

## These Kwik-Skwizes have been completed so far:

- Kwik-Skwiz # 1** - First six month review
- Kwik-Skwiz # 2** - Budgeting as a district management tool
- Kwik-Skwiz # 3** - A district communication strategy for health
- Kwik-Skwiz # 4** - Training for rational drug use
- Kwik-Skwiz # 5** - Setting up a district management team: lessons from Impendle/Pholela/Underberg
- Kwik-Skwiz # 6** - Transport management: A key component of effective health care
- Kwik-Skwiz # 7** - Strengthening community participation: Lessons from the Bergville district
- Kwik-Skwiz # 8** - Short courses for nurses: A half-baked response to complex training needs?
- Kwik-Skwiz # 9** - The role of the district office in the DHS
- Kwik-Skwiz # 10** - Tackling TB in Benede-Oranje Region
- Kwik-Skwiz # 11** - Health promotion in a rural health district making it more effective and efficient
- Kwik-Skwiz # 12** - "Administration" in the health district
- Kwik-Skwiz # 13** - Using stock cards to improve drug management
- Kwik-Skwiz # 14** - How "programmes" can support the development of districts
- Kwik-Skwiz # 15** - Supporting staff through effective supervision: How to assess, plan and implement more effective clinic supervision
- Kwik-Skwiz # 16** - The WHO Ten Steps - The way forward for improved care of severe malnutrition
- Kwik-Skwiz # 17** - The registry at district level - A vital part of administration in the health district -
- Kwik-Skwiz # 18** - Local Government Transformation - A guide for health workers
- Kwik-Skwiz # 19** - Collecting and using drug use indicators in districts
- Kwik-Skwiz # 20** - Cross-Site Visits

Some of them are available in hard copy from the HST offices. All are available on the ISDS website [<http://www.hst.org.za/isds/>] in full text and in Portable Document Format.

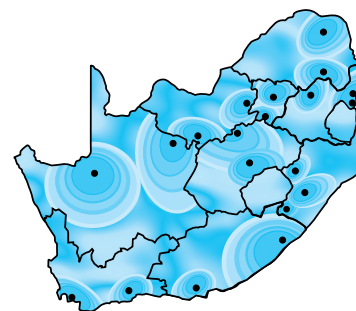
### Any comments and suggestions for further Kwik Skwizes are welcomed.

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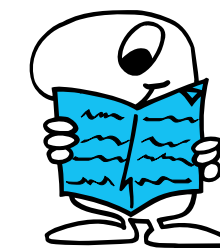
### Initiative for Sub-District Support

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*Initiative for  
Sub-District Support*



**Kwik-Skwiz  
#21**

## Can managing district services be separated from managing its finances?

### Aim of Kwik Skwiz:

This Kwik Skwiz aims to support all district managers who are confronted with the task of managing a district's services as well as its finances. It provides a "helicopter" view of what needs to be done, briefly describes the service management and financial management cycles and highlights the connection between them.

### Glossary of terms:

Many terms in popular use have been used in this Kwik Skwiz. These terms are defined for common understanding:

- Historically based budgeting:** Budgeting based on historic allocations. This is done by adding (or subtracting) a percentage to each cost.
- Impact:** The change in the health of people / community.
- Effectiveness:** A measure of the degree to which targets (and thus impact) are reached.
- Efficiency:** The ratio of the output produced to the resources applied.
- Drawing estimates:** Process whereby service needs are quantified.
- Cost centre:** A service unit such as a clinic or an outpatient department.
- Cost-efficiency:** Achieve the greatest output at least cost.
- Cost effectiveness:** Achieving the greatest impact with the available resources.

### 1. ISSUE:

It is apparent that most managers of services (line-function managers) are not involved in managing the **finances** of those services. With decentralisation of the management of health services managers are required to optimally use all resources in the district. To do this the service manager needs to be involved in both the service management cycle and the financial management cycle.

File for quick reference

**Box 1: Financial management and service management in Mount Currie:**

Mount Currie is a health district in KwaZulu-Natal. The district has two district hospitals with three fixed and six mobile clinics linked administratively to the two hospitals. The district does not yet have a district administration component and relies on the expertise in the hospital administrative section to support the district.

In the past, financial planning was left in the hands of the hospital secretaries who had the most experience. Service managers were not involved in this process (although consulted) and they lacked the necessary capacity. Service management is separate to financial management.

**2. THE SERVICE MANAGEMENT CYCLE AND THE FINANCIAL MANAGEMENT CYCLE:**

Before we attempt to understand the two cycles, it is important to have a basic understanding of the concepts of management. Management is a process where *results* are achieved through the activities of people. When *people* deliver health services, they use *money, drugs, vehicles, equipment* and work *in buildings* (Those in italics are called resources). These resources are called *inputs*.

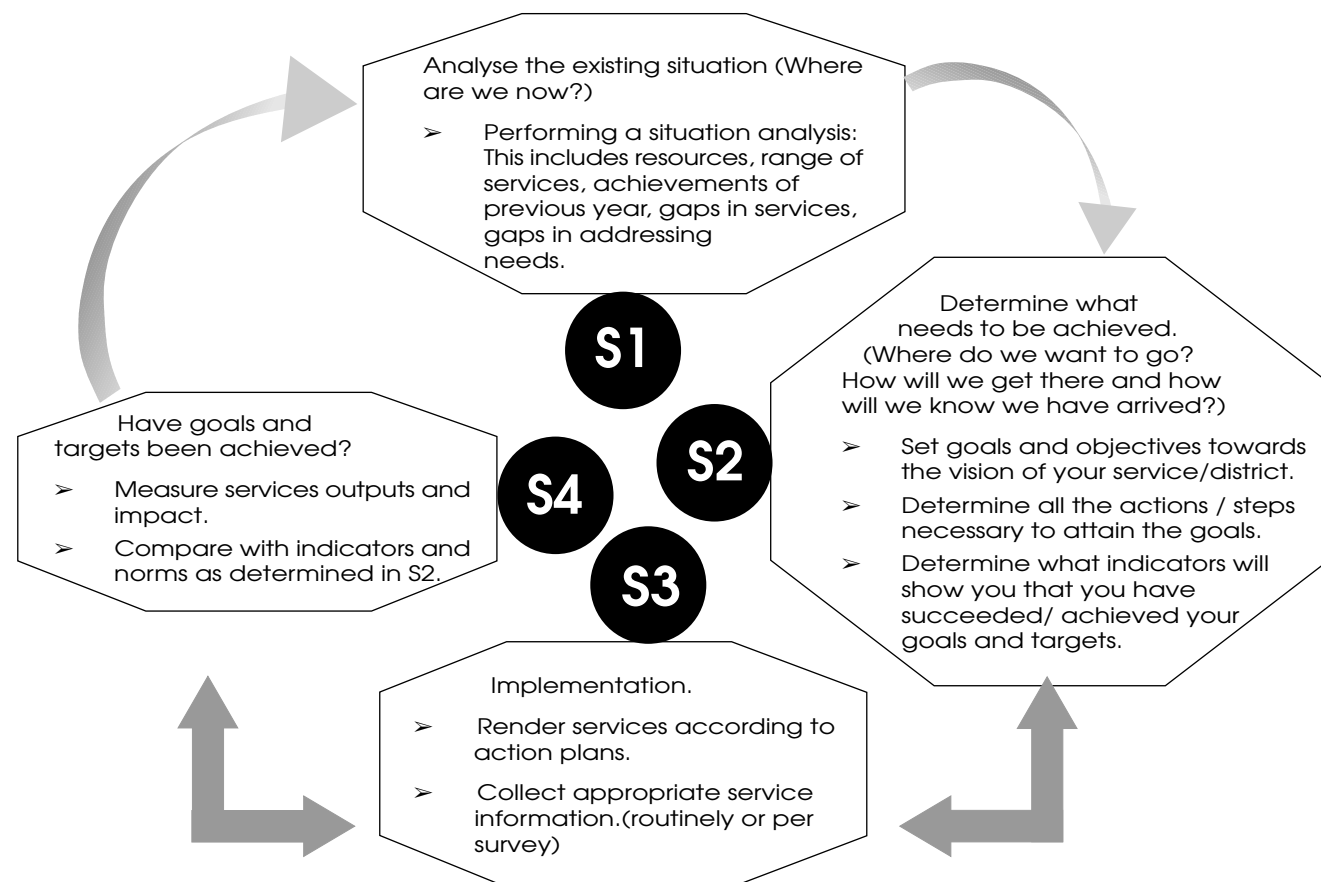
**2.1 What is the service management cycle?**

Service management aims to ensure that the services rendered are based on the needs and priorities of the community in the district, within the financial constraints. The clients should ultimately be satisfied. Management uses certain performance measures to ascertain whether the services that are rendered are appropriate and of good quality and whether the resources (inputs) have been used efficiently. These measures could be related to health status (e.g. improvement of perinatal mortality rate) or cost of certain services, (e.g. the average cost per consultation). These measures can be used to compare the performance of facilities or cost centres. See figure 1 for a diagrammatic view of the service management cycle.

Key activities performed in service management:

- Analyse the present situation.
- Determine a strategic focus with goals, objectives and actions.
- Implement.
- Monitor and evaluate results and impact.

**Figure 1: The service management cycle:**



**Box 5: Mount Currie Health District integrates and sequences the two cycles:**

In Mount Currie the various steps of the integrated cycles were linked to the months of the financial year (stretching from April to March). The sequence is as follows:

- S1 (Situation and needs analysis):**
  - Review previous years' successes and gaps in terms of service priorities and goals: **May**.
  - Situation and needs analysis: **June/July** and revised after 6 months.
- S2 (Setting goals and action planning): August**
- F1 (Financial planning): September.**
- F2 (Financing): March**
- S3&F3 (Delivery/ Operating):**
  - As from the beginning of the new financial year. The service manager co-ordinates services on a monthly basis. Finances are monitored at weekly cash-flow committee meetings.
- S4 and F4 (Reporting and analysing expenditure in relation to service outputs):** Quarterly, and at the end of the financial year as an annual report. Review previous years' expenditure: **May**.

**3.3 Implications of an integrated approach:**

- Service managers need to have a good understanding of the financial management system, capability to budget and take decisions on expenditure reports, as well as to do cash flow management.
- Service planning needs to happen according to the timetable for the district.

- The relationship between the financial administrative personnel and the service managers should be that of mutual support, The service managers are managers of cost centres (e.g. hospital or clinic) with the financial admin staff providing the necessary expertise to support the service manager.
- A financial management committee should oversee the activities of the two management cycles with representation of financial administrators and service managers.

**Bibliography:**

- Makan B, Collins D, Zuma N. Financial management for District Managers (1997).
- Guidelines for the functioning of the cash-flow committee. Document by Peter Nielson and Beth Engelbrecht (1999).

This Kwik Skwiz was drafted by Beth Engelbrecht and Bupendra Makan with editing by Peter Barron and Di McIntyre. The contribution of the district management team and the cash flow committees in the Mount Currie district as well as the regional head of administration, Peter Nielson, is acknowledged. Theodora Makalima, Brigid Strachan, Ross Haynes, John Gear and Ronel Pienaar are thanked for their contributions.

### 3. WHAT IMPACT DOES THE UNDERSTANDING OF THE TWO MANAGEMENT CYCLES HAVE ON MANAGEMENT?

#### Box 4: Mount Currie Health District integrates the two cycles:

In analysing the situation the district management team in Mount Currie considered the management cycles for services management and for financial management and the following are some key decisions taken:

- To integrate the two management cycles ensuring that financial planning is informed by service planning.
- To enhance the capacity of service managers to manage their finances.
- Have services managers account for expenditure linked to service results.
- To have a financial management structure in support of this process.

#### 3.1 Why integrating the service and financial management cycles?

Integrating the service and financial management cycles is important for many reasons.

- In the past drawing estimates was purely a number-crunching exercise using historic figures to plan for the new financial year. By integrating service planning and financial planning estimating resource needs is based on service needs. Health services can now respond to the changes in the service needs and aligning the budget is the only sure way to facilitate this change. If service and financial planning continue to be independent exercises, health services will never meet their objectives. Unless funds follow service vision and objectives, the district will continually fail to hit its target.
- Accounting for expenditures independently from service impact, and vice versa, means nothing in a true accountability relationship with the community and its democratically elected representatives.

- Capacity is enhanced in the district to deal with financial management. Improved financial planning and accountability will improve internal control and the general focus on cost-efficiency and cost-effectiveness.

#### 3.2 Integrating financial management and service management cycles:

To require service managers to account for expenditure and to link this expenditure to service results, these two management cycles can be integrated by ensuring good sequencing of the different steps.

- Conduct a situation analysis for services and resources. Identify needs. This is represented by S1 and partly by F1.
- Following this, service planning (step S2) according to the situation analysis is necessary to determine what is required in terms of staff and other inputs. S2 thus informs step F1 (drawing up estimates).
- Budgets are allocated to districts during March of each year. The districts in turn have to align their estimates and priorities in line with the allocated budget. This is step F2.
- The delivery of services and the continuous monitoring of expenditure against allocated funds happen simultaneously. These are represented as steps S3 and F3.
- A very important step is the evaluation of service outcomes to see whether objectives are met and whether service indicators are achieved. This process is usually integrated with a frequent account of expenditure. Reviewing service and financial indicators is part of the responsibility and accountability of the DMT. These are represented as S4 and F4. As this process is cyclical and occurs annually the indicators around S4 and F4 inform steps S1 and F1 of the next year.

#### S1: Situation & needs analysis

- The District Management Team (DMT) together with community structures and other service providers draw a district map showing the catchment population, the various health providers, range of services, the target population for PHC programmes (such as tuberculosis, maternal child and women's health) and priority needs.
- Priority health problems are determined from available information.
- High risk/ vulnerable groups are identified.
- National and Provincial priorities are included.
- Apart from analysing services, information on available resources available (and the gaps) are identified in this step.

#### S2: Service planning

- Service plans are constructed based on the identified needs and priorities determined in S1. Service plans have goals and objectives that aim to attain a vision set for the particular service. Action plans show *what* needs to be done, *how* it will be done, *who* will do it, *when* it should be done and how we will know that we have succeeded (*indicators and norms*). Be careful not to have too many objectives. Rather focus on a few and succeed with these.
- As part of service planning it is important to indicate what resources will be needed to implement the plans. Because of severe budget constraints DMT's focus on how to make sure priorities are met with available resources. Utilising what you have as best as possible is very important.

#### Box 2: Service objectives for Mount Currie Health District.

An example of service objectives for the Mount Currie district:

- To provide life skills education in 32 schools by December 1999.
- To have a 5% improvement on the completion of TB treatment.
- To have drugs always available at each clinic for the treatment of STDs.

#### S3: Implementation

- The action plans must guide the steps of implementation.
- Implementation happens according to these plans and the target dates that have been set. (Build in some flexibility to accommodate unforeseen changes.)
- A midyear (6 monthly) review and adjustment of plans should take place. So the implementation (S3) step will influence the plans (S2).
- A key task for management is to provide active support and make it easier for teams to implement.
- In order to monitor progress it is important that service providers are motivated to provide the correct service information.

#### S4: Monitoring service outputs and impacts

- Agreed indicators should be used when monitoring services and performance. Monitoring is also important in terms of identifying obstacles to implementation so that these obstacles can be overcome.
- Monitoring is not a control or inspection function, but rather a support function where the whole team takes ownership for service results. It is best if service providers monitor their own services from the service information they collect locally. This increases responsiveness.

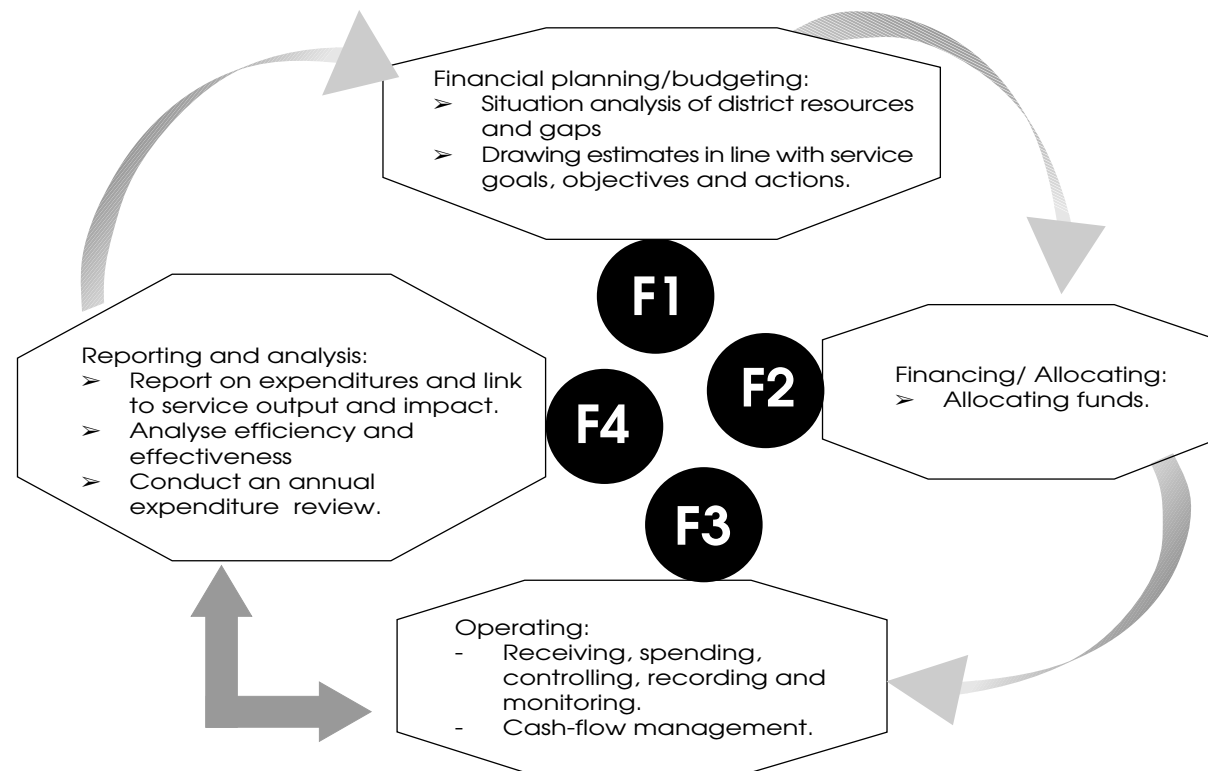
#### 2.2 What is the financial management cycle?

- Financial management happens when available resources are used to attain the goals that were set in such a way that the best value for money is obtained. Proper budgeting, allocation and use of resources are thus part of financial management.

Activities performed in financial management are:

- Financial planning (budgeting)
- Allocating (receiving funds and allocating them)
- Operating (spending, controlling, monitoring cash flow and expenditure)
- Reporting and analysing (interpreting information and reporting; an accountability function)

Figure 2: The Financial Management Cycle:



**F1: Financial planning/budgeting:**

Financial planning does not happen in isolation. It is informed by:

- > service data,
- > the previous years' expenditure patterns and
- > the expenditure framework of the district. (Provincial Departments of Health operate within a medium term expenditure framework (MTEF) providing a framework for three consecutive financial years.)

There is usually guidance in advance on moneys available for the forthcoming financial year.

The expenditure of the previous year (F4) are important to support this planning.

> **Situation analysis of district resources:**

An important prerequisite for drawing estimates is a situation analysis of district resources. The district needs to cost their resources. This includes staff, equipment, vehicles and facilities.

> **Drawing estimates:**

Drawing estimates is the step that most managers struggle with. This is the key step where the service needs and priorities (service plan) are translated in money terms. This is where the integration of the two cycles starts.

Only key cost drivers are considered in this section:

- > Budgeting thus starts with making sure all **personnel** are recorded in the personnel administration system and that staff are allocated to the appropriate sections (or components). These components are linked to the financial management system. The personnel administration system (PAS) can provide the district manager with the annual cost of filled posts. It can also indicate vacant posts.

Health delivery is personnel intensive and personnel is the main cost driver. Staff costs are responsible for about 70 - 80% of the total district budget. Other operating costs such as drugs, transport and administrative costs follow staff.

- > In budgeting for **drugs** it is important to determine the volume and type of drugs used in the previous year and to establish whether there will be major changes in the current year, e.g. new protocols. This also applies to **laboratory** costs.
- > For **transport**, the running costs per vehicle should be considered.
- > **Contractual** responsibilities must be included in the financial planning. These include the hiring of photocopier machines and the maintenance contracts for x-ray machines.

**F2: Financing / Allocating:**

- > Although estimates are drawn on predicted need, the financial allocation that a district eventually receives is usually less than estimated.
- > The district then needs to adjust its plans and financial estimates according to the budget.
- > The allocated amount must then again be divided according to priorities and obligations allocated.
- > All service managers should participate in this process.

**F3: Operating:**

> **Financial administration:**

Financial administration forms the basis of the whole financial management system. All staff involved with requisitions and orders, as well as staff who complete claim forms must know how to complete these forms correctly and fully. This will ensure that expenditures are correctly allocated in your financial system. Before any expenditure is approved the availability of funds must be ascertained.

> **Cash flow management:**

After receiving the budget allocation for the year, an estimated expenditure per month must be determined. A rough guide is to divide the allocated amount into 12 equal amounts. (8,3% of the budget). However, staff bonuses, the purchase of expensive equipment and quarterly payments will result in some peaks in the expenditure pattern.

**Box 3: Cash flow management in Mount Currie:**

In the Matatiele sub-district a cash flow committee has been established. It supports all the services that are administratively linked to the district hospital. The committee is small and consists of the hospital management (superintendent, secretary and matron) as well as the PHC managers, person in charge of stores and the transport officer.

This committee meets weekly and concentrates on the financial reports that are available on-line. Requisitions are considered and the availability of funds confirmed. It mainly sees to it that there is no over-expenditure and that expenditures are posted correctly.

The cash flow committee reports to the financial management committee that has broader representation and covers the other functions of the financial management cycle.

> **Monitor expenditure:**

Cash flow management is supported by (cost centre) expenditure and ledger reports from the financial management system. A monthly expenditure report from the finance section should be obtained. This report should show expenditure for the specific facility. (Reports that will give lots of information, are the X 44 and X 112 reports (for the FMS system)).

When evaluating the report, make sure that the expenditure pattern is according to the estimates. It is important that the whole DMT participates. This will establish an understanding of the situation and help joint planning on remedial actions. These remedial actions could include a request for shifting of funds to where the needs are and a plan to curb expenditures.

**F4: Reporting and analysing:**

> **Evaluate and analyse expenditures:**

Evaluating and analysing expenditure trends assists the DMT to see how well they are doing in attaining goals with the available funds. This happens on a frequent basis throughout the year, say quarterly.

An annual review of all district expenditures will assist financial and service planning for the next financial year. It provides a complete picture of the resources and trends in use.