

How Service-Line Reporting can improve the productivity and performance of NHS foundation trusts

NHS foundation trusts were created to ensure that local accountability was the driver behind quality and productivity in hospitals. The recent annual health check demonstrated that NHS foundation trusts lead the NHS in the levels of productivity and quality of service they deliver. Monitor is committed to supporting and building on this positive record of achievement.

Accurate financial reporting is a vital part of improving performance: it enables resources to be allocated efficiently to ensure the highest quality outcome for patients and helps identify the highest priority areas for improvement.

To be effective, financial reporting and the associated systems for improving performance need to involve both the clinicians and managers who make the decisions that drive productivity. Since these are generally organised around a portfolio of services, providing greater financial transparency and autonomy for specific service-lines is a prerequisite for engaging clinicians and managers.

To facilitate this, Monitor has been developing the concept of Service-Line Reporting (SLR). SLR helps trusts develop a better understanding of the operational and financial performance of their various services and hence improve their strategic and clinical decision-making. Further information on implementing and using SLR can be found in two documents published by Monitor, the *Guide to Developing Reliable Financial Data for Service-Line Reporting* ("the Guide") and the *Toolkit for Presenting Service-Line Reporting Data* ("the Toolkit").

What is SLR?

SLR measures a trust's profitability by each of its service-lines, rather than just at an aggregated level for the whole trust. While the NHS foundation trust financial regime has focused on the management of overall profitability of the whole trust, at service-line level most trusts have continued to monitor cost, income, activity and use of resources separately. This has prevented clinicians and managers from understanding the overall actual profitability of their service, what drives profitability, or what impact different decisions have on profitability.

The importance of financial transparency to productivity and quality

The goal of NHS foundation trusts is to deliver high quality care and a dignified patient experience within the financial resources available. Good stewardship of resources promotes effective, high-quality care, since it allows NHS foundation trusts to focus resources where they can make the greatest difference to patient care. Effective financial governance is also needed to ensure a trust's financial viability and to provide a sufficient surplus to invest to meet future healthcare needs. Understanding financial performance helps a trust to set goals, prioritise actions to be taken and make tradeoffs in the resource allocation choices that underpin clinical and managerial decisions.

Delivering quality and productivity must be led by clinicians and managers aligned behind a clear set of goals. For these goals to be realised, operations, management practices and capabilities need to be in place.

Why service lines?

NHS foundation trusts are organised around a portfolio of services, each with their own distinct set of patients, medical conditions treated and clinical leaders. In business terms, the service line is the natural "business unit" of the hospital - a distinct unit with identifiable customers, products, revenues and costs that is run as an independent business with its own income and expenditure. Managing service-lines well enables effective delegation of accountability to a unit of a size and scale that is manageable for developing strategy and driving performance. Thus it is the primary means through which a trust can drive improvement. In effect, each service-line could be thought of as a "mini-foundation trust" with autonomy for managing its own performance within an agreed set of goals and risk management practices. This enables clinicians to become true leaders of the service with the autonomy and accountability to deliver quality and productivity.

Enabling effective service-line management requires good leadership at service-line level, a clear strategy for the goals that the service will achieve, effective operational planning and budgeting through which annual targets are set against all key metrics, effective financial controls for delivering against plan, and effective operational performance management. A critical gap to enable this model to operate has been the absence of meaningful information on profitability at the service-line level. It is this gap that we have focused on addressing.

What benefits will SLR bring?

SLR enables a trust to increase its productivity by providing board members, clinical leaders and managers with the necessary financial information to:

- Make informed decisions, for example, on how to manage an existing portfolio of services, prioritise new service developments or plan new clinical investments.
- Manage performance on an annual and monthly basis against agreed levels of financial performance at the service-line level

NHS foundation trusts continue to face challenging strategic decisions about the increasingly complex services they provide. These choices include how to allocate new investment capital across directorates and service-lines and how to prioritise cost improvement initiatives that may affect different services to different degrees. Increasingly, NHS foundation trusts may consider acquiring other providers. In the due diligence process that is undertaken during the strategic and financial evaluation

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of any acquisition, effective appraisal of service-line data will directly influence the outcome of any such enterprise. Having established a system to track and report SLR within a trust, the same methodology can be applied to a potential acquisition, allowing the comparison of competing or complimentary service-lines which will add to the overall picture of desirability or viability of any transaction. NHS foundation trusts may also need to take other strategic decisions where a thorough understanding of the financial performance of service-lines is critical. These decisions may relate to the acquisition of new services (as distinct from a whole service provider) from other providers or indeed transferring out existing services. In all these cases, an understanding of the contribution that each service-line makes to a trust's overall financial position helps inform better decision making, whether it be expanding an efficiently run service that is making a significant contribution to a trust's surplus, investing in a service that runs at a deficit but is viewed as a strategic priority, or seeking to negotiate with commissioners about loss-making services.

SLR can also help guide the annual planning process that an NHS foundation trust uses to set its budgets. If a trust understands the current margin of contribution that a service-line makes towards the overall financial position, it can vary budgets to reflect over or under activity in a specific service and can set targets for operational improvement. This helps clarify questions over whether any overspend is caused by inefficiency or simply by unexpected activity and it makes it easier to relate performance improvement goals to financial targets.

SLR has proved that it can form the basis for effective operational improvement in individual service-lines. NHS foundation trusts that have identified services within their portfolio with the scope to increase efficiency can use service-line financial reports as the tool for measuring and managing the delivery of these improvements and for communicating the goals and the progress made to clinicians and managers. This approach is particularly powerful when service-line financial performance is linked to important operational factors, such as length of stay or the cost of consumables.

"If I understood the profitability of each procedure, my surgeons could make more informed decisions and change their behaviour accordingly." – *Medical director of an SLR pilot trust*

The Department of Health has indicated that it will use reliable SLR data to help inform future tariff setting. This means that those trusts that can demonstrate accurate costing data are likely to be in a strong position to influence future PbR income streams.

Benefits of SLR in practice

Monitor has worked with pilot trusts to develop and test a set of tools to measure the performance of service-lines (especially revenue and surplus), to identify which service-lines are profitable and which are not. For example, the Portfolio Matrix, one of the reporting tools developed and tested by Monitor via the work with pilot trusts and included in the Toolkit, plots profit margin against the relative size for all of a trust's service-lines on a single page (Figure 1). This will help trusts set priorities and develop effective commercial and operational strategies. A further tool, the Cost Matrix, will help trusts drill down to identify and address the key drivers of cost within a service-line.

"This work is incredibly important for all of us... we used to make decisions on the basis of who shouted the loudest. That will not happen any more; now it must all be evidence-based." – *Chief executive of a trust that piloted the introduction of SLR*

SLR has been widely implemented in several other healthcare systems around the world. Mindful of this, Monitor discussed the experience of implementing and using SLR with leading hospitals in Germany, New Zealand, Norway, the US and Canada. In all these countries, SLR has provided a basis for greatly improved strategic planning and has introduced greater levels of efficiency into healthcare systems and has led to an overall improvement in the general quality of care and patient experience. Additionally, within the UK, SLR is also used as a guide to performance and efficiency by independent sector providers. It forms the basis for regular operational improvement discussions at a number of Independent Sector Treatment Centres.

How can SLR be implemented?

To realise SLR's full potential, it must be deeply embedded within management processes and promoted throughout the trust. Board members, managers and clinicians must all understand the implications of service-line data and be able to use the information to prioritise resources and make informed decisions. SLR is not an exercise in generating numbers and reports simply for their own sake.

The Guide and Toolkit provide step-by-step information on how to implement SLR within a trust. They draw on lessons from recent, successful pilot projects in three trusts as well as international best practice. The documents describe the steps necessary to implement SLR and provide in-depth advice on the two biggest areas of change:

How Service-Line Reporting can improve the productivity and performance of NHS foundation trusts (continued)

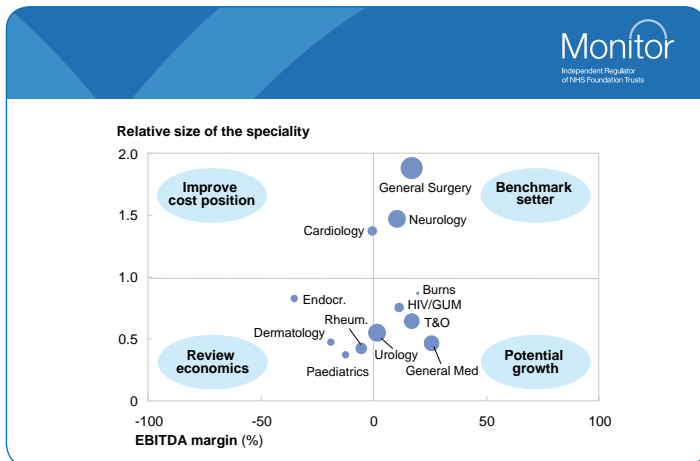


Figure 1: The Portfolio Matrix reporting tool helps you set priorities and develop strategies across a trust's whole set of services

- The Guide describes seven steps to enable a trust to generate service-line profitability figures and provides support materials, practical insights from pilots, and time and resource requirements for each step.

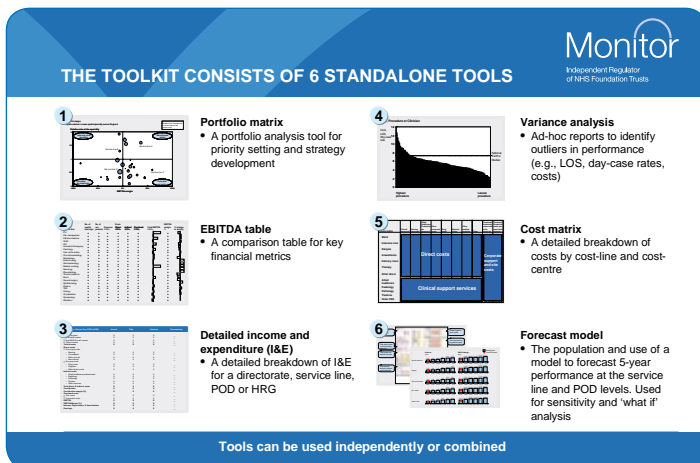


Figure 2: The toolkit of six reporting tools

- The Toolkit comprises six reporting tools (including the Portfolio Matrix and the Cost Matrix mentioned earlier – see Figure 2), that will help develop service-line information reports and suggest how they can be best used and customised to suit a trust's needs. The Toolkit also illustrates how to combine these tools to create a 'toolkit journey' and provides an example work plan on how to implement the toolkit in a trust.

Monitor believes that most trusts can implement SLR at some level immediately. More importantly, the pilot studies show that SLR's benefits can begin to be realised within three months.

The experience of hospitals outside the UK that have implemented SLR show that their systems benefit from continuous dynamic improvement. Hospitals in both Germany and the US have noted that the best way to ensure high quality data was to implement SLR quickly and comprehensively and share the preliminary results with its prospective users – clinicians and managers – without delay. Thereafter through informed decision making and iterative testing and challenge (especially clinical), the financial robustness of the data was refined and improved ensuring that the final outputs were commercially extremely valuable. Paradoxically, waiting to develop and refine a perfect SLR solution before releasing it more generally within the hospital community was not as effective either in obtaining initial buy-in from staff members or in generating consequential high quality results. In all cases, it was concluded that involving clinicians in the SLR process by allowing them to review preliminary outputs had greater impact and lasting benefits if done at an earlier rather than a later stage.

"This has to come from the top: people need to be aligned and incentivised... [the Guide] is a great starting point but it is evolutionary and we may customise this over time"

– Finance director of an SLR pilot trust

Commenting on the productivity improvements that SLR can bring, Dr. William Moyes, Chairman of Monitor said:

"For any NHS foundation trust, extracting this information should be seen as a natural progression for effective boards who want to understand how their businesses are developing. We are confident that any additional requirements and increased costs required to deliver service-line economic forecasting will be greatly offset by the corresponding gains in profitability and service quality."

During the development phase of SLR, Monitor has been in extended discussions with a number of leading accounting and auditing firms about both the benefits of the structure and how best SLR might be implemented at a trust level. Clearly when seeking to introduce change, it is critical that a broad constituency of stakeholders is consulted and asked to contribute to the overall debate. To this end, several accounting and auditing firms have been involved in various SLR discussions and are very well-positioned to offer advice and guidance to individual NHS foundation trusts regarding SLR.

Monitor therefore strongly recommends that any NHS foundation trust wishing to implement SLR contact either their existing auditors or professional advisers.

FURTHER INFORMATION: The Guide and Toolkit are available from **Monitor** (www.monitor-nhsft.gov.uk)



Monitor

Independent Regulator
of NHS Foundation Trusts

4 Matthew Parker Street
London SW1H 9NL

T: 020 7340 2400

W: www.monitor-nhsft.gov.uk

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Publication code: IRBP 01/06

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