

**HFMA introductory guide to NHS finance**

# **Chapter 3: NHS finance - the role of the centre**

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# Chapter 3: NHS finance – the role of the centre

## The role of government, ministers, and the Department of Health and Social Care (including its ALBs)



### Overview

This chapter focuses on the role of the ‘centre’ in relation to NHS finance and governance. The chapter covers:

- Parliament
- government ministers
- the Department of Health and Social Care and its associated arm’s length bodies (ALBs)
- UK Health Security Agency
- Health Education England.

For each element, the chapter looks at its status, accountabilities, roles and financing. To remind yourself of the overall structure of the NHS and where ‘the centre’ fits, look back at the diagram on page 13.

## 3.1 Parliament

### What it is – status and accountabilities

Parliament is the highest legislative body in the land and so sits at the top of the ‘accountability tree’. In relation to the NHS, Parliament holds the Secretary of State for Health and Social Care to account for the functioning and use of resources of the Department of Health and Social Care, and the NHS.

Parliament approves the estimates for spending, and supplementary estimates. This is the bedrock of regularity, that is, ensuring that money is being spent for the purposes intended.

### What Parliament does – roles and responsibilities

As well as holding the Secretary of State to account, the cross-party House of Commons Health and Social Care Select Committee examines the expenditure, administration and policy of the Department of Health and Social Care and its associated bodies. The members of this committee are appointed by the House of Commons and its constitution and powers are set out in *House of Commons Standing Order No.152*<sup>25</sup>.

The Health and Social Care Select Committee has a maximum of 11 members and the quorum for any formal proceedings is three. As the members of the committee are appointed by the House they remain on the committee until the next dissolution of Parliament, unless discharged.

Within its remit, the committee has complete discretion to decide which areas to investigate and has the power to require the submission of written evidence and documents, and to send for and examine witnesses. The committee's oral evidence sessions are usually open to the public and are often televised. Deliberative meetings are held in private.

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<sup>25</sup> House of Commons, *Standing orders 2002*, October 2001

When an inquiry ends, a report is agreed by the committee and then published by Her Majesty's Stationery Office. The report is usually published in two volumes: the findings of the committee and the background (memoranda and oral) evidence. The government is committed to responding to such reports within two months of publication.

The committee is supported in its work by a team of staff and by part-time specialists, usually academics or experts from professions relevant to its inquiries.

Two other Parliamentary committees have the ability to scrutinise the Department of Health and Social Care and the NHS:

- the Public Accounts Committee (PAC)
- the Public Administration and Constitutional Affairs Committee (PACAC).

The PAC keeps a check on all public expenditure including money spent on health. Its remit takes it far wider than a view on the annual accounts, with the results of National Audit Office value for money studies usually being considered. In these instances, the PAC takes evidence, usually questioning accounting officers, chief executives and director generals from relevant organisations (such as the Department of Health and Social Care and NHS England and NHS Improvement), before publishing its own report and making recommendations.

The PACAC examines the reports of the Parliamentary and Health Service Ombudsmen and considers matters relating to the quality and standards of civil service administration and constitutional issues.

Other select committees, and the House of Lords, may from time-to-time conduct inquiries into Government policies that impact upon the Department of Health and Social Care.

## How Parliament is financed

Parliament is funded by public money (i.e. by taxpayers).

## 3.2 Secretary of State for Health and Social Care

### What the role is – status and accountabilities

The Secretary of State for Health and Social Care is a Cabinet minister with responsibility for the 'work of the Department of Health and Social Care, including:

- overall financial control and oversight of NHS delivery and performance
- oversight of social care policy.'<sup>26</sup>

The Secretary of State is accountable to Parliament for the provision of the comprehensive health and care service in England.

### What the Secretary of State does – roles and responsibilities

The NHS was established under the *National Health Service Act of 1946*. This and other subsequent Acts of Parliament relating to the NHS set out the duty of the Secretary of State to provide a comprehensive health and care service in England.

The Secretary of State is politically accountable for the NHS and for the resources allocated to the health and social care system.

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<sup>26</sup> UK Government, *Secretary of State for Health and Social Care, 2021*

He or she is also responsible for:

- oversight of all NHS delivery and performance
- system design
- the legislative framework
- overall strategic direction
- mental health
- championing patient safety.

The *Health and Care Act 2022*<sup>27</sup> sets out some changes to the responsibilities of the Secretary of State, most notably it proposes a new power for them to intervene in local service reconfigurations.

### 3.3 Health Ministers

#### What they are – status and accountabilities

The Secretary of State is supported by a team of health ministers who are appointed by the Government. These ministers are either MPs elected by the public or members of the House of Lords. They are accountable to the Secretary of State.

#### What ministers do – roles and responsibilities

Health ministers each have individual responsibility for different aspects of the Department of Health and Social Care's work. The portfolios attached to the ministerial posts often change, depending on the priorities at that point in time and the personal interests of the individuals. For the latest information on ministerial portfolios see the DHSC's website.

### 3.4 The Department of Health and Social Care

#### What it is – status and accountabilities

The Department of Health and Social Care (DHSC) is the Department of State responsible for the NHS, public health and adult social care in England and is accountable via its principal accounting officer (the permanent secretary) to Parliament 'for safeguarding the public funds' allocated to the DHSC<sup>28</sup>.

The DHSC supports the Secretary of State and ministers in carrying out their ministerial responsibilities including:

- accounting to Parliament and the public for the way money is spent and what is achieved with it
- answering Parliamentary questions and dealing with other Parliamentary business such as debates and enquiries
- responding to communications from the public and MPs
- communicating with the public.

There is a departmental board chaired by the Secretary of State which includes non-executives from outside Government. This board provides advice and support to ministers, and the principal accounting officer, across all of DHSC's responsibilities. An audit and risk assurance committee reports into the board, with the department being subject to external audit by the National Audit

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<sup>27</sup> UK Parliament, *Health and Care Bill*, July 2021 – the Act was not available to reference at time of publication

<sup>28</sup> Department of Health and Social Care, *Accounting Officer System Statement*, July 2018

Office. The board scrutinises reports on performance and challenges the DHSC on how well it is achieving its objectives<sup>29</sup>.

## What the Department of Health and Social Care does – roles and responsibilities

The Department of Health and Social Care's (DHSC) overarching purpose is to help people live more independent, healthier lives for longer. It works closely with its partners in the health and care system, its arm's length bodies (ALBs), agencies, local authorities, across government, and with both patients and the public to achieve this aim. The website identifies the DHSC's responsibilities as being:

- supporting and advising ministers: to help them shape and deliver policy that delivers the government's objectives
- setting direction: anticipating the future and leading debates so that global and domestic health is protected and improved
- accountability: making sure the department and its ALBs deliver agreed plans and commitments
- acting as guardians of the health and care framework: making sure the legislative, financial, administrative and policy frameworks are fit for purpose and work together
- troubleshooting: in the last resort, taking the action needed to resolve crucial and complex issues.<sup>30</sup>

The DHSC's single departmental plan<sup>31</sup> lists seven objectives that are shared with its arm's length bodies (ALBs) and partner organisations. The single departmental plan (SDP) was established prior to the Covid-19 outbreak, but the objectives remained relevant during the pandemic. The SDP focuses on short-term objectives and long-term ambitions<sup>32</sup>.

### Single departmental plan objectives (established prior to Covid-19)

The Department of Health and Social Care supports Ministers in leading the nation's health and social care and helping people live more independent, healthier lives for longer by:

- keeping people safe, leading global health and international relations including EU exit
- keeping people healthy and independent in their communities, supporting the transformation of NHS primary, community and mental health services, and local authority public health and adult social care
- supporting the NHS to deliver high-quality, safe and sustainable hospital care and secure the right workforce
- supporting research and innovation to maximise health and economic productivity
- ensuring accountability of the health and care system to Parliament and the taxpayer; and create an efficient and effective department
- creating value (reduce costs and grow income) by driving excellence in commercial practice across the health and social care system

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<sup>29</sup> *Accounting Officer System Statement* (as above).

<sup>30</sup> Department of Health and Social Care, *About us*, 2021

<sup>31</sup> Department of Health and Social Care, *DHSC single departmental plan*, August 2019

<sup>32</sup> UK Government, *DHSC annual report and accounts: 2019 to 2020*, January 2021

Linked to these responsibilities and objectives, the DHSC has a number of key roles including:

- providing leadership for the NHS, adult social care and public health services (including for example, health promotion, health protection against infectious diseases, the safety of medicines and ethical issues) and setting the strategic framework within which they operate
- developing policy and legislation relating to the NHS, adult social care and public health
- supporting the delivery of improvements in the health and adult social care system via performance monitoring and evaluation; managerial and professional leadership of external groups; building capacity and capability and ensuring value for money
- leading on the integration of health and wellbeing into wider Government policy
- allocating the funding received from the Treasury
- setting healthcare standards, targets and outcome measures – there are separate ‘outcomes frameworks’ for the NHS, public health and adult social care
- agreeing an annual mandate with NHS England based on these outcomes frameworks
- reviewing the performance of its arm’s length bodies (see below) and intervening (by direction) if necessary
- managing performance against its statutory responsibilities and holding the NHS to account – this includes ensuring that the NHS lives within its allocated resources and achieves required efficiency savings.

These roles are translated into a number of specific ‘deliverables’ for the NHS by NHS England which is responsible for the day-to-day operational management of the NHS and operates at arm’s length from the DHSC (see chapter 4).

The DHSC is supported to achieve its objectives by a range of organisations, including its arm’s length bodies, covered later in this chapter, and wholly or partially owned companies. These companies include:

- NHS Supply Chain Coordination Ltd – set up in 2018 to manage the sourcing, delivery and supply of healthcare products, services and food for NHS trusts and healthcare organisations across England and Wales.
- NHS Shared Business Services Ltd – set up in 2005 in partnership with Sopra Steria to provide shared services functions such as finance, human resources and procurement to NHS organisations.
- NHS Property Services Ltd – set up in 2012 to take over the residual estate left by strategic health authorities and primary care trusts after their abolition.

## How the Department of Health and Social Care is financed

Parliament, through HM Treasury, usually sets the DHSC’s budget for a five-year period in a budgetary exercise known as the spending review, which takes place across Government. The DHSC submits evidence to the Treasury setting out its proposals for expenditure plans covering the five-year period. These plans are then discussed and challenged over several months before being finalised. The outcome of the most recent spending review was released in September 2021 and covers the years 2022/23 to 2024/25, a three-year budget on this occasion. More information about the spending review process is included in chapter 2.

Once the Treasury has set the overall budget total, the DHSC determines how this should be allocated. The vast majority of funding is allocated to NHS England, but some is retained in central budgets. For example, for 2021/22, the total revenue budget for the DHSC was £169.1 billion of which £139.1 billion was allocated to NHS England<sup>33</sup>. The DHSC's funding also finances its associated arm's length bodies (ALBs) (see below).

Once resources have been allocated, the DHSC has an on-going responsibility to ensure that the NHS lives within them, and that its objectives are achieved as efficiently as possible. This includes monitoring performance against national targets.

## 3.5 Arm's length bodies

### What they are – status and accountabilities

Arm's length bodies (ALBs) are stand-alone national organisations sponsored by the Department of Health and Social Care to undertake activities to help deliver its agenda. They range in size but tend to have boards, employ staff and publish accounts. There are three types of ALB<sup>34</sup>.

### Types of ALB

**Executive agencies** – these are part of the DHSC (and are accountable to it) but have greater operational independence than a division or section of the DHSC.

**Special health authorities** – these are independent bodies created by order under section 28 of the *NHS Act 2006* and subject to direction by the Secretary of State for Health and Social Care.

**Executive non-departmental public bodies (NDPBs)** – these are established by primary legislation and have their own statutory functions. Their relationship with the DHSC is defined in legislation and some have greater independence than others.

Regardless of their status, every ALB has a 'framework agreement' which sets out its relationship with the DHSC – in particular, these agreements cover:

- lines of accountability
- working arrangements
- core financial requirements
- relationships with other ALBs and organisations in the system
- how the ALB is held to account for delivering its objectives and outcomes and for the use of public money.

Each ALB must also submit a business plan to the DHSC for approval each year indicating how its objectives will be achieved and forecasting its financial performance. Every ALB must lay its annual report and accounts before Parliament.

The DHSC has a duty to keep the performance of ALBs under review and the Secretary of State can intervene in the event of 'significant failure'.

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<sup>33</sup> HM Treasury, *Budget 2021, March 2021*

<sup>34</sup> The Department of Health and Social Care also works with a number of 'advisory non-departmental bodies' such as the NHS Pay Review Body and the Review Body on Doctors' and Dentists' remuneration; as well as other bodies such as NHS Property Services Ltd and Community Health Partnerships Ltd.



## What ALBs do – roles and responsibilities

ALBs can be categorised by function as follows.

### **Regulatory – ALBs that hold the health and social care system to account:**

- NHS England and NHS Improvement\* (NDPB)
- Care Quality Commission (CQC) (NDPB)
- Medicines and Healthcare Products Regulatory Agency (executive agency)
- Human Fertilisation and Embryology Authority (NDPB)
- Human Tissue Authority (NDPB)

\*NHS England and NHS Improvement consists of three separate statutory organisations which work as a single organisation under the same management team. The three organisations are the NHS Trust Development Authority (special health authority), Monitor (NDPB) and NHS England (NDPB). Since 1 April 2016 the NHS Trust Development Authority and Monitor have operated as a single organisation called NHS Improvement. In April 2019 NHS England and NHS Improvement moved to a single leadership model. The *Health and Care Act 2022* sets out the intention to transfer the powers of Monitor and the NHS Trust Development Authority to NHS England and abolish the previous organisations. The role of NHS England and NHS Improvement is covered in chapter four.

### **Public welfare – ALBs that focus primarily on safety and the protection of public and patients:**

- UK Health Security Agency (UKHSA) (executive agency)
- Health Research Authority (NDPB)

### **Standards – ALBs that focus primarily on establishing national standards and best practice:**

- National Institute for Health and Care Excellence (NICE) (NDPB).

### **Central services to the NHS – ALBs that provide cost-effective services and focused expertise across the health and social care system:**

- NHS Blood and Transplant (special health authority)
- NHS Business Services Authority (special health authority)
- NHS Counter Fraud Authority (special health authority)
- NHS Resolution (special health authority).

We will look more closely at the role NHS England and NHS Improvement undertake in chapter four. Some of the other ALBs that have a particular bearing on NHS finance and governance are considered later in this chapter.

## How ALBs are financed

ALBs are financed primarily out of the settlement received by the Department of Health and Social Care (as 'grant in aid') although some levy fees for services provided (for example, the CQC charges a registration fee) and others are financed largely via charges to users of their services – for example, in the case of NHS Blood and Transplant, hospitals (both NHS and private) pay for each unit of blood supplied.



## 3.6 UK Health Security Agency

### What it is – status and accountabilities

In August 2020, following the outbreak of the Covid-19 pandemic, the then Secretary of State for Health and Social Care announced the establishment of the National Institute for Health Protection (NIHP), bringing together health protection elements of Public Health England with the NHS Test and Trace service and the Joint Biosecurity Centre's intelligence and analytical capability<sup>35</sup>. Subsequently the new organisation's name was changed to the UK Health Security Agency (UKHSA), and it became fully operational in October 2021<sup>36</sup>. It was established to help ensure that the UK can respond quickly and at greater scale to deal with pandemics and future threats.

Public Health England (PHE), which was established under the *Health and Social Care Act 2012*, was abolished in 2021 and its health improvement responsibilities transferred to the Office for Health Improvement and Disparities (OHID) within the DHSC.

The UKHSA is an executive agency of the Department of Health and Social Care and is therefore accountable to the DHSC.

### What the UKHSA does – roles and responsibilities

The UKHSA is responsible for planning, preventing and responding to external health threats, and providing intellectual, scientific and operational leadership at national and local level.

The responsibilities of the UKHSA include:

- the health protection functions previously the responsibility of Public Health England
- planning and executing the response to external health threats such as pandemics
- the Joint Biosecurity Centre
- NHS Test and Trace.

### How the UKHSA is financed

UKHSA is financed out of the Department of Health and Social Care's allocation.

## 3.7 Health Education England and Local Education and Training Boards

### What it is – status and accountabilities

Health Education England (HEE)<sup>37</sup> was originally established by the 2012 Act as a special health authority within the Department of Health and Social Care. In April 2015 it became an NDPB. It has 2,250 members of staff. In April 2023 it will become part of NHS England as a standalone directorate.

### What HEE does – roles and responsibilities

HEE provides national leadership and oversight on strategic planning and development of the health and public health workforce and allocates education and training resources. In other words, HEE ensures that the healthcare workforce has the right skills and is available in the right numbers.

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<sup>35</sup> Department of Health and Social Care, *The future of public health: the NIHP and other public health functions*, September 2020

<sup>36</sup> UK Health Security Agency, *About us*, 2021

<sup>37</sup> Health Education England, *About*, 2022

HEE has the following key functions:

- providing national leadership on workforce planning and development, ensuring the security of supply of the professionally qualified clinical workforce
- appointing and supporting the development of Local Education and Training Boards (LETBs) to lead local planning and development activity
- promoting high quality education and training, responsive to the needs of patients and local communities
- allocating and accounting for NHS and public health education and training resources and the outcomes achieved<sup>38</sup>.

HEE has Local Education and Training Boards (LETBs) that are responsible for the training and education of NHS staff, both clinical and non-clinical, within their area. LETBs are committees of HEE and are made up of representatives from local providers of NHS services. There are seven LETBs covering England.

### How HEE is financed

HEE is financed out of the Department of Health and Social Care's allocation.

## 3.8 NHS Digital

### What it is – status and accountabilities

NHS Digital<sup>39</sup> is the trading name for the Health and Social Care Information Centre (HSCIC). HSCIC was created as a special health authority in 2005 and changed to an NDPB in April 2013. It was rebranded as NHS Digital in 2016. In November 2021, it was announced that NHS Digital would be incorporated into NHS England, subject to legislation.

### What NHS Digital does – roles and responsibilities

NHS Digital is responsible for the information, data and IT systems for commissioners, analysts and clinicians in health and social care in England.

NHS Digital has the following key functions:

- collect and disseminate data, to maximise the accessibility, quality and utility of health and care data
- run live services, both citizen facing such as the NHS app, and systems such as the electronic prescribing service
- develop new products, services and enablers
- support the UK response to Covid-19, through delivery of the digital services for test and trace and vaccinations.

### How NHS Digital is financed

NHS Digital is financed out of the Department of Health and Social Care's allocation.

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<sup>38</sup> Department of Health and Social Care, *Framework Agreement between the Department of Health and Social Care and Health Education England: 2018 – 2021*, July 2019

<sup>39</sup> NHS Digital, *About NHS Digital*, 2022

## 3.9 Care Quality Commission (CQC)

### What it is – constitution, structure and accountabilities

The Care Quality Commission<sup>40</sup> began operating on 1 April 2009 as the independent regulator of health and adult social care in England. It is an executive non-departmental public body and was established to regulate fundamental standards of quality and safety, which were first set out in the *Health and Social Care Act 2008*.

Although it is formally an ALB of the Department of Health and Social Care, the CQC is independent of central government and directly accountable to Parliament. However (as with all ALBs), the CQC has a 'framework agreement' with the Department of Health and Social Care which sets out its relationship and lines of accountability. It also publishes a strategic plan which forms the basis of regular meetings with the Department.

### What it does – roles and responsibilities

The CQC was given a range of legal powers and duties as part of the Health and Social Care 2008 Act, these include:

#### CQC powers and duties

- registering providers of healthcare and social care to ensure that they are meeting the essential standards of quality and safety
- monitoring how providers comply with the standards by gathering information and inspecting them when the CQC think it is needed
- using enforcement powers, such as fines and public warnings and closing down services, if services drop below the essential standards and, particularly, if the CQC think that people's rights or safety are at risk
- acting to protect patients whose rights are restricted under the Mental Health Act
- promoting improvement in services by conducting regular reviews of how well those who arrange and provide services locally are performing
- carrying out special reviews of particular types of services and pathways of care, or investigations on areas where the CQC has concerns about quality and safety
- seeking the views of people who use services and involving them in the CQC's work
- telling people about the quality of their local care services to help providers and commissioners of services to learn from each other about what works best, where improvement is needed, and help to shape national policy.

As a result of the Health and Social Care Act 2012, the CQC gained additional responsibilities including the establishment of HealthWatch England.

#### HealthWatch England

HealthWatch England is a national body established to enable the views of people who use NHS and social care services to influence national policy, advice, and guidance. It is constituted as a statutory committee of the CQC and its chairperson is a CQC non-executive director. Its role is to provide leadership, guidance and support to local HealthWatch organisations (see chapter 8) and advise the Secretary of State, NHS England and NHS Improvement, and local authorities. HealthWatch England is funded as part of the Department of Health and Social Care's grant in aid to the CQC and must make an annual report to Parliament.

<sup>40</sup> Care Quality Commission, *About us*, 2022

The Care Act 2014 required the non-executive members of the CQC to appoint executive members to be the Chief Inspector of Hospitals, the Chief Inspector of Adult Social Care and the Chief Inspector of General Practice.

CQC's strategy from 2021<sup>41</sup> sets out ambitions under four themes:

- people and communities - regulation that is driven by people's needs and experiences, focusing on what is important to people and communities when they access, use and move between services
- smarter regulation - smarter, more dynamic and flexible regulation that provides up-to-date and high-quality information and ratings, easier ways of working with the CQC and a more proportionate response
- safety through learning - regulating for stronger safety cultures across health and care, prioritising learning and improvement and collaborating to value everyone's perspectives
- accelerating improvement - enabling health and care services and local systems to access support to help improve the quality of care where it's needed most.

### How the CQC is financed

The CQC is funded through fee income from providers registered with CQC.



#### Key learning points

- The Secretary of State is accountable to Parliament for the provision of the comprehensive health and care service in England.
- The Secretary of State is supported by a team of health ministers who are appointed by the Government. These ministers are either MPs elected by the public or members of the House of Lords. They are accountable to the Secretary of State.
- The Department of Health and Social Care (DHSC) is the Department of State responsible for the NHS, public health and adult social care in England.
- Arm's length bodies (ALBs) are stand-alone national organisations sponsored by the Department of Health and Social Care to undertake activities to help deliver its agenda.
- Examples of ALBs include NHS England, Care Quality Commission, and the UK health Security Agency.

### Additional HFMA resources

The HFMA maintains a directory of resources which provides links to other HFMA outputs such as briefings and webinars across a range of subjects. It also highlights e-learning courses that are available. [The directory of resources can be found here.](#)

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<sup>41</sup> Care Quality Commission, *A new strategy for the changing world of health and social care - CQC's strategy from 2021*, April 2022