

**Impact case study (REF3b)**

<p><b>Institution:</b> University of Bristol</p>
<p><b>Unit of Assessment:</b> 19 – Business and Management Studies</p>
<p><b>Title of case study:</b> Enhancing financial management and accountability in market-orientated public services in England.</p>
<p><b>1. Summary of the impact</b> (indicative maximum 100 words)</p> <p>Sheila Ellwood (at Bristol from 2006) examined how managerial freedoms created through the trend to decentralise public service organisations need to be tempered through ‘better’ accounting. Her research has led to her appointment as a non executive director (2000-2005) and a Treasury Panel member (2009-11). The research impacts on both national policy and local financial management. Her impact is seen in the financial reporting policy in local public bodies; the policy on auditing local public bodies and in the costing/ pricing of healthcare. Her work has been used in UK parliamentary committees and incorporated into government accounting manuals. International recognition includes dissemination of her work by the Chinese Treasury.</p>
<p><b>2. Underpinning research</b> (Indicative maximum 500 words)</p> <p>Ellwood’s research has three underpinning strands which overlap chronologically:</p> <p>a) <i>The introduction of ‘commercial’ accounting regimes and their adaptation for local public bodies (2000-2013)</i></p> <p>Ellwood’s evidence from local government, health and central government (2000-02) shows the diversity in accounting practice across the UK public sector [1]. How the commercial approach was modified was investigated in depth when she was a non executive director at Worcestershire Acute Hospitals NHST (2000-05). The accounting standards are adjusted by government and account preparers to ‘fit’ the public setting – notable accounting modifications relate to hospitals built under the Private Finance Initiative (PFI) and financial transfers to alleviate hospital deficits [3]. Following the adoption of International Financial Reporting Standards (IFRS) in the UK public sector in 2009 Ellwood was invited to be the only academic member on a UK Treasury panel examining the accounting under IFRS for the NHS and related charities. The panel advised on the interpretation of international accounting standards for application throughout the NHS (England, Wales, Scotland and Northern Ireland). Ellwood and Garcia-Lacalle<sup>1</sup> (Zaragoza University) analysed the introduction of IFRS in NHS Foundation Trusts from 2010. They showed how the change in accounting regime impacted on the reported performance of Foundation Trusts; there were large winners and losers (the financial performance of one FT changed from a deficit of £11.8m to over £35m for the same financial year), but a third of FTs showed an improvement in their annual financial surplus [5].</p> <p>b) <i>The audit of local public bodies (2001-04 and 2011-13)</i></p> <p>Ellwood, together with Basioudis (Aston University), examined the audit arrangements for NHS trusts 2001-04 [2]. In 2011, Ellwood with Garcia-Lacalle extended the work into NHS Foundation Trusts [6]. The Audit Commission appoints the auditors of local authorities and NHS bodies excluding Foundation Trusts. Prior to 2012, appointments were either from its in-house auditors or from accredited large audit firms. The Commission’s role is to control fees and monitor audit quality as well as to provide specialist auditors. (A similar model for companies followed the Enron accounting scandal in the USA).The studies analysed the extent to which audit in the NHS was controlled in terms of price (auditor remuneration) and quality (audit independence and approach).</p>

<sup>1</sup> PhD examinee 2010

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## c) Healthcare costing and pricing

The introduction of the internal market in 1991 required the costing of healthcare services for pricing. Ellwood's surveys and case studies on NHS costing (1995 & 1996) and analysis of patient referral patterns under GP fund-holding (1997), sponsored and published by CIMA (Chartered Institute of Management Accountants), called for changes in costing protocols and identified problems in healthcare pricing [4]. She is currently working on a large research study (2012-2015) on the use of patient level information and costing systems (PLICS). The study is unique in being the first NIHR project with a NHS finance director (Salford Royal FT) on the project board. Ellwood's experience in working with health service finance directors has established strong relationships with NHS boards of directors (e.g. South Warwickshire FT) and with the regulator, Monitor. She is involved in current negotiations between local organisations and Monitor in determining how cost and price information can be used in 'risk transfer arrangements' that set aside national tariffs, particularly in integrated services for frail older people, a case study in the NIHR research project [7].

**3. References to the research** (indicative maximum of 6 references).**Key academic Outputs**

[1] Ellwood S.M. (2003), Bridging the GAAP across the UK Public Sector, *Accounting and Business Research*, 33 (2) 105-121. DOI: 10.1080/00014788.2003.9729638

[2] Ellwood S.M. and Basioudis I.G. (2005), External audit in the National Health Service in England & Wales: A study of an oversight body's control of auditor remuneration, *Journal of Accounting and Public Policy*, 24 (3) 207-241. DOI: 10.1016/j.jaccpubpol.2005.03.003

[3] Ellwood S.M. (2008), Accounting for public hospitals: a case study of modified GAAP, *Abacus*, 44 (4) 399-422. DOI: 10.1111/j.1467-6281.2008.00269.x

[4] Ellwood S.M. (2009) Accounting for (a) public good: public healthcare in England, *Financial Accountability and Management*, 25 (4) 411-433. [John Perrin Prize] DOI: 10.1111/j.1468-0408.2009.00485.x

[5] Ellwood S.M. and Garcia-Lacalle J. (2012), Old wine in new bottles: IFRS adoption in NHS foundation trusts, *Public Money & Management*, 32 (5) 335-342. DOI: 10.1080/9540962.2012.703411

[6] Ellwood S.M. and Garcia-Lacalle J. (2012), Local public audit – the changing landscape, *Public Money & Management*, 32 (5) 389-392. DOI: 10.1080/09540962.2012.692554

**Key research Grant**

[7] NIHR £467,685 (2012-2015) *Patient Level Information and Costing Systems (PLICS): Current practice and future potential for the NHS health economy*. Research team: Profs. Llewellyn (PI) and Chambers, Manchester Business School and Dr Adhil, Department of Health; Tony Whitfield, Finance Director of Salford Royal FT. Ellwood takes the lead on case study work.

**4. Details of the impact** (indicative maximum 750 words)

Ellwood's work has impacted on government policy on accounting throughout the NHS; been discussed in UK parliamentary committees on the audit regime for local public bodies; and fed into discussions with regulatory bodies on financial arrangements to facilitate improved healthcare services.

**Financial reporting policy in local public bodies**

Ellwood's early work on accounting for public bodies [1] led to her invitation to be academic commentator on the UK Accounting Standards Board's panel on reinterpreting the UK Statement

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of Principles for Financial Reporting for Public Benefit Entities and her later appointment to the HM Treasury Panel on the financial reporting of the NHS (a) and its linked charities (2010-11). The panel's report was issued by the government's Financial Reporting Advisory Board (b) and the panel's recommendations were incorporated into the accounting manuals and guidance issued to NHS trusts and foundation trusts. Ellwood was the only academic member, she was appointed to the panel alongside senior financial representatives from Treasury, Charity Commission, the Department of Health and the devolved administrations (Wales, Northern Ireland and Scotland). Since 2012, the Panel's recommendations have been put into effect in the Annual Reports & Financial Statements of hundreds of NHS organisations that have been extended to include all healthcare bodies within NHS control.

**Policy on audit of local public bodies**

The research work of Ellwood and Basioudis on audit arrangements of NHS trusts [2] showed the Audit Commission to be operating effectively in controlling total auditor remuneration. However, Ellwood's study with Garcia-Lacalle [6] of the audit arrangements of Foundation Trusts (where FTs were given the freedom to appoint their own auditor i.e. not overseen by the Audit Commission), showed evidence of premium fees paid to private firms, particularly large (Big4) firms. Ellwood's work with Basioudis [2] and with Garcia-Lacalle [6] was used in evidence to parliamentary committees investigating the effect of the Audit Commission following its announced abolition in August 2010 by Eric Pickles (Secretary of State for Communities and Local Government). Ellwood and Basioudis [2] was cited in the Communities and Local Government Select Committee 7<sup>th</sup> February 2011(c); Ellwood and Garcia-Lacalle [6] was used by Professor David Heald, (Aberdeen University and former academic member of the Government's Financial Reporting Advisory Board 'FRAB') when presenting evidence to the meeting of the Public Accounts Committee, December 2012(d). Although the work of the Audit Commission's in-house auditors was awarded to private sector auditors in 2012, the Audit Commission is now likely to continue in a reduced role for at least another five years.

**Policy on costing/ pricing of healthcare**

The NIHR research project [7] with Professors Llewellyn and Chambers from Manchester University continues Ellwood's long standing work in NHS costing and pricing. Ellwood's early work on NHS costing and pricing was widely disseminated in accounting and medical journals and published as three research monographs by the Chartered Institute of Management Accountants (cost-based pricing, costing for healthcare contracts and GP fund-holding). In line with Ellwood's findings, the NHS later introduced NHS costing standards and produced comparative 'Reference costs' from 2007 which were used to inform the NHS tariff (prices) for healthcare under the Payments by Results system (phased in from 2004). Under the NIHR project 2012-15 [7] she examines the benefits of sophisticated patient costing systems for hospitals but also considers how financial arrangements may need to change to facilitate greater integration of hospital, community and social services. As part of this work, she is lead researcher with South Warwickshire FT, and is investigating how the FT and other health and social care providers can integrate the care of frail older people. She is working with Monitor, the independent regulator for Foundation Trusts, on how to form new financial arrangements for the care of older people that facilitate integrated care and enhanced community services. This will require changes to the current national tariff (pricing/ commissioning arrangements) to encourage improved patient care in appropriate settings.

Ellwood's work has also informed government financial management and accounting internationally. Her earlier research visits to USA, Australia, New Zealand and Brazil were sponsored by health authorities and professional accounting bodies. Impact in China is now starting to occur. The Chinese Ministry of Finance translated and published a paper presented by her and Andy Wynne from the Association of Certified Chartered Accountants in 2009 (e).

**5. Sources to corroborate the impact** (indicative maximum of 10 references)

- (a) Chris Wobschall, Head of Assurance and Financial Reporting Policy, HM Treasury. Invitation to join HM Treasury Panel June 2010 and oversight of the Panel's work.
- (b) The Report of the Review Group on NHS linked Charities (March 2011). Report to HM Treasury, Department of Health, Monitor and the Devolved Administrations.
- (c) Minute 18 of the Communities and Local Government Select Committee 7<sup>th</sup> February 2011, House of Commons citing Ellwood's research. The Committee considered the abolition of the Audit Commission, Ellwood's earlier work with Basioudis was discussed. Her current work with Garcia-Lacalle also informed the debate.
- (d) Professor David Heald, Aberdeen University, academic member of FRAB (Financial Reporting Advisory Board) 2004-2009. He used Ellwood's research when giving oral evidence to the parliamentary committee on the Local Audit Bill, 30 October 2012.
- (e) Edited by the National Treasury Division, Ministry of Finance (China): Ellwood S.M and Wynne A. (2009), 'The World of Accruals: questioning the universal validity of accrual accounting' in International Trends and Experiences in Government Accounting, Published in Chinese by China Finance and Economics Publishing House. ISBN 9787509513330
- (f) Some senior executives within government and NHS organisations with evidence of:  
*Contribution changing operational service managers' financial management* (David Moon, Head of Value for Money Audit (NHS), National Audit Office); *Contribution changing NHS costing and pricing practice* (Board members of South Warwickshire Foundation Trust e.g. Glen Burley, Chief Executive and Ian Philp, Medical Director, and Monitor, the independent regulator for foundation trusts, e.g. Adrian Masters, Director of Strategy).
- (g) The Chair of the Government's Financial Reporting Advisory Board (FRAB), Kathryn Cearns wrote a debate response to [6] above on local public audit in the next issue of *Public Money and Management* 32 (6) 396-7 (December 2012). DOI: 10.1080/09540962.2012.728776