



NHS Finance

Twelfth Edition

shaping healthcare finance...

Introductory
Guide

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The NHS is always changing and developing – this edition reflects the structures and processes in place in July 2016. We are keen to obtain feedback on ways in which the content, style and layout can be improved to better meet the needs of its users. Please forward your comments to info@hfma.org.uk or to the address above.

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Foreword

Welcome to the twelfth edition of the HFMA's *Introductory Guide – NHS Finance*.

This version follows the same structure that we introduced in 2013 but has been updated to reflect policy and organisational changes that have taken place since then. In particular, it sets out the responsibilities and accountabilities of each of the key players in the NHS and explains what their role is in relation to NHS finance.

As with earlier editions, each chapter has been written with the help of practitioners and has been reviewed by experts in the relevant field. Although the main body of the Guide focuses on the policy and organisational framework for the NHS in England, there are separate chapters dedicated to Northern Ireland, Scotland and Wales.

As always, the Guide is designed to give readers a solid grounding in – and practical understanding of – all key aspects of NHS finance. It also provides some contextual background that helps explain how the NHS has developed over the years. As well as appealing to its traditional audience (which ranges from executive and non-executive directors, governors and managers to clinicians, accounts assistants and budget holders), the Guide is an excellent reference source for anyone embarking on a career in NHS finance. It will also be invaluable to anyone who is thinking of undertaking the HFMA's e-learning programme and/or qualifications in healthcare business and finance.

The intention is that the Guide is written in simple, straightforward and accessible language with references at the end of chapters so that readers can delve into subjects in more detail if they wish. Bullet point listings of 'key learning points' are included for the later, subject-based chapters and there is also a glossary of terms in an appendix.

The HFMA is committed to improving the awareness of finance and financial management across the NHS and beyond and we trust that this Guide will further this objective. Above all we hope that you will find it useful, informative and a 'good read'.

If you have any comments, the HFMA team would like to hear from you – please email: publications@hfma.org.uk

Ian Moston

Chair, HFMA Policy and Research Committee.

Acknowledgements

The *Introductory Guide – NHS Finance* is developed under the direction of the HFMA's Policy and Research Committee and with the help of a wide range of practitioners, all of whom give their time and expertise free of charge. The HFMA is extremely grateful to everyone who has been involved in the Guide's production. The main contributors to this edition are:

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Chapter 1

Introduction and Purpose

About the Guide

For more than twenty five years, the *Introductory Guide – NHS Finance* has provided an easy to read, accessible overview of the workings and language of NHS finance for the benefit of practitioners and observers. The Guide is produced by The Healthcare Financial Management Association (HFMA), a charity established over 60 years ago to support those working within the NHS finance function. By improving financial literacy both within and outside NHS finance, the HFMA hopes it can inform and improve the debate on healthcare finance issues.

The Guide has been developed to provide a self-contained source of advice and guidance for readers from an array of backgrounds. There are many aspects of NHS finance that are unique to the service, and a language laden with jargon, abbreviations and acronyms has developed that can appear impenetrable to many outsiders or newcomers. Indeed, as the terminology develops with each set of reforms, even the most experienced NHS finance professionals can find themselves in unfamiliar territory!

The Guide aims to provide advice to all levels of finance staff from finance directors (who often use it as an aide memoir to more recent changes) to governors and lay members; non-executive and executive directors (who may not be finance specialists but still have shared corporate responsibility for understanding and managing the financial position); clinicians; budget holders; service managers; accounts assistants and those who need an understanding of NHS finance for academic study purposes.

Over the years the Guide has grown in size as it tries to provide an overview of both the current finance regime along with a sense of how the approach has developed over the years. Nevertheless, it remains (as its title suggests) an introductory guide that gives a reasonably straightforward but comprehensive description of NHS structures and processes.

Approach and Format

This version of the Introductory Guide follows the approach readers will be familiar with – namely that each chapter treats its topic in a largely self-contained way. Cross-references are included where they are helpful and sources of further advice and technical guidance are listed at the end of each chapter. For the later chapters, there are also lists of 'key learning points'.

The bulk of the Guide concentrates on the financial arrangements for the NHS in England but there are also chapters dedicated to highlighting key differences in Northern Ireland, Scotland and Wales.

The Guide ends with a glossary of terms.

HFMA E-learning and the Introductory Award in Healthcare Finance

In addition to the Introductory Guide, the HFMA produces a series of e-learning courses that allow individuals to address their NHS finance training needs in a tailored way. The e-learning modules are aimed primarily at non-finance professionals including governors, lay members, non-executive directors, clinical staff, general practice staff and finance staff that are new to the NHS. They can also be used as 'refreshers' for existing staff.

Although modules can be studied individually, there is an Introductory Award that involves learners selecting five modules from a wide range of topics. These cover both the structure of the NHS (for example, NHS finance, primary care finance and governance) and processes (for example, commissioning, budgeting and costing). Each training session takes between

two and three hours to complete and includes an assessment test. On successful completion of the fifth module, an Introductory Award in Healthcare Finance is awarded – this is fast becoming an industry standard; a means of assessing an individual's basic competence in NHS finance. Further details are available from the HFMA website at www.hfma.org.uk

HFMA Qualifications in Healthcare Business and Finance

The HFMA is also designing and developing a set of masters level qualifications that provide a pathway to study for an MBA in healthcare business and finance. The qualifications are due to be launched in 2017.

Each qualification is open to a wide range of learners, including finance staff, general managers, clinicians and other healthcare professionals. There will be two qualifications – the HFMA Diploma and the HFMA Higher Diploma. These are split into modules covering the following topics:

- how finance works in the NHS
- managing the healthcare business
- personal effectiveness and leadership
- tools to support decision-making
- creating and delivering value in healthcare
- comparative healthcare systems.

For further details contact: selma.naden@hfma.org.uk

Chapter 2

NHS Finance Background and Context – how we got to where we are today

This chapter looks back over the past few decades to chart the development of the NHS so that we can see how we have reached where we are in 2016. It also looks briefly at the origins of the NHS and its guiding principles.

The Introduction of the NHS

The NHS was established by the *NHS Act 1946*. This Act specified that, it was 'the duty of the Minister ... to promote the establishment in England and Wales of a comprehensive Health Service designed to secure the improvement of the physical and mental health of the people of England and Wales and the prevention, diagnosis and treatment of illness'. The services provided to meet these aims were to be free of charge, based on clinical need, not the ability to pay.

The NHS was launched and the first patients treated on 5 July 1948.

Underpinning Principles of the NHS

Although there have been many structural and policy developments since 1948, the underlying principles have not changed. These are that NHS services are:

- available to everyone
- free at the point of need (or use)
- based on clinical need, not the ability to pay.

All of the major political parties remain committed to these core principles.

Other enduring characteristics of the NHS are that:

- it is funded through taxation
- it manages within overall resource limits determined by the Government each year
- finite resources have to be matched with infinite demand for health services with tough choices over priorities needed as a result
- there is an expectation that 'efficiency savings' can be made, often as a result of structural or technical developments
- there is intense political, public and media interest in, and scrutiny of, the NHS.

The NHS is also Europe's largest employer with over 1.7 million employees across the UK in 2015¹. However, although it is usually referred to as if it were a single organisation, it actually comprises a wide range of different bodies with specific responsibilities – we will be looking at many of these later on in the Guide.

Key Policy Developments that have shaped the NHS since the 1980s

The internal market, 1980s

In the late 1980s it was decided that the NHS should be reconfigured to operate a 'quasi-market', known as the internal market, with many treatments commissioned on a 'cost per case' or 'extra contractual referral' basis. A key feature of this approach was the separation

¹ The world's biggest employers 2015, Forbes.



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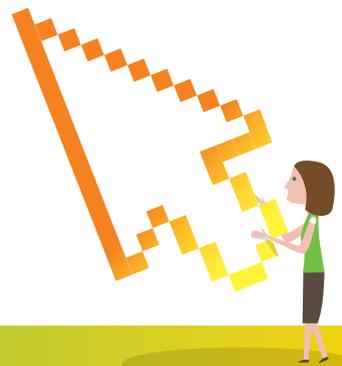
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