

Financial Management

1 The purpose of financial management is to ensure that the right services are provided for the right people in the right way. This requires overall control of spending and mechanisms to promote equity and efficiency. In practice this tends to mean at least some of the following:-

- resources are distributed so as to achieve geographical equity
- services are provided at minimum cost
- those who spend funds on behalf of government, social insurance, private insurance and third party payers can be accountable for the spending
- plans to supply services can be backed up with resources to finance them.

2 Geographical Distribution

Government, insurance or other collective funding of disease prevention, health promotion, primary health care and hospital services requires a method of distributing the funds. Sometimes there is a perceived need first to ensure that there is a fair geographical split.

If patients have a choice of provider of health services, then there is a need for a system by which money follows the patients.

Historically resources have been allocated by funding services that are already there, so that areas with more hospitals and health services get more money, regardless of the need for them. For example, in Tunisia the number of hospital beds per 10 000 population varies from 6.1 to 58.5. Less extreme differences exist in the UK NHS.

Attempts to get round this problem have involved the establishment of a needs based formula to determine spending. Allocation formulae normally use population weighted by age, sex, and some measure of need ('weighted capitation'). Measures of need can be proxies for morbidity (e.g. SMR). In England this took its name from the working party that suggested the formula, the Resource Allocation Working Party (RAWP), although a revised formula is now in use with the same basic objectives and principles. A problem with this approach is that at best it can allocate resources in proportion to the *measure* of the problem, but not on the basis of a sensible health service response to it. Differences resulting from e.g. teaching should be (and normally are) handled separately.

Separation of purchasers and providers allow a formula to be used that takes no account of historical patterns of provision, since funds can move more easily than services.

3 Budgets and Accounts

Budgets are plans to spend money. Accounts aim to record what has been spent. Accounts are typically more accurate as a measure since they record what has actually happened, but are always out of date.

Accounts record what has been directly spent on services, and need to find a way to apportion 'overhead' costs.

Overheads may be fixed costs, which are apportioned only as a matter of convention. For example, expenditure on maintenance of the grounds is unlikely to be affected at all by changes in the number of patients, but can be included in calculations of average costs for the purposes of charging purchasers (but should not affect the decision to treat an additional patient).

Some costs are classified as overheads, even though all or some are really variable. For example, heating and lighting vary with the use of hospital facilities (and therefore indirectly by patient numbers). In principle these vary with the space used and the particular uses of space, but a simple system of apportionment may be preferable. There is a danger that costs classified as 'overhead' or 'indirect' are treated as fixed when they are (at least partly) variable.

Particular problems of budgeting and accounting for health services are:-

- little tradition of collecting detailed financial data
- highly complex processes, and many very different categories of patients

Data collected for accounting purposes (e.g. for accountability and control) are often unsuitable for planning and service development. Accounts tell what costs were, not what they would be in the event of change. Nor do they tell what costs ought to have been.

4 Devolved budgets

Devolved budgets (or resource management) are aimed at making those who make decisions about resource use aware of and accountable for the spending.

Overall control of resource use is easier when funds are committed only when available. Devolved funding needs rewards and penalties, some of which may conflict with objectives of equity or efficiency. For example, people may be allowed to retain some of the resources released by gains in efficiency to pursue (relatively) low priorities.

Devolved budgets require complex data to be available to assist in identifying priorities, budgeting and control.