



davidbaileyfcca  
 finance development consultancy

**Finance Masterclass**  
 Provider Excellence Programme

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### PEP - Finance Objectives

- By the end of the workshop, you will be able to:
  - Use NHS finance terminology to communicate effectively with finance.
  - Make coherent financial and economic cases for new ways of working.
  - Lead change by confidently identifying the effects of service transformation.

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### Finance and Economics- Jargon and Concepts - Programme

- Financial and Economic consequences of new ways of working
- Leading change within the health economy
- Dealing with strategic, political and organisational demands
- Service Transformation - costs and consequences
- Being effective at Board level
- Questions to ask your 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

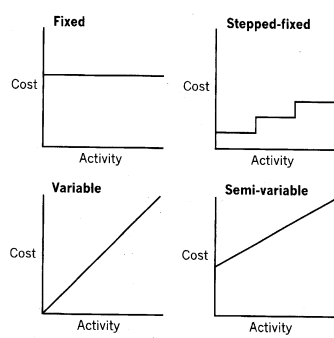
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### Finance and Economics

<p><b>Finance</b></p> <ul style="list-style-type: none"> <li>• This year / next year</li> <li>• Income and Expenditure</li> <li>• Including only costs to the organisation</li> </ul> <p>“Can our organisation afford it?”</p>	<p><b>Economics</b></p> <ul style="list-style-type: none"> <li>• 60 years</li> <li>• Total discounted cash flow</li> <li>• Including all costs to the Public Sector</li> </ul> <p>“Is it in the best interests of the Public Sector?”</p>
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### Cost Behaviour



- Cost Behaviour
- The way in which total costs change with activity

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### Avondell v Bathpool

Unit Costs £ = Total Cost £ / Total Activity

Total Cost £ = Total Fixed Cost £ + Total Variable Cost £

Total Variable Cost £ = Unit Variable Cost £ x Total Activity

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### Changing the Financial Equation

Under Payment By Results

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### Full Cost v Marginal Cost

**Full Cost**

- The total cost of providing a service including all the costs.

**Marginal Costs**

- The extra costs of providing one extra unit of service at the upper margin of activity assuming there is spare capacity.

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### Cost Structure

Patient Care

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### Finance and Culture

- What do we mean by the financial culture of an NHS organisation?

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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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### 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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