



NHS Finance: A Roadmap for the Future

Practical guidance on building a modern finance
function in the NHS

Inside this document

Introduction	3
Your Starting Point	4
Step 1: Compliance	4
Step 2: Reporting	5
Step 3: Budgeting	6
Barriers to Progress	7
Where Are You Now? Self-Assessment Questionnaire	10
Next Steps for Your Organisation	13
Conclusion	14

Published by:

Prophix Software Inc.

Copyright Notice:

Copyright Prophix Software Inc. © 2017. All rights reserved. No part of this document may be copied without the express written permission of Prophix Software Inc.

Introduction

This is the second of two papers from Prophix focused on finance in the NHS. In the first paper, we set about defining the modern finance function for the NHS, drawing on a ten point efficiency plan and the work of the Future-Focused Finance initiative, as well as input from thought leaders like Gartner, Forrester and FSN's Gary Simon.

Consolidating all of this input, we created a simple definition of the modern finance function based around changes to three core areas of the operation:

From Compliance to Smart Compliance:

Compliance activities, for financial and industry regulators, must be handled in a smarter fashion, with increased automation de-risking operations and freeing resources to focus on the future.

From Reporting to Operational Insight:

Internal reporting becomes operational insight, looking not at last week or last month, but at today, furnishing partner departments with critical information.

From Planning to Foresight:

Planning must become foresight, not an annual trudge through the budgeting process but an informed and collaborative examination of the business and its environment.

A truly modern finance function is more valuable to the organisation and its leaders, holding the capability to steer them through an increasingly turbulent demand and funding environment.

So how do you get there and where do you start?

In this paper we will start to offer some practical steps. We call it a 'roadmap' because the transition to a truly modern finance function is without doubt a journey, and the destination of that journey may change en route. What you learn as the organisation develops will undoubtedly influence how you select and prioritise further changes.

What you can do now though is establish your starting point and a direction of travel.

Your Starting Point

One of the ways to measure and understand the future-readiness of an organisation's finance function is to look at the maturity model for Corporate Performance Management developed by analyst firm, Gartner. Organisations in this model are classified as sitting somewhere between Level 1, where their journey is really yet to start, and Level 5.

A Level 1 organisation is heavily reliant on a collection of spreadsheets for processing data. Data quality is constantly having to be re-established. Few people understand the manipulations that are taking place. Finance activities are largely isolated from the rest of the business, and there can be an adversarial relationship between finance and other functions.

A Level 5 organisation has consolidated data, automated many key tasks – particularly those that are time-consuming and high risk. This has freed up resources for finance to partner with the rest of the organisation, helping them to answer questions and solve problems based on the rich data and skills at their disposal. Most importantly, a Level 5 finance function can spend more time looking forwards and less time looking back.

Today, most organisations – inside and outside the NHS - are somewhere between Level 1 and Level 2 on Gartner's model, yet keen to realise the benefits of smart compliance, operational intelligence and foresight. So don't worry if you think this is your organisation today. You may be a long way from cutting-edge but you are not necessarily behind your peers.

From a position such as this, there are some key priorities to address, tackling behaviours that remain common in many offices of finance that are clearly outdated. Addressing these issues ensures your journey to a modern finance function will start strong.



Step 1: Compliance

Compliance activities, producing reports for NHS improvement, accounts for audit, and other regular reports to stakeholders and regulators, is a hugely time-consuming portion of the workload for the office of finance. It is also high risk, presenting multiple opportunities for damaging failure. Focus on this challenge only increased with financial accountability, forming the tenth point of the ten point improvement plan. Moving away from time-intensive and risky manual manipulation to increasingly automated processes means free time to tackle some of the bigger picture problems and creates a data platform to support them.

Consider these steps:

Manual vs automatic

The outputs required of the finance department in order to achieve compliance with various regulatory and funding requirements are well defined. So, it seems strange that many organisations still hand-crank these outputs each year.

Total automation is a longer-term goal but ensuring that the production of key, regular reports is automated should be achievable.

Process vs state

The natural conclusion of automating compliance is that compliance no longer becomes an annual process but rather a constant state. No need to schedule in large jobs of work against upcoming deadlines - instead the process takes care of itself.

This will require a shift in thinking. As long as members of the team treat compliance as a series of tasks, progress will be delayed.

Spreadsheets vs systems

For all the wonder that can be weaved by a true spreadsheet wizard, spreadsheets are an inherently brittle way of handling data. All it takes for the process to fail is a single human error, or worse, for the creator of the sheet (and often the only person who understands it) to leave. Modern finance functions run on shared processes rather than relying on brilliant individuals.

Examine the finance function for examples of reliance on spreadsheets and particularly individuals with strong manipulation skills. Wherever these are found should be translated into systems at best and shared processes at worst.

Step 2: Reporting

With critical external reporting under control, you can begin to examine your internal role. Finance has the potential to be the 'home of truth' in the organisation, helping partners to answer critical questions based on real-world data. Instead, finance has become increasingly isolated in recent years, lacking the capacity or the skills to assist with serious planning and analysis challenges.

With the time freed from automating compliance, this can be re-examined and new partnerships across the business can be built.

Retrospective vs real-time

The time it takes for information to travel from the edge of an organisation to its centre is a key measure of agility. Without the fast flow of information, an organisation cannot react quickly to changing market conditions. Real-time information is the ambition for all modern enterprises.

Don't expect to achieve this quickly, but from day one it is important that everyone in the function shares the ambition for a real-time flow of data, not retrospective reporting.

Focused upwards vs focused outwards

Just because a metric is counted in currency doesn't mean its only value is financial. The flows of cash can inform all sorts of aspects of the organisation. A modern finance function requires broader thinking.

Start the conversations today that connects the finance function with other teams, not in traditional roles but as a collaborator in progress.

Financial vs operational

'Management reporting' carries the clear implication that the flow of information from the finance department should only be upwards but this attitude is distinctly limiting. The finance function should be sharing information across the organisation to add insight and intelligence to all operations.

Open up access to existing financial data to other functions and have the conversation about what data points would add value.

Step 3: Budgeting

Step 1 was about securing yesterday. Step 2 was about today's realities. Step 3 is about tomorrow. Using your improved data and free time, can you help the organisation better plan for the future?

Imposed vs shared

Too often budgets are handed down to departments and their leaders with little intelligence flowing in the other direction. A truly modern finance function takes a more collaborative approach, using systems to collect solid data on the future of different functions, products and services, and communicating with their owners to set realistic projections.

Even if your systems don't support a more dialogue-driven approach, start the budgeting conversation early and look to incorporate more views and better evidence for decisions.

Narrow vs range

Producing a single budget without modern tools is an onerous task. The idea of producing multiple scenarios would terrify some, yet much more flexible modelling is an inherent capability of modern finance systems. There will always be one budget but why shouldn't it be informed by the explanation of multiple 'what if' scenarios?

Ask the question of managers and other departmental leaders, "what key variables would you like to test in the budget?" You may not have the tools to answer the question today but the conversation will undoubtedly encourage valuable insight.

4 BARRIERS TO PROGRESS



Barriers to Progress

The journey to a truly modern finance function is unlikely to be a smooth one and most NHS organisations have a long way to travel. These are some of the common barriers we have identified through our experience working with the NHS:

Lack of capital for technology upgrades

Some organisations operate on spreadsheets as a primary financial tool because the capital simply hasn't been there for upgrades. Much of the time, this is because of a perception about the scale of the upgrade required. The tools of Corporate Performance Management (known as CPM software) require good data to operate so there is an assumption that a major investment is needed in an ERP system or data warehouse to feed the software the required data.

This isn't always the case. Though CPM systems may highlight weaknesses in data and feeds, it can increasingly operate as a repository in its own right rather than relying on external sources. The cost (and pain) of a basic CPM deployment may be a fraction of a large-scale ERP roll-out and is likely to deliver much quicker returns, which can be used to justify further investment.

Suggested solution:

Start with a specific application that has demonstrable ROI and match the investment in CPM software to solving this problem. The tools can then be expanded out to other challenges in the department.

Low buy-in to greater role for finance

The modern finance function can be seen as having an expanded role in the business, as its reach broadens to touch more departments and extends upwards towards the board. Though development of these capabilities should provide a platform for greater influence at the senior level, and perhaps a stairway for finance leaders to take the chief executive role, expansion should not necessarily be seen as the aim.

The modern finance function is powered by partnerships with different units across the organisation. In many organisations those relationships have not been developed and instead other operational teams have grown their influence.

The modern finance function can offer a great deal to other functions across the organisation in terms of insight and intelligence. The first step to enhancing finance's role is not to displace these other influences on the organisation but to empower them, demonstrating finance's role and its value.

Suggested solution:

Consider how the data you hold can be used to answer questions beyond the financial. If you can cut the lag in your data and improve the way it is published – even opening up analysis tools beyond the office of finance – you can start to demonstrate that finance is a partner rather than an adversary.

Poor relationship between finance and the rest of the organisation

The analyst firm, Forrester, also looks at the challenge of building a modern finance function and notes that collaboration is a key component of success. The traditional interactions between finance and the rest of the organisation don't exactly make for an easy, warm relationship. From budgeting through to expenses, finance is easily seen as more of a necessary evil than a valued partner.

Communicating added value is key to overturning these notions and that starts with understanding the challenges that other parts of the organisation are facing, ones that finance are uniquely equipped to solve.

Addressing this may require development in the finance team as a first step: building relationships and learning to extract the right information in order to be able to define the problem is a specific skill set.

Suggested solution:

With time freed up from automation, invest in some skills training for staff in financial planning and analysis, as well as good communications skills. Begin to open them up to the rest of the organisation as a problem-solving resource.

Lack of strategic focus

A truly modern finance function is closely aligned with the challenges and opportunities of the organisation. But not every organisation has a strong strategic focus against which to align.

Finding tactical opportunities to highlight cost risks, savings opportunities, operational weakness, or partner issues can start to build a pattern, demonstrating the value of added insight. Once credibility is established, the finance leader may be able to make a case to own strategic development and build out from there.

Suggested solution:

Use your new found data-confidence and partnerships across the organisation to begin to drive strategic direction. Solid foresight and scenario planning based on today's numbers should give you the tools to shape the conversation.

Where Are You Now?

Self-Assessment Questionnaire

Based on the aforementioned barriers and what you can learn along the journey, the route to developing a modern finance function is hard to define in advance. But the route you take will be strongly influenced by your current situation. Answer the questions below to help you develop an understanding of your current status and in the next section, define what the steps might be.

Smart Compliance

1. Financial data resides

- A) In our account system and in a collection of spreadsheets
- B) In a mixture of spreadsheets and specialist applications
- C) In our ERP system/data warehouse

2. Statutory reporting is completed

- A) Manually using spreadsheets
- B) Manually using specialist tools and templates
- C) Automatically from pre-defined data feeds

3. Management Reporting

- A) Is produced just before the close of the next period – a month out of date
- B) Distributed via spreadsheets and Word documents mid-month
- C) Arrives in standard form by working day 6 every month

4. Report Maintenance

- A) Reports are produced on spreadsheets by one or two key finance staff
- B) Reports are specified to analysts with a complex design/approval cycle
- C) Business advisers maintain & develop their own reports based on a common business model

Answers:

Mostly A: Automation is your first challenge. Pick one or two of the most onerous or high risk tasks and look for solutions that can automate the production of reports. Avoid specialist applications that might be a dead-end further down the line and choose general purpose CPM tools that can be configured to solve multiple problems in an integrated fashion.

Mostly B: Integration is the biggest issue here. Bringing together multiple functions in a single application will save time and money and increase your capabilities.

Mostly C: You're well on the way to a strong baseline for further development, with high-risk and high-cost tasks automated. Look for flaws in data quality feeds that could cause future issues, or redirect saved resources to more forward-looking challenges.

Operational Intelligence

1. Your finance function produces reports that are primarily

- A) About the previous month or longer
- B) About the previous week
- C) About the previous 24 hours

2. Who is the audience for your reporting?

- A) Primarily inside the finance function
- B) Management
- C) Sales, marketing and operations

3. Reporting is

- A) A requirement
- B) A means to explain how the business is progressing
- C) Evidence for improved decision-making, day-to-day

Answers:

Mostly A: You're at the start of your journey. Discovery is probably the biggest step right now: look to build new relationships across the business and understand what it is other departments may value from a more outwardly-focused finance function.

Mostly B: Finance is a management tool today but it can be much more integrated across the business. Look to see how the data you're already producing could be of value to other functions and how it might be presented in order to deliver that value.

Mostly C: You are clearly a long way into your journey. The next steps are about optimisation: finding new insights from the available data through increased speed, improved presentation and new links. Can you use this data to begin to predict changes?

Foresight

1. Budgeting is

- A) A top-down process
- B) An uncomfortable dialogue
- C) A collaborative process

2. Finance offers insight into

- A) Future revenue, costs and funding needs
- B) (A) plus future operational challenges
- C) (B) plus future market opportunities and customer behaviours

3. Finance's role in strategic discussions is to

- A) Provide historical evidence of performance
- B) Validate plans based on current performance
- C) Define and model future scenarios

Answers:

Mostly A: The finance function in your organisation isn't an active partner in development but rather a resource for critical but non-strategic activities.

Mostly B: Finance clearly has a role to play in your organisation's development but it isn't a leadership role. Greater insight into the data at your disposal will allow you to define the conversation and support the decision-making of a wide range of departmental leaders.

Mostly C: You have a leadership role in your organisation's development. The challenge is to ensure that your insights are robust and compelling. Look to how data is qualified and presented to ensure it tells the strongest story.

Next Steps for Your Organisation

Whatever point you find yourself on the journey, there is always room for progression. Consider these five factors:



Skills

Do you have the key talents in the function to achieve the development you desire? As noted, these are skills of communication to build relationships with other departments, systems thinking to drive automation, and planning & analysis to provide foresight.



Technology

Do you have the appropriate systems to store and analyse data, as well as automate key functions? Historically a large-scale investment in ERP has been the starting point but modern CPM systems are capable of acting as the repository for much of the required data, as well as offering automation, analysis and presentation tools.



Relationships

Do you have connections at the appropriate levels with other functions across the organisation? Without collaboration it is impossible to fulfil the promise of a modern finance function.



Position

How is finance valued within the organisation? As a strategic partner or a functional resource? Going beyond the historical and financial to look at future trends is key to establishing greater value.



Process

Do you have the fundamentals automated to minimise risk and maximise available resources? Repeatable tasks shouldn't be using valuable creative minds that could be re-applied to planning and analysis.

Conclusion

Building a truly modern finance function is a challenging exercise, with development needed in multiple dimensions.

The simple test we created for this paper will give you some idea of where you are today. From that point, it is important to create a vision and from that, a realistic roadmap. There's no point in defining an ultimate destination in too much detail - best practices are developing too fast. But from your vision you can define a direction of travel and know what to do first.

In this paper we have laid out suggested first steps across the three key transitions: making compliance smart, adding value with operational insight, and enhancing foresight with improved planning. Beyond these initial steps your response will likely be broken into five areas: skills, technology, relationships, position and process. Though skills, technology and processes can all be addressed inside the finance function, securing the budget and support for investment will be dependent on relationships with IT and management. If those relationships need to be developed first, then the starting point is to understand how finance is perceived in the organisation today.

At a time of increasing challenge, a modern finance function can be the foundation of a more dynamic and more sustainable NHS organisation. Good luck on your journey.

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.

Head Office

350 Burnhamthorpe Road W.
Suite 1000
Mississauga, Ontario
Canada • L5B 3J1

+1 (800) 387 5915
1 905 279 8711
info@prophix.com
www.prophix.com

United Kingdom

Davidson House,
The Forbury
Reading • RG1 3EU
United Kingdom

+44 (0) 118 900 1900
uk-info@prophix.com
www.prophix.co.uk

South America

Rua André Ampere,
153/7o andar
Novo Brooklin
04562-080 • São Paulo – SP
Brazil

+55 11 3583 1678
egallindo@prophixsouthamerica.com
prophix.com/es

DACH Region

Messturm
Friedrich-Ebert-Anlage 49
60308 • Frankfurt
Germany

+49 69 509 565 605
dach-info@prophix.com
www.prophix.de

United States

707 SW Washington St.
Suite 1100
Portland, OR • 97205
United States

+1 (800) 387 5915
info@prophix.com
www.prophix.com

Europe

Sankt Knuds Vej 41
1903 • Frederiksberg C
Denmark

+45 7023 2375
+45 2241 1108
europe-info@prophix.com
www.prophix.com/dk

South America

Av. Marechal Câmara,
160 – Cj 932
Centro
20.020-080 • Rio de Janeiro – RJ
Brazil

+55 21 3094 3900
egallindo@prophixsouthamerica.com
www.prophix.com/br