians within them. They stress the culture of professionalism and learning within which they work, and the importance of relationships with clinicians. Above all they emphasise a keen interest and direct involvement with the way treatment and care is actually delivered.

Skills and knowledge

For finance staff engaging with an environment of accelerating financial devolution, our research identifies two pressing needs:

- Structured training to give relevant knowledge of clinical practice. At present the principal way hospital finance staff gain their knowledge of clinical practice is by 'walking the patch', and such an approach is by nature sporadic and heavily influenced by local factors and personalities. Commissioners find even this route to knowledge acquisition restricted, leading to real difficulties in maintaining their knowledge base. There is a real need for more structured knowledge dissemination about the way clinical care is provided.
- Developing the listening, influencing and general interpersonal skills that management in devolved environments requires. Being technically competent in finance is not the only skill required.

Finance systems

The report's emphasis on detailed and timely financial statements being supplied to clinical managers implies slick monthly processing of all transactions that support the ledger. In practice this almost certainly means full integration of payroll with the ledger and creditor payments with the ledger, or robust and reliable interface routines, and a minimum of manual intervention. Most NHS bodies already achieve this standard. Where there are systemic reasons why detailed reporting within clinical directorates or rapid report production cannot be achieved, organisations will need to identify the constraints and act to remove them.

NHS organisations must ensure they are in full control of both the quality and the timeliness of their financial reporting. In practice there may need to be a trade-off between accuracy and timeliness.

Timely financial reporting

Our research identified a common view among NHS finance staff that producing budget reports ten working days following the month end is acceptable. We believe any modern management accounting team should be able to produce financial statements earlier than this. Each day that can be saved makes the information more valuable to budgetholders and releases more finance department time for strategic interpretation and other activities.

Management accountants, whether centralised or devolved, must resist any temptation to build extensive periods of report refinement, for instance, through journal transfers, overly detailed accruals, budget adjustments or reprofiling of income and expenditure, into standard monthly working methods.

Finance professionals should be wary of over-refining accounting statements for clinical directorates, or of an over-ambitious approach to preparing accurate all-inclusive income and expenditure reports for specialties.

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. Far from being reluctant partners in a business-driven NHS, they can quickly assume a leadership role.

This may in turn test the limits of the business culture within the NHS. For example, the introduction of service-line reporting has increased the potential for ‘cherry picking’ services at the expense of the less profitable ones. This has implications for the NHS as a whole.

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. *A Prescription for Partnership: Engaging Clinicians in Financial Management* 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.
- 5 Audit Commission, *World Class Financial Management*, November 2005.

i Copies of the full report are available at: www.audit-commission.gov.uk
or to order a printed copy telephone: **0800 502030** quoting stock code: **HNR3413**

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