



davidbaileyfcca
finance development consultancy

The Board's Role in Financial Control

Board Development
20 February 2012

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The Board's Role in Financial Control Objectives

- By the end of the workshop you will be able to:
 - Communicate effectively with finance
 - Interpret annual and management accounts
 - Contribute to Board finance discussions

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The Board's Role in Financial Control Programme

- Financial jargon
- The three methods of accounting
- Annual accounts and management accounts
- Roles in financial control
- Questions to ask a Director of Finance.

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Jargon

- Words or expressions developed for use within a particular group, hard for outsiders to understand and sounding ugly

Origin: An Old French word for the twittering and chattering of birds

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What are Budgets?

- Budgets are financial and/or quantitative statements, prepared and approved prior to a defined period of time, of the policy to be pursued during that period for the purposes of attaining given objectives.

CIMA Definition

- Financial
- Staffing
- Activity

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What do the Management Accounts Mean?

National Health Service Trust Cost Centre: 020165				Medical Directorate Budget/Expenditure Report for the 08 Months to 20th November 2012									
Funded	Contract	Actual	No	Subjective	Annual	Next Year	Current Month	Year to date		YTD Var			
rate	rate	rate		Description	Budget	Plan	Budget	Expend	Expend	Variance	Pror.Prc		
PAY													
				0070 Visiting Factor	8,762	8,762	730		-8,841	8,841	6,111		
1.00	1.00	1.00	0022 Grade D Nurse	24,170	24,170	2,015	2,158	16,117	17,220	1,113	1,004		
3.00	3.00	1.80	0023 Grade F Nurse	42,251	42,251	3,528	3,101	28,221	25,237	-2,984	-4,488		
6.00	6.00	6.00	0024 Grade E Nurse	135,897	135,897	11,325	11,465	90,368	91,960	1,592	1,262		
8.80	7.80	7.80	0025 Grade D Nurse	141,224	141,224	11,700	10,671	96,148	82,882	-11,266	-4,772		
6.12	7.80	7.80	0026 Grade A Nurse	75,125	75,105	6,259	7,287	50,070	56,844	6,874	6,015		
0.41	1.80	0.00	0040 Bank Nurse	7,000	7,000	588	2,051	4,700	17,281	12,991	10,991		
1.00	1.00	1.00	0462 ASC/Grade 2 Ward Clerk	10,210	10,210	1,020	1,024	6,211	6,032	-179	-107		
				1052 Agency Nursing Staff	-	-	-	-	6,795	6,795	15,919		
25.53	25.60	27.32		PAY TOTAL	429,237	429,237	35,778	38,737	238,228	258,428	18,924		
NON PAY													
				4000 Processors	2,120	2,120	170	441	1,424	3,828	2,104		
				4100 Uniforms - Disposable	345	345	29	24	220	165	-51		
				4300 Drugs - Imports Issues	84,372	84,372	7,031	6,606	60,248	62,868	-3,340		
				4600 Cleanings - General	620	620	52	61	410	462	42		
				4600 Medical Equipment	16,000	16,000	1,321	962	10,897	13,839	3,172		
				4700 General Appliances	159	159	17	12	123	27	-106		
				5300 Domestic Cleaning Materials	103	103	9	7	69	44	-25		
				5301 Domestic Cleaning Equipment	89	89	7	12	69	120	61		
				5410 Building - EquipMnt	12	12	1	109	6	887	859		
				5500 Hotel/Bar - Kitchen Equip	32	32	1	14	6	60	52		
				5600 Textiles - Disposable	996	996	50	70	387	578	181		
				5900 Office Equipment	511	511	48	79	381	521	173		
				5940 Printing & Stat	375	375	31	21	250	168	-82		
				6180 In-house Expenses	282	282	22	-	220	2,029	1,771		
				8301 CH - Lab Equipment	504	504	42	42	359	354	-2		
				8400 Staff Advertising	621	621	17	874	626	528	-108		
				7508 HSDU	6,747	6,747	479	608	3,831	-33	-3,864		
				NON PAY TOTAL	112,883	112,883	8,418	8,970	79,329	78,170	841		
25.53	25.60	27.32		GRAND TOTAL	542,120	542,120	44,196	47,707	317,557	336,600	19,748		

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The Three Methods of Accounting

Method	£ in	£ out
Cash	Receipts	Payments
Accruals	Income	Expenditure
Commitments	Committed income	Committed expenditure

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Accounting for Income and Expenditure

- **Income**
 - You must account for income in the period when the service or goods were provided
 - If the cash has not been received yet, then raise a debtor / receivable
- **Expenditure (Revenue or Capital)**
 - You must account for expenditure in the period when you receive the goods or services
 - If the cash has not been paid yet then raise a creditor / payable

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Accruals & Prepayments Example 1

- You ordered some equipment in December costing £500
- The equipment was received in March
- An invoice was received and paid in April

At 31st March
Expenditure in year of £500.
Creditor/Payable at the year-end of £500.

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Accruals & Prepayments Example 2

- You ordered some equipment in December costing £500
- The equipment was received in March
- An invoice was received and paid in March

At 31st March
Expenditure in year of £500.
No Creditor/Payable as fully paid at year-end.

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Accruals & Prepayments Example 3

- You carried out a home treatment initiative for a neighbouring PCT in February and March for £10,000
- The invoice was raised in April and the PCT paid in June

At 31st March
Income of £10,000 in the year.
Debtor/Receivable of £10,000 at the year-end.

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Accruals & Prepayments Example 4

- You hired a conference hall and course facilities to be held for two weeks in May
- This was invoiced and paid in advance in early March

At 31st March
No Expenditure.
Debtor /Receivable at the year-end.

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Capital Expenditure Definition

- The NHS Capital Accounting Manual defines Capital as:
 1. An item or group of items costing over £5,000.
 2. With an expected life in excess of 1 year.
 3. The purchase of an asset for use in the organisation and not acquired for resale.

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Accountability: Probity: Openness

“In essence, I am responsible for the propriety and regularity of public finances in the NHS; for the keeping of proper accounts; for prudent and economical administration; for the avoidance of waste and extravagance; and for the efficient and effective use of all the resources in my charge.”

Nigel Crisp - (Now Former) NHS Chief Executive

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How is Financial Control Exercised?

- By the Board?
- By Managers?
- By Finance?

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The Board's Responsibilities in Financial Control

- Where do you find out what they are?
 - Accountable Officer Guidance
 - Treasury and NHS Financial Directions
 - Codes of Conduct and Accountability
 - Corporate Governance Guidance
 - Standing Orders and Standing Financial Instructions
 - Scheme of Delegation and Reservation

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NEDs' Responsibilities in Financial Control:

- Agreeing an overall financial strategy
- Approving:
 - Annual Service and Spending Plans
 - Capital investment programme
 - Business cases for major capital schemes
 - Mergers and acquisitions
- Monitoring financial performance
- Ensuring corrective action is taken
- Formally adopting the Annual Accounts
- Seeking assurances through the Audit Committee on the integrity of internal financial systems and controls.

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The Ultimate Purpose of NHS Finance:

- Either:
 - “To ensure rigorous financial control is maintained, and value for money for the taxpayer achieved, by the implementation of policy, the distribution of formal monitoring reports and by the maintenance of strict discipline amongst budget holders.”
- Or:
 - “To provide professional financial information and advice to managers and clinicians to enable them to provide better care to patients, clients and service users.”
- Which is it?

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The Four Financial Statements in Annual Accounts

- Annual Accounts = Statutory Accounts
= Final Accounts
= Year-End Accounts
- 4 main statements:
 1. Comprehensive Income
 2. Financial Position
 3. Taxpayers' Equity
 4. Cash Flow
- And lots and lots of notes...

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Statement of Comprehensive Income

Oxford Health NHS Foundation Trust 2010/11

Operating Income (£M)	176
Operating Expenses	(166)
Operating Surplus	10
Net Finance Costs	(5)
Surplus for the financial year	5

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Statement of Financial Position

Oxford Health NHS Foundation Trust 2010/11

Non-Current Assets (£M)	113
Current assets	33
Current liabilities	(19)
Non-current liabilities	(15)
Total assets employed	112
Total Taxpayers' Equity	112

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Statement of Changes in Taxpayer's Equity

Oxford Health NHS Foundation Trust 2010/11

Taxpayers' Equity at 1 April 2010 (£M)	107
Total Comprehensive Income for the year	5
Taxpayers' Equity at 31 March 2011	112

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Statement of Cash Flows

Oxford Health NHS Foundation Trust 2010/11

Operating Surplus	10
Non-cash income and expense	5
Cash from operations	15
Cash from investing	(5)
Cash from financing	(5)
Increase in cash	5
Cash at 1 April	12
Cash at 31 March	17

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Financial Failure A Case Study

- April 2002 forecast 2001/02 deficit £1m
- July 2002 advised SHA £2.7m
- A few weeks later the FD says £6.2m
- Meanwhile... in 2002/03:
 - December £11.6m
 - January £15.1m
 - February £24.7m
 - March £44.3m

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Financial Failure The Causes - Case Study

- High level of reserves
- Income inflated to cover unachieved cost savings
- No evidence Director of Finance was subject to challenge at executive level
- Reports over-complex and detailed
- Over-optimistic forecasts
- Significant risks not recognised in budget setting or financial monitoring

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10 Questions to Ask a Finance Director 1 of 2

1. What are the main reasons for any deviation from financial plan?
2. What are the main risks to the organisation meeting its financial targets?
3. What action needs to be taken to address any deviations and potential risks?
4. What level of contingency reserve does the Finance Director have to deal with any emergencies?
5. What is the Trust's liquidity position and how does this relate to the reported I&E position?

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10 Questions to Ask a Finance Director 2 of 2

6. Why has the debtors/creditors figure changed?
7. What action has been taken to reduce debtors and improve cash flow?
8. What are the main risks to long term financial stability?
9. How do the Trust's costs and performance compare to other similar trusts?
10. What steps are being taken by management to improve performance/efficiency?

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Achieving and Maintaining Financial Balance Audit Commission Report - "A Healthy Balance"

- Is there a culture of financial awareness and responsibility?
- Does the Board lead by example?
- Is there a strong working relationship between the CE and FD?
- Do long term plans exist, are they supported by robust financial plans, do they reconcile with the health economy?
- Are annual budgets realistic and achievable, do they align with forecasts of clinical activity?
- Are there incentives within the budgetary system?
- Is there a system of effective internal financial control?
- Are CIPs targeted on the areas of greatest opportunity?
- Is financial monitoring information adequate?

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