ITEM: 08/154
Doc 10

MEETING:	Trust Board 15th October 2008

TITLE:	Service Line Management - Implementation

SUMMARY:

This paper describes a draft proposed operating framework for the full implementation of Service Line Management – using service line reports to manage business units within the organisation.

1) The Trust has been producing quarterly service line reports since the start of 2008/09. The focus until now has been on improving data quality and developing service line reports. The focus will now shift to the roll-out of SLR and using it to develop the business. It is intended that the proposed operating framework will continue to develop and be amended as the Trust gains experience of using SLR. It is proposed that the overall success of the initiative will be monitored by the Trust Board, who will undertake a formal review after six months.

2) It is proposed that service lines are set a target contribution margin based on total income and expenditure excluding overheads for the year which may be set based on past performance, taking into account known factors that are not within the control of the service line. The intention is to incentivise and encourage service lines to achieve at least the target set and will mean that not all surpluses will be available in the first instance for reinvestment. It is likely that the Trust will always plan for a surplus and this too will form part of the target.

3) A process for making available funds from surpluses over and above the target position will be formulated by March 2009 and brought to Trust Board for approval, but this must be in conjunction with an equal and opposite process for those service lines whose performance is below their target position.

4) The financial position of the service line based on SLR will form only one strand of the overall performance management framework. The principle on which this framework is based is one of earned autonomy. It is suggested that each service line be categorised as green, red or amber based on their overall performance. This categorisation will determine the frequency and level of monitoring, and the level of autonomy.

5) Suggested principles of earned autonomy and a draft proposed framework are set out in section 3.3.1.

6) The proposed financial governance framework would allow directorates to retain, for investment, 50% of the value of contribution above their target up to a limit of £250k. Retention of surplus above this will need to be agreed with the Executive.

7) Recurrent investment would require a clear demonstration of favourable future year performance levels.

Also included in Appendix 3 is a report produced by an independent consultant on the implementation of SLR at the Whittington.

ACTION:	For information / discussion

REPORT FROM:	Fiona Elliott, Director of Planning and Performance Tim Jaggard, Deputy Director of Finance

SPONSORED BY:	Richard Martin, Finance Director

Financial Validation Lead: Director of Finance	N/A

Compliance with statute, directions, policy, guidance Lead: All directors	**Reference:** Department of Health and Monitor Recommendation

Compliance with Healthcare Commission Core/Developmental Standards Lead: Director of Nursing & Clinical Development	**Reference:**

Compliance with Auditors' Local Evaluation standards (ALE) Lead: Director of Finance	**Reference:** Contribution to Financial Management element

Compliance with requirements of FT application and monitoring regime Lead: Director of Strategy & Performance	**Reference:** Appendix C3

1. Introduction

The Board is reminded that the objectives of Service Line Management (SLM) are to:

- Understand the performance of the Trust's business units as reported in Service Line Reports (SLR) (service lines are broadly based on the existing specialty structure within the organisation)
- Improve the allocation of resources to facilitate improvements in outcome and quality of care
- To focus on productivity gains to help create surpluses for reinvestment
- To improve clinical engagement in business planning and financial management

This report updates the Board regarding SLR at the Whittington and includes a proposed operating framework for discussion.

2. Update

The Trust has been producing quarterly service line reports since the start of 2008/09. These are driven from the Trust's Patient Level Information and Costing System (PLICS). The focus until now has been on improving data quality and developing service line reports. The focus will now shift to the roll-out of SLR and using it to develop the business. It is intended that the operating framework, proposed below, will continue to develop and be amended as the Trust gains experience of using SLR. It is proposed that overall success of the initiative will be monitored by the Trust Board who will undertake a formal review after six months.

The Trust intends to fully roll-out service line reporting from 1st April 2009. Arrangements are currently being developed to ensure that accurate information can be produced on a timely basis to support this. Workshops to train general managers, business managers and divisional accountants in the use of the framework are planned for March.

3. Proposed Operating Framework

Service line reporting has three main functions. Firstly it allows the organisation to see the high-level financial performance of different parts of the organisation by comparing the cost of those individual parts with the income that they generate. This element is a reporting function, providing management information in a different and useful way.

Secondly, through PLICS, it allows the organisation to drill-down into patient-level information to help understand service line performance. This will assist service lines in improving productivity – for example by identifying variations in clinical practice within a single type of patient.

Lastly, SLR enables different parts of the organisation to be viewed as financial entities in their own right by harnessing the incentives which accrue from providing these service lines with the freedoms, flexibilities and structures that are available to business enterprises. It is this second function which requires a clear financial and governance framework in order that the risks which accompany such a system are managed and understood.

3.1 Financial reporting

Each service line will be monitored through service line financial reporting. This means that service lines will be viewed as business units in their own right, with each service line having an appointed operational manager and clinician. The key elements of this reporting process are as follows:

- Externally generated income will be allocated to service lines and performance against planned income will form part of the performance framework
- Direct and indirect costs are reported in each service line based upon the actual costs that patients incur (e.g. theatre costs, pathology tests, imaging test, ward hours, medical staffing time)
- Performance will be assessed using 'contribution' – that is, total income less direct and indirect costs
- Overheads will be apportioned and allocated as appropriate to give a bottom-line position. However, performance will not be measured against this bottom-line profit or loss
- Overhead department costs will be allocated to service lines, and so will have an overall trading position of zero
- Departments that are both support departments and direct fee-earning departments (e.g. pathology) will have both income allocated and recharges to other departments. This is currently achieved by reporting Direct Access as a separate service line.

There will be no actual internal trading between departments, but costs of each department are allocated as part of PLICS. No internal invoicing or internal credits will be raised.

3.2 Trading profit and loss

The introduction of SLM will show some service lines in a profit or loss situation. A loss might be caused by a number of factors:

- low efficiency or productivity
- a declining market for services
- a national tariff which is too low
- under funding of non-payment by results services
- incorrect apportionment of income or overheads

Conversely a profit is not necessarily an indicator of good performance for the same reasons.

One of the purposes of SLR is to highlight these issues and address them and it is recognised that not all issues are (i) within the service line's control or (ii) can be dealt with in a short period of time. However the analysis will allow the Board to focus its attention on those areas based on an informed analysis.

Any correction required to the apportionment bases (for example, refining the assumptions around how medical staff time is split between patient types) will be actioned in the PLICS costing system and will show in the following month's reports.

It is proposed that service lines are set a target contribution margin based on total income and expenditure excluding overheads for the year which may be set based on past performance, taking into account known factors that are not within the control of the service line. The intention is to incentivise and encourage service lines to achieve at least the target set and will mean that not all surpluses will be available in the first instance for reinvestment. A process for making available funds from surpluses over and above the target position will be formulated by March 2009 and brought to Trust Board for approval, but this must be in conjunction with an equal and opposite process for those service lines whose performance is below their target position.

3.3 Performance management framework

The financial position of the service line based on SLR will form only one strand of the overall performance management framework. The principle on which this framework is based is one of earned autonomy. It is suggested that each service line be categorised as green, red or amber based on their overall performance. This categorisation will determine the frequency and level of monitoring, and the level of autonomy.

3.3.1 Suggested principles of earned autonomy:

- Autonomy levels will be determined on a quarterly basis by the Executive Team
- All directorates will start at Amber in Year 1
- In subsequent years the monitoring status will carry over based on the previous year's performance (even though the target in the new year will be different and potentially more challenging)
- The introduction of autonomy also requires good communication at all times with finance – for example a 'green' directorate may be wishing to vire resources from one budget to another – this will require full communication with the finance department to ensure the correct operation of these financial processes
- The introduction of autonomy does not change any of the principles of good financial governance. Financial procedures are not changed by this process and the Standing Financial Instructions and Standing Orders are not affected
- Certain decision-making and responsibilities will be retained by the Executive and Board and these will be clearly specified. Examples will include appointment of consultants, agreement of the capital programme and agreement of service developments over a certain value.

A draft proposed framework is set out in the table below:

	Definition	**Monitoring Status**	**Autonomy Levels**
Green	Above target contribution margin and other key performance metrics, with performance improving	Quarterly monitoring with executive	• No BPG approval required • Devolved capital budget • Virement allowed between • budgets (e.g. pay and non-pay) • Directorate to which the service line belongs can approve business cases that are consistent with the scheme of delegation (to be developed)
Amber	Contribution margin and other key performance metrics are approximately equal to target **or** below target but performance improving significantly	Monthly monitoring	• BPG/EC approval required • No devolved capital budget • Virement allowed between budgets (e.g. pay and non-pay)
Red	Below target contribution margin and key performance metrics	Recovery action plan required. Fortnightly monitoring	• BPG/EC approval required • No devolved capital budget • No virement allowed between budgets (e.g. pay and non-pay)

3.4 Proposal for dealing with surpluses and deficits

As set out above, a surplus or deficit may arise for a number of reasons. Therefore each service line will have a contribution target taking into account the overall needs of the Trust (e.g. to cross-subsidise other areas that may have deficits, at least in the short term, or accumulated debt). Therefore a surplus may not available for spending or investment. However, the proposed financial governance framework would allow directorates to retain, for investment, 50% of the value of contribution above their target up to a limit of £250k. Retention of surplus above this will need to be agreed with the Executive.

In-year this resource will be available for investment under the devolved powers given to service lines as per the framework in section 3.3. If the resource is not used for investment but instead to improve the quality of patient care with no financial return, this is acceptable although the service line will risk moving to an amber status (green status requires not just performance above trajectory but improving performance – simply spending a surplus will result in a deteriorating monthly financial performance). This resource can be carried forward if it is backed by an investment plan.

Recurrent investment (e.g. capital expenditure with a revenue impact over the life of the equipment) would require a clear demonstration of favourable future year performance levels.

3.5 Interface with contracting and marketing

The introduction of SLR is intended to give service lines a closer involvement with the income they generate. As a by-product of this it is anticipated that directorates will wish to be involved in the contracting process which, for non-PbR services at least, has a major impact on their income position. However the nature of the contracting round as a single process means that necessarily a series of negotiations and compromises are made.

This may well benefit one directorate at the expense of another but decisions will be taken for the overall financial benefit of the Trust. Notwithstanding the necessity for this centralisation of the negotiation and decision-making in respect of the Trust’s contract, there will be close communication and consultation between service lines and the central contracting team.

4. Reporting

The introduction of SLM will require changes to the way the Board monitors the financial health of the organisation. Financial reports will continue to show performance against budget but there will also be an increased emphasis on the Trust’s service line reports showing profitability of each business unit within the organisation.

The reports in Appendices 1 and 2 are examples of the reports that are currently presented to the Board on a quarterly basis. These reports show contribution margin by service line.

As the Trust implements SLM, there will be more integration between the different types of report that are used to monitor service lines’ performance in addition to the main SLR report that has previously been presented to the Board. For example, it is proposed that a monthly integrated performance report is developed to include a proposed reporting schedule as follows:

- Income Performance Statement – service line reports will include a statement showing income generated by patient type (e.g. elective, emergency etc) including performance against SLA (plus any additional internal income targets)

- Comparison of Budget and Actual Expenditure – current statements show pay and non-pay by cost centre whilst the majority of patient income is shown centrally. Service line reports will be at the service line level rather than at cost centre level – these will show actual expenditure and actual income. Existing budget statements that are used by budget holders will continue to be produced – however, as the implementation of SLM progresses, budgets for key cost centres will be flexed with changes in income and activity.

- Cash Flow forecast – no change to current report presented to the Board

- Balance sheet – no change to current report presented to the Board

The intention is that the reporting commentary to the Board focuses on each service line's position taking account of the overall context of their clinical activity. Areas that are of particular concern will be the focus of more detailed attention. The key areas of clinical activity will be reported graphically in terms of trend and variance.

Drill-down reporting will also be possible, to enable service lines to fully understand their performance. The Trust has already developed several reports that will enable clinical and operational staff to look at patient-level information to help explain the underlying performance of the service lines. PLICS generates a 'patient bill' for every patient seen at the hospital which contains details of the tests, theatre time, ward hours etc. that contribute to the cost of that patient's treatment. By analysing this data it will be possible to a) improve the methodologies used for apportioning costs where patient-level data isn't available (e.g. amount of time a consultant spends with each type of patient) and b) improve productivity through identification of wastage (e.g. unnecessary ordering of tests).

Through the improvement of the data underpinning SLR, it will become possible for the organisation to implement the proposed operating framework outlined above with confidence.