Future Finance: Supporting the NHS of Tomorrow

Developing a truly modern finance function in the NHS

A Prophix UK whitepaper
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Introduction

Finance reform in the NHS is a project with momentum. It is driven both by external pressures, on demand and funding, and by the belief internally that things can, and should, be better. However well the NHS performs on efficiency and productivity against international benchmarks, the belief is that there is always room for improvement. Improvements need to be made to meet the challenging macro environment in which the NHS is operating.

In response to the external drivers, NHS England and NHS Improvement have laid out a ten point efficiency plan, which has huge implications for finance functions about how they plan and forecast, manage and report. There is a particular focus on accountability and discipline, ensuring that trusts and CCGs can forecast accurately and operate within the bounds of their funding.

From inside the finance function comes the Future-Focused Finance initiative, led by the Finance Leadership Council. This addresses some of the key attributes on the ten point plan: key skills, efficient systems and good business partnering.

Beyond Health

Beyond the NHS, finance professionals in all sectors are going through a period of reassessment. However, drivers may not be as clear as they are in a single institution. Everywhere, finance teams are considering their role in the future of their organisations and how they can ensure robust performance in a similarly challenging macro environment.

Change is accelerating. The proliferation of high-powered, low-cost technologies and global communications platforms is driving increased competition and more rapid change than ever before. The turnover of companies on the stock market has never been more rapid*. Patent applications are at an all-time high and the rate of increase continues to rise**. International barriers have fallen, opening every geographic market to cheaper international competition.

To secure a role at the heart of tomorrow’s agile organisation, the modern finance function has to evolve. It has to be hyper-efficient at collecting and reporting the information that matters across the organisation. It has to provide foresight for the leadership team, enabling smart, informed decision-making about future strategy. It also has to be robust, protecting the organisation from cost-control failures and regulatory challenges with a smart approach to management and compliance. Achieving a truly modern finance function isn’t a purely technological challenge. There’s no system that can be bought off the shelf to deliver advancement. It’s about the understanding of the leadership, the training of the staff and the design and implementation of strong processes.

These requirements are as true in every sector as they are in the NHS.

This paper outlines some of the key factors in delivering the modern finance function, from software to soft skills, key challenges to major opportunities.
Defining the Modern Finance Function

After analysing the core requirements in the ten point efficiency plan, it’s clear that the NHS requires two clear capabilities from finance: perception and communication.

Whether looking forwards or backwards, or at the present situation, finance needs to have absolute clarity and instant low-friction access to information – or forecasts of possible futures. This level of perception has always been part of the finance function but expectations on its performance – speed, accuracy and richness – have never been so great. This places great stress on the core processes of the finance function - planning, reporting, compliance – and suggests that changes need to be made to the underlying methods, tools and perhaps skills employed.

This information is worth little without the ability to translate it into action, through communication with every aspect of the organisation, from clinicians to managers, patients, funding bodies and regulators. Again, this has always been part of the finance function but the requirements now appear to be for a much more connected and pervasive function, skilled in partnering and able to share wisdom widely.

Key Features

Lots of organisations outside of the NHS have tried to define the modern finance function, using a variety of different terminologies and approaches. Perhaps the most famous is Gartner’s maturity model for Corporate Performance Management (CPM). This model breaks down the transformation from a ‘traditional’ finance function through to a modern finance function across five steps.

- **Level 1:**
  Organisations are largely unaware of the opportunities to transform, or of their own limitations. Spreadsheets are the dominant tool for analysis and reporting, leading to a high degree of risk and large amounts of manual effort just to maintain compliance.

- **Level 2:**
  Organisations have applied single applications to automate key functions but these applications are disconnected from each other and operated by small teams or even single individuals. There is little sharing of knowledge or best practices.

- **Level 3:**
  Finance teams have automated more of their operations and are utilising more advanced analytics to play an active role in operational planning.

- **Level 4:**
  Applications are integrated into single framework that maps directly to operations, offering clarity in real time and further reducing the manual overheads and risks.

- **Level 5:**
  An organisation-wide culture of evidence-based decision-making, where data both drives planning and validates operations.
“Reaching Level 5 means the organisation uses key information to link strategy through to operational decisions. It requires multiple sources of information inside and outside the business. I’ve come across very few organisations working at this level. The finance department is a key part of achieving this, but only if they change their culture. Historic internal information is easier to find and thus suits accountants who like certainty, but doesn’t directly focus on decisions. Accountants need to ensure they’re looking forward for decisions, not back.”

Daniel Mason
Managing Director, Prophix Software
Forrester’s Five Keys

Competing analyst firm, Forrester, expresses many of the same ideas in a slightly different fashion. Forrester refers to ‘Five Keys To Next-Generation Planning And Enterprise Performance’. As ever with large organisations, there is a lot of portability between ‘enterprise’ and health operations.

1. Dynamic planning: iterate models continuously.
2. Integrate planning and performance across lines of business.
3. Predictive planning and analytics: build predictive models.
5. Align with growth (focus on customer business value).

Modern finance expert and CEO of FSN, Gary Simon offers his own recipe for success, incorporating some key human aspects of development, notably ‘better business partnering’ and a ‘commitment to talent management’. He too stresses the importance of data-driven decision-making and a ‘commitment to process standardisation and automation’ as key components of next generation planning.
Common Themes

As we can see, there are some common themes here. The modern finance function can be defined by key characteristics. It is the custodian of data within an organisation and the reach of this data, in terms of both collection and communication, that is broad. Finance should be partnered with every aspect of the business to help measure performance and support strategic decision-making. Supporting this capability requires a high degree of automation, reducing manual effort and minimising risk.

Three Core Functions

Most simply, the modern finance function can be defined by comparing it to past functions in three core areas of capability: compliance, reporting and planning (budgeting and forecasting).

In the modern finance function, compliance, an often manual and burdensome task becomes ‘smart’ through advanced automation. This increases clarity, cutting risk of failure and releasing resources for high-value activities focused on developing the organisation, not just protecting it.

In the NHS, this means preparing reports for Monitor/NHS Improvement with the minimum amount of manual input.

Reporting has stopped being about yesterday and has become increasingly focused on today. By delivering valuable ‘operational intelligence’ across the organisation in a timely fashion, the modern finance function becomes a key ally of all operations departments.

For trusts and foundations, there is an opportunity to enhance the evidence base on which services and resources are planned and in-year financial decisions are made.

Instead of an annual trudge through probable expenditure, planning becomes a process of acquiring and qualifying strategically valuable foresight. An exercise that delivers educated insight into likely performance and alternative possibilities, respected and valued by the executive leadership.

Given the volatile environment in which health services have operated in the recent past, and are likely to operate in the future, as well as the growing demographic and funding pressures, more sophisticated modelling of future scenarios and greater collaboration in planning could add enormous value.
A Framework for Success

Breaking the development challenge down into these core finance functions gives a framework for recognising return on your investment - both quick wins and long-term strategic value. Over the course of the two parts, we will refer back to these three core functions and make recommendations about how to assess your progress and take the next steps in developing them.

Key Skills & Roles

The modern finance function stretches the skill set of the traditional NHS finance team and its leadership. New technical skills are required alongside a ‘softer’ set of skills for communication and collaboration, as the modern finance function must reach beyond its own walls and achieve partnership with many aspects of the business in order to maximise value. This is recognised explicitly in the Future-Focused Finance programme’s skills segment, with a focus on being a ‘team player’ and making change happen.

Three key skill areas have increasing value across the finance team. To some extent, all members of the team are likely to need these skills, though some may be more focused in particular roles.

Communication

Partnering across your business to collect, share and analyse data means building relationships and communicating effectively. This is not always a skill that has been held in-depth in the finance department, where an affinity for numbers was perhaps prized ahead of an affinity for people. Formalising the training and evaluation of networking, information gathering and presentation should become a core part of talent development.

Systems Thinking

Automating functions requires a very different skill set to manually processing them each time. The ability to understand basic tenets of programming, such as loops and functions, variables, inputs and outputs, will be enormously prized in future finance teams, especially when combined with strong financial literacy. Training in hybrid finance/IT skill sets is likely to be a growing demand, one that universities have yet to meet.
Planning and Analysis

The finance function will spend an increasing proportion of its time on forward-looking activities, as retrospective functions can increasingly be automated. This ability to offer foresight and intelligence to drive better decision-making isn’t yet widely used. Understanding both the principles and the broad business context and having the skills to manipulate data using the relevant tools will be a valued combination.

Measuring Return on Investment

Though the imperatives highlighted by the ten point efficiency plan are non-negotiable, delivering them will require investment in finance. This has not always been something that is easy to secure, with the back-office perceived as non-core spending and investment in administrative functions in the NHS being amongst the lowest, proportional to spending, in the world. Securing investment will mean making a strong case for the returns on that investment, and that may mean drawing on evidence of successes beyond the bounds of the NHS.

Fortunately, there is strong anecdotal evidence from organisations who are on the road to transforming. Speaking to some of Prophix’s customers, it becomes clear that they have enjoyed their journey to the modern finance function.
From ‘Compliance’ to ‘Smart Compliance’

Whether the requests come from regulators or the government, every trust, board and CCG is subject to external analysis and must comply. In an ideal world, compliance is a state not a process: at any time, the third party could take a snapshot of the organisation and see all of the evidence they need without additional work.

Key returns:

• **Released human capital:** The investment in automation software is offset by the release in human capital. This may be an opportunity for cuts but in reality the growing demands on finance, as outlined above, mean this is most likely a chance to reallocate resources to high-value tasks like operational intelligence and foresight.

• **Reduced risk:** Better to know you are always compliant than to know there is a large amount of work to be completed in order to check – especially given the propensity for errors under pressure.

• **Greater transparency:** Organisations confident in their compliance can afford to be more open, increasing trust with partners, patients and stakeholders.

• **Operational readiness:** A constant state of preparedness enables greater agility in the executive team, speeding responses to changing demands and funding priorities.

From ‘Reporting’ to ‘Operational Intelligence’

The key transition here is from backward-looking to present-day. Systems and tools exist to enable near-real-time feedback from finance to the rest of the organisation. The benefits are numerous in terms of operational agility, insight and cohesion.

Key returns:

• **Inform decision-making:** Current data in a compelling form should drive better decision-making – not just in finance but in operations, especially with regards to interactions with critical partners, such as local authorities.

• **Real-time insight:** Numbers can sometimes tell a story that those on the front lines can’t see or don’t know how to share. Organisations on their way to developing a modern finance function report on data from finance, driving greater operational insight.
Planning to Foresight

Planning is such a limited exercise, one that most in an organisation see as a chore and not as an opportunity. Instead it should be a collaborative business planning exercise that exposes hidden truths and creates an opportunity to look beyond the next 12 months.

- **Increased accuracy:** Forecasts should be more robust based on greater insight into different service areas.

- **Multidimensional modelling:** Not just one budget but a detailed array of scenarios, easily tweaked to answer multiple ‘what if’ questions.

- **Resource capacity aligned to demand expectations:** Match supply and demand, or take pre-emptive action to avoid demand that cannot be met within budget.

- **Reconciliation of cross-functional planning:** Connect clinicians, operations and finance in a shared view of tomorrow’s world.

Much of this value is about the power of data outside of the finance function. That’s why there is a good chance that it won’t be the finance function that initially pushes for some of the investment required to deliver this transformation. This push could come from elsewhere in management, or even from clinical leads looking to improve operations.
Modern Finance Function for the NHS: Summary

Building a modern finance function for NHS trusts, boards and CCGs is a critical part of the response to growing demand and funding pressures, as highlighted in the ten point efficiency plan. Already an internal movement has developed through the Future-Focused Finance initiative but there is much to be learned by looking beyond the bounds of the NHS at the wider challenges faced by finance teams and the responses being developed.

Finance departments across different sectors and around the world are evolving, automating crucial but base functions in order to reallocate resources to more current and forward-looking activities.

- **Compliance activities**
  must be handled in a smart fashion, de-risked through automation, diminishing their need for human input.

- **Reporting functions**
  must be accelerated, not validating historical data but delivering near-real-time intelligence to partner departments across the organisation and management.

- **Planning activities**
  must become a collaborative exploration of the future that informs strategy, not a combative top-down exercise.

Achieving this transformation requires investment in technology. However, it is arguably just as important, if not more so, to invest in both soft and hard skills. Either existing teams need to be trained or new members recruited, with planning and analysis and hybrid IT/finance capabilities. Across the function, communications skills need to be enhanced to facilitate a richer, two-way relationship with the rest of the organisation.

Most importantly of all is that the finance function is led with a vision. A clear vision that recognises what the organisation needs and how to deliver it.

In part two of the paper, to follow, we will elaborate further on practical steps you can take to get on the journey to building a modern finance function and how to overcome the barriers that may appear along the way.

Betsi Cadwaladr University Health Board is the largest health organisation in Wales, providing a full range of primary, community, mental health and acute hospital services for a population of around 678,000 people across the six counties of North Wales (Anglesey, Gwynedd, Conwy, Denbighshire, Flintshire and Wrexham). The Health Board has a budget of £1.3 billion and a workforce of approximately 16,500.

Ian Jones is the head of financial reporting and recently led the selection and implementation of Prophix to help the Board deliver financial planning in a more consistent manner.

**Three Year Planning Cycle**

Health Boards work on a three-year planning cycle with the Welsh government and produce regular monitoring returns, following a set of requirements and rules that have been subject to frequent change in the recent past. Until recently, Betsi Cadwaladr’s planning and budgeting preparation happened across dozens of different spreadsheets.

**Better Budgeting**

Everything was in a slightly different format. We couldn’t review decisions after the fact. There was no master database, no audit trail. We couldn’t easily get an overview of how the individual budget spreadsheets had been calculated. We wanted a way to make the process more consistent, quicker and just better. A single record.” Betsi Cadwaladr Health Board selected Prophix’s Corporate Performance Management system based on its “flexibility and user-friendliness” - and because it presented itself as a very cost-effective solution.
**Staff Planning**

The new system was initially procured to tackle staff planning. Staff budgets are 75-80% of the Board’s expenditure. Information is pulled into the system from the NHS Electronic Staff Record and then linked to the general ledger for annual budget balances rolled forwards.

Jones notes here that the biggest implementation challenge was consistency of approach from the different members of the team: “It can be very difficult to get consistency in processes across a large team and this applies to the budget-setting process. The system is very flexible but once it’s in place you’re enforcing a standard. My advice would be to get your policies straight first.” Jones gives the example of how vacancies were previously dealt with in staff planning, with different divisional teams having different approaches.

**Consistency and Automation**

With the system in place, the team at Betsi Cadwaladr has gained consistency but also saved an awful lot of time. Further savings in time are expected as the system is further developed. “The unexpected benefit was the level of automation that is possible: bringing information in from ESR and uploading to the general ledger is automatic. People can very quickly extract their required reports from templates.”

**Scenario Modelling**

Jones has also seen benefits from the ability to model future scenarios, such as the impact of pay awards. “It’s very simple to copy data into a new scenario and start to play about to see what might happen.

You can have dozens of different scenarios with quite sophisticated modelling – we can pin down the impact of pay awards to individuals posts if needs be.”

The next step is automating the production of monitoring returns for the Welsh Government and developing more in-depth analysis. “With the increasing requirements and evolving reporting requirements, being able to make the changes once will save a huge amount of time.”
About Prophix

Prophix develops innovative software that automates critical financial processes such as budgeting, planning, consolidation and reporting — improving a company’s profitability and minimising its risks. Thousands of forward-looking organisations in more than 90 countries use software from Prophix to gain increased visibility and insight into their business performance.