



Building Leadership for Health

Leadership and Management
of Financial Resources

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Note for Course Leader

- ◆ This module is concerned with the leadership of financial decisions by health leaders/managers who are not expected to be accountants.
- ◆ It would be helpful to review this material with your own financial experts and to involve them in the training to make sure it is consistent with your financial management practice.
- ◆ This can be used as a toolkit to develop your own course the slides are discussion points.
- ◆ Case studies can be printed out as handouts.

Leadership and Management of Financial Resources: Agenda (1)

- ◆ Introductions and learning objectives 15 minutes

- ◆ Key leadership roles in finance
 - Discussion 40 minutes
 - Analysing problems and taking action - case study 45 minutes
 - Coffee 15 minutes*
 - Case study feedback 15 minutes

- ◆ Understanding health costs
 - Discussion 15 minutes
 - Reviewing costs - case study 45 minutes
 - Case study feedback 15 minutes

Lunch 45 minutes

Leadership and Management of Financial Resources: Agenda (2)

◆ Making capital investment decisions

- Discussion 15 minutes
- Capital investment - case study 45 minutes
- Feedback 15 minutes

Coffee 15 minutes

◆ Linking plans and budgets

- Discussion 15 minutes
- Planning and budgeting - case study 30 minutes
- Feedback 15 minutes

◆ Reflections and learning points 15 minutes

Introduction / Learning Objectives

- ◆ What is your role in relation to financial management?
- ◆ What have been the main problems?
- ◆ What have you done about them?
- ◆ The group learning objective for the day is
 - *"To understand how to lead the management of financial resources"*
- ◆ What are your personal learning objectives
 - Please write them down

Key leadership roles in finance

- ◆ Give examples of how you have used financial information in:
 - Measuring performance
 - Directing attention to key issues
 - Supporting decision making
- ◆ Talk to your neighbour for 5 minutes about these issues and their importance

Key leadership roles in finance: Measuring performance

- ◆ Discuss the measurement of performance of:
 - Overall organisation performance
 - Department and unit performance
 - Operational performance against budget
 - Longer term finance performance and problems
 - Value for money
 - Other?

Key leadership roles in finance:

Directing attention

- ◆ Discuss the use of financial information to analyse:
 - Why costs do not match budgets
 - Why costs look unreasonable
 - Why cost trends are increasing in the long term

Key leadership roles in finance: Supporting decision making

- ◆ What actions have you taken in respect of:
 - Improving management of financial processes
 - ◆ Better finance information
 - ◆ Better financial planning
 - ◆ Better costing and project appraisal
 - Improving departmental/unit management of resources
 - ◆ Staff development/training
 - ◆ Appraisal and discipline

CASE STUDY ON ANALYSING FINANCIAL PROBLEMS AND TAKING ACTION 1

- ◆ The Whitepool hospital is the main provider of health services to the population of a rural area. In addition to its main hospital site, there are two smaller outlying hospital facilities which provide outpatient and diagnostic services and limited in-patient care.
- ◆ For some years, the hospital has had difficulty in achieving a balanced financial position and it generated small financial deficits each year. During 2004, it was anticipated that the same situation would arise but soon after the end of the year it became apparent that the hospital had, in fact, generated a very large and unexpected financial deficit of two million euros.
- ◆ **Consider the report (see next) and decide on action:-**
 - What actions need to be taken to avoid a repeat of the unexpected overspend position in future years
 - How should the hospital compare its level of cost efficiency with that of similar hospitals
 - What actions might it take to develop a financial plan designed to obtain a balanced financial position in future years

CASE STUDY ON ANALYSING FINANCIAL PROBLEMS AND TAKING ACTION 2

- ◆ Upon investigation, it became apparent that the main causes of the large financial deficit were:-
 - In previous years, certain budget holders had traditionally underspent budgets thus largely compensating for those budget holder who traditionally overspent. In 2004, there were no underspent budgets to balance the overspends.
 - The financial effects of a sudden surge in emergency hospital admissions in the latter months of the year were not identified and considered
 - Certain income streams were not collected on time
 - Some new theatre facilities were opened earlier than planned to reduce waiting times for patients
 - There is some anecdotal evidence that wage rates in the hospital rose faster than in other comparable hospitals
 - Some departments in the hospital do not seem as productive as those in similar hospitals
 - For some years there has been pressure to close one or both of the outlying facilities to save money but this has been resisted.

CASE STUDY : Notes to Course

Leader Points to Consider

◆ **Avoidance of unexpected overspend**

- Monitor expenditure budgets each month to observe the overall trends in spend.
- Ask budget holders to indicate their likely over/underspend position at year end
- Monitor hospital admissions each week and consider the financial implications of sharp increases.
- Make the required financial adjustments to budgets to cope with increases in emergency admissions.
- Consider the financial consequences of bringing new facilities on-stream earlier than planned
- Continually monitor income collected against income budgets

◆ **Cost Efficiency**

- Review growth in pay costs compared to other comparable hospitals. Identify reasons for growth in pay costs for different classes of staff.
- Compared unit costs of different departments in the hospital with those of other comparable hospitals. Seek reasons for any significant variations

◆ **Financial Plan**

- Undertake a robust analysis of the cost implications of closing the outlying hospitals
- Undertake a thorough review of all departmental budgets in the hospital to see if the levels of budgets can be justified.
- Review development activities to see if they can be deferred

◆ **What does this tell you about the finance team**

- In real life this situation led to the replacement of the director of finance

Understanding Health Costs

- ◆ What are your main categories of cost you incur in your organisation
- ◆ What factors cause each of these categories of cost to vary (up or down)
- ◆ Can you exert control over the factors which influence these categories of costs
- ◆ By what means could you reduce each of these categories of cost
- ◆ Think of a health development project you are undertaking. List all the categories of cost which will be affected by this project
- ◆ Talk to your neighbour for 5 minutes about the costs in your organisation and how you can control them

Understanding Costs: Cost Categories

- ◆ In health costing it is often helpful to identify
 - Fixed costs, which do not change with activity, these may include management and maintenance costs.
 - Semi-fixed costs, which vary with major changes such as closure/opening of a ward, these may include staff costs.
 - Variable costs, which change with level of clinical activity, for example the cost of medicines and other consumables.

Case Study on Understanding Costs

- ◆ Review the data provided in the case study handout [Link](#)
- ◆ Comment on the costing exercise
- ◆ And discuss what information is required to support financial planning

Making capital investment decisions

- ◆ Why do we make capital investments in health
 - Improve services – how, what, where?
 - More services – what, why?
 - Reduced running costs – how, why?
- ◆ Why are these decisions so important
 - Often large scale
 - Usually irreversible
 - Long term impact

Making capital investment decisions

- ◆ What do we have to do:-
 - Identify the costs (financial and economic)
 - Identify the benefits (financial and economic)
 - Compare them
- ◆ Reasons for failure of capital projects
 - Poor project evaluation
 - Poor project implementation
- ◆ Talk to your neighbour for 5 minutes about a recent capital investment decision you were involved in or know about

Case Study on Capital Investment

- ◆ Review and comment on the case study
- ◆ You are asked to set terms of reference for the Appraisal Group that will report to the Management team on an investment decision.
 - What issues will you ask the team to examine
 - What economic and financial analysis will you require
 - How will you take the decision

Linking plans and budgets

- ◆ What types of plan (short term or longer term)
- ◆ Plans = activities = resources
- ◆ Resources = people + equipment + consumables + overheads = Money
- ◆ Plans must link activities to money

Linking plans and budgets

◆ Longer term plans

- Need a financial strategy
- This is a rough idea of where the money will go

◆ Short term plans

- Annual plans must be reflected in detailed annual budgets
- If annual plans change activities, annual budgets must change
- This is not always easy to achieve

◆ Talk to your neighbour for 5 minutes about plans and budgets. Do budgets change to reflect plans in your organisation

Case Study on Linking Plans and Budgets

- ◆ Consider and review the case study
- ◆ What actions would you recommend as regional director of health.

Reflections and Feedback

- ◆ This module is about leading health finance
 - What is different about leading financial decisions
 - What is more difficult than other decisions and
 - What is easier
- ◆ Please discuss and write down
 - What you have learnt that you found helpful
 - What you will do differently as a result of today
 - What you will improve when you give this course

Module Contributed by Malcolm J Prowle

◆ Malcolm is



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