



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

£m

100

4

2

2

2

110

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