Financing of Hospitals

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New developments in the world of hospital trusts

- The emergence of 'Foundation Hospital Trusts' with more financial freedoms
- Purchasing of healthcare from trusts on the basis of standard national tariffs for defined Healthcare Resource Groups (HRGs)
- Greater involvement of private and foreign healthcare providers

Hospital Funding – Who makes the budget? How is it made? Who funds it?

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Some background

- The National Health Service is financed almost wholly from public taxation
- The Government decides the overall level of national health funding
- Revenue expenditure funding is mainly allocated, on a formula basis, to Primary Care Trusts, who purchase primary and secondary health care for the population they serve
- Secondary care and specialist hospital care are purchased from hospital trusts
- Capital expenditure funding is allocated direct to hospital trusts or to the Strategic Health Authorities
- 3-yearly notification of capital and revenue allocations

Hospital Funding – Who makes the budget? How is it made? Who funds it?

Respective roles in approving the hospital budget

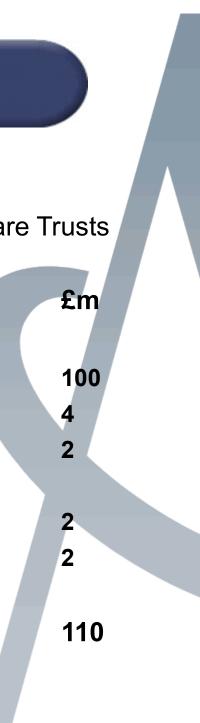
- Trust Director Of Finance co-ordinates budget bids from Trust Departments
- Department of Finance recommends revenue budget to Trust Board
- Trust Board approves budget
- Strategic Health Authority oversees overall budget position of all trusts and Primary Care Trusts in Strategic Health Authority area, e.g. in Greater Manchester

Hospital Funding – Who makes the budget? How is it made? Who funds it?

Setting the revenue budget is largely incremental

- Hospitals make the bid to commissioners, the Primary Care Trusts e.g.
 - > 'Standstill' budget comprising:
 - last year's budget
 - Increased for inflation
 - > Full year effects of developments in previous year
 - Cost of new developments in year
 - Cost of meeting Government's NHS Plan targets

Initial bid



Hospital funding - Who makes the budget? How is it made? Who funds it?

- The Primary Care trust:
 - Reviews trust bid in the light of its own allocation from Government
 - > Agrees to fund, say, £107m
 - Requires the trust to make savings of £3m
- Strategic Health Authority
 - > Arbitrates where trust and PCT cannot agree

Monitoring performance against the budget

- Budget responsibility delegated to budget holders in Departments
- Budget performance overseen by Director of Finance
- Monthly budget monitoring reports presented to the Board
- Trust submits monthly budget return to Strategic Health Authority, outlining:
 - Actual performance against budget for that month, and cumulatively
 - > Projected surplus or deficit at the year end
- Strategic Health Authority holds individual trusts to account for performance, and is accountable to the Department Of Health for overall budget position in Strategic Health Authority area

External Audit Role – Individual Hospitals

Financial Aspects of Corporate Governance

- Financial standing
 - Compliance with statutory financial requirements, and financial targets
 - > Financial monitoring and reporting arrangements
 - Impact of policies and developments on Trust's financial position
- Systems of internal financial control
 - > Overall control environment, including internal audit
 - > Budgetary control and monitoring arrangements
 - Management of financial risks

External audit role – individual hospitals

The Accounts

- Do the accounts:
 - Give a true and fair view of the financial position, and the year's income and expenditure
 - Comply with relevant legislation and accounting standards

External audit role – Regionally & Nationally

Regionally

 The Strategic Health Authority auditor reviews the Authority's management of financial performance of all trusts and Primary Care Trust in the area

Nationally

- The Audit Commission builds up a picture and reports nationally on performance issues in the National Health Service, including financial performance
- The National Audit Office audits the consolidated accounts of the National Health Service

What happens if the hospital trust budget is overspent?

Within the National Health Service:

- Trust Board receives reports and agrees corrective action
- Strategic Health Authority may require formal recovery plans
- Trusts in deficit have a duty to break even over 3 financial years
- In serious cases the Secretary of State for Health can intervene:
 - Special measures and targeted support
 - > Bring in new hospital management

What happens if the hospital trust budget is overspent?

Possible action by the external auditor

- Issue reports to the Trust, and make recommendations
- Report in the annual audit letter
- Require a note in the Trust's annual financial accounts

.....in more serious cases

- Report to the Secretary Of State
- Issue a Public Interest Report