

HFMA introductory guide to NHS finance

Appendix: Glossary of terms



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This listing includes a brief explanation of some of the terms used in the guide but is not exhaustive. The HFMA has produced a number of briefings that list key financial and governance terms. These can be downloaded from the publications section of our website – type in ‘glossary’ to the search function: <https://www.hfma.org.uk/publications>

Term

Accountability	Demonstrating on an ongoing basis that public money is being used wisely and effectively
Accountable/ Accounting officer	Responsible for ensuring that his or her organisation operates effectively, economically and with probity; makes good use of resources and keeps proper accounts
Accounts direction	Sets out detailed rules about the preparation, approval and publication of the annual report and accounts
Accrual	An accounting concept that is designed to ensure that the accounts and budget reports show all the income and expenditure that relate to the financial year
Activity-based budgeting	Produces a budget for a defined activity level. As activity levels change, so do costs and income
Administration income / expenditure	Income/ expenditure that is not for the direct provision of healthcare or healthcare related services
Aligned payment and incentive approach (API)	A payment system that supports joint working through paying all providers through the same methodology. Comprises a fixed element to cover an agreed level of activity and a variable element to incentivise agreed priorities
Allocation	The annual amount of money made available to a health board or CCG to deliver/ purchase healthcare for local people
Amortisation	Follows the same underlying principle as depreciation but is the term used in relation to intangible assets such as patents, intellectual property and software licences
Audit	The process of validating the accuracy, completeness and adequacy of disclosure in financial records
Audit committee	A statutory committee of the governing body of all NHS organisations. Its role is to review and report on the relevance and rigour of the governance structures in place and the assurances the board receives
Balanced budget	A budget that delivers break-even or a surplus

Benchmarking	The process of measuring and comparing performance against other similar organisations to obtain information that helps to identify areas for potential improvement
Best practice tariffs	Reflect the costs of delivering treatments in line with NICE guidance. They financially incentivise the clinically appropriate model against other treatments for the same condition
Better care fund (BCF)	CCGs and local authorities contribute an agreed level of resource into a single 'pot' that is then used to commission health and social care services enabling patients to experience a seamless service with a single point of access for their health and social care needs
Block contract	Allows a healthcare provider to receive a 'lump sum' payment to provide a service irrespective of the number of patients treated or the type of treatment provided
Board assurance framework (BAF)	Records the key processes used to manage the organisation and the principal risks to meeting its strategic objectives
Board / governing body	The organisation's pre-eminent group that takes corporate responsibility for the strategies and actions of the organisation and is accountable to the public for the services provided
Break-even	Income equals expenditure. Although the break-even duty is a statutory requirement for non-foundation NHS trusts in England, all NHS bodies are expected to operate a balanced budget ensuring that total expenditure does not exceed total income
Budget	A financial and/ or quantitative statement that is prepared and agreed for a specific future period. It translates aims into a statement of the resources needed to fulfil them and has either a monetary or non-monetary value
Budget manager	The single named individual responsible for ensuring that the budget is met and highlighting when the budget is likely to be under or over spent
Budget monitoring	A continuous process of reviewing actual income and expenditure or non-financial data for example, patient activity against the budget
Business case	A formal process for identifying the financial and qualitative implications of options for changing services and/ or making investments
Business plan	The written end product of a process that identifies the aims, objectives and resource requirements of an organisation over the next three to five year period
Capital	An asset (or group of functionally interdependent assets) with a useful life expectancy of greater than one year, whose cost exceeds a minimum threshold, normally £5,000

Capital resource limit (CRL)	A limit on the amount that may be spent on capital purchases. It takes account of money owed by and to the organisation in relation to capital as well as the sale or disposal of assets. If net capital expenditure is less than the limit, the target has been achieved
Code of accountability	This defines the public service values that must underpin the work of NHS governing bodies, sets out accountability regimes and describes the basis on which NHS organisations should fulfil their statutory duties
Commissioning for quality and innovation (CQUIN)	Payments designed to ensure that a proportion of providers' income is conditional on quality and innovation and is linked to service improvement
Consolidation	The requirement for individual NHS bodies' accounts to be included in a consolidated set of accounts with other bodies under common control
Constitution and / or standing orders	Translate an organisation's statutory powers into a series of practical rules designed to protect the interests of the organisation, its staff and 'customers'. They specify how functions will be carried out and how decisions will be made
Cost improvement plan / programme (CIP)	Sets out the savings that an NHS organisation plans to make to reduce its expenditure/ increase efficiency. It is used to close the gap between the funding received and the expenditure incurred in any one year
Cost pressures	A generic cost pressure is an increase in cost that is generally beyond the control of an individual organisation. A local cost pressure is an increase in cost that, although it may or may not be geographically widespread, is considered to be within the control of an individual organisation
Costing	Quantifying, in financial terms, the value of resources consumed in carrying out a particular activity/ service or producing a certain unit of output
Currency	A defined unit of output activity or healthcare that is paid for by commissioners
Deferred income	Income received in advance for goods or services that have not yet been delivered or provided
Depreciation	A non-cash expense that recognises that assets are 'used up' during their useful life. The term relates to tangible assets such as property, plant and equipment, as well as some intangible assets such as software development
Direct costs	Costs that can be directly attributed to a particular activity or output
Discretionary capital	The element of Welsh NHS organisations' capital resource allocations that is intended for meeting statutory obligations

Drawdown	The amount of cash that a CCG can access. Cash cannot be accessed in advance of when it is needed
External financing limit (EFL)	External financing limit (EFL) is one of the performance targets against which the financial performance of a non-foundation NHS trust is measured. It is a control on net cash flows and trusts must not overshoot their EFL
Financial model	A mechanism used for illustrating what the income and costs for different scenarios will be, when they will be received and incurred and what tolerances there are for each
Five case model	The HM Treasury approach used to develop public sector business cases for spending proposals. It requires consideration of five 'cases': strategic, economic, commercial, financial and management
Fixed costs	Costs that do not increase or decrease with changes in levels of activity
Forecast	A prediction of future financial performance
Full business case (FBC)	A written document that brings together the arguments for a preferred planned investment including current and future service requirements, affordability, the organisation's competitive service position and the ability to complete the project within the specified budget and time scale
Governance	The system by which organisations are directed and controlled. It is concerned with how an organisation is run - how it structures itself and how it is led
Governance statement (GS)	A key component of the annual report and accounts and is signed by the accountable officer (on behalf of the governing body). It is designed to provide assurance in relation to the system of internal control that has been operating throughout the preceding year
Group accounting manual (GAM)	Sets out how health bodies should apply international financial reporting standards (IFRS) when preparing their accounts. It includes sector specific disclosures required in their annual report and accounts
Healthcare agreements	Contracts agreed between two local health boards or a local health board and an NHS trust
Healthcare resource groups (HRGs)	The currency used to collate the costs of procedures/ diagnoses into common groupings
Incremental/historical budget/base budget	The previous year's budget adjusted for all known changes and developments
Integrated care	Gives people the support they need, joined up across local councils, the NHS, and other partners. It removes traditional divisions between

	hospitals and family doctors, between physical and mental health, and between NHS and council services.
Integrated care system (ICS)	Partnerships between the organisations that meet health and care needs across an area, to coordinate services and to plan in a way that improves population health and reduces inequalities between different groups
Integrated care board (ICB)	Will take on the NHS commissioning functions of CCGs as well as some of NHS England's commissioning functions. It will also be accountable for NHS spend and performance within the system
Integrated care partnership (ICP)	Bring together the ICBs, their partner local authorities and other locally determined representatives and are tasked with developing a strategy to address the health, social care and public health needs of their system
Indirect costs	Costs that cannot be attributed directly to a particular activity or cost centre
Liquidity	A measure of how long an organisation could continue if it collected no more cash from debtors
Local modification	An increase to a national price agreed between a commissioner and provider in England if local circumstances make it uneconomic to continue to provide a particular service at the national price
Local price	A price for a healthcare activity that is negotiated and agreed between a commissioner and provider in England
Local variation	An increase or decrease in a national price or a change in currency agreed between a commissioner and a provider in England if the national price is not appropriate for local circumstances
Market forces factor (MFF)	A payment index applied to all NHS bodies providing services under the national tariff to account for geographical variations in the cost of providing healthcare in different parts of the country
National price	The price set by NHS Improvement for a defined unit of healthcare. It is the amount paid by a commissioner in England to reimburse a provider of NHS funded healthcare
National tariff	The system of financial flows to move funds around the health service. It enables healthcare providers in England to be reimbursed for the costs of providing treatment
National tariff document (NTD)	The document jointly published each year by NHS Improvement and NHS England outlining the payment mechanism for the NHS in England
Nolan principles	The key principles of how individuals and organisations in the public sector should conduct themselves

Non-executive director/ non-officer member/ lay member	Normally appointed by the organisation's nominations committee, they are key members of the organisation's governing body. Appointed based on their individual skills and what they will bring to the overall composition of the board, they are expected to challenge decisions and strategies
Non-recurrent	One-off income, expenditure or savings
Outline business case (OBC)	A written document that evaluates different investment options using economic appraisals to identify the preferred option in financial terms
Overhead costs	Those costs that contribute to the general running of the organisation but cannot be directly related to an activity or service
Patient level costing	Allocating costs to an individual patient
Patient level costing and information system (PLICS)	Computer software that enables an organisation to determine and analyse patient-level costs
Payment by results (PbR)	A system where payment is made for activity carried out, at a pre-set national rate, or tariff. Usually only applied to acute sector activity
Personal health budget (PHB)	The support a person purchases or arranges, to meet agreed health and/ or social care outcomes
Pooled budget	A local authority and an NHS body combine resources and jointly commission or manage an integrated service under section 75 of the NHS Act 2006
Primary care network (PCN)	A group of general practices working together with a range of local providers across primary care, community services, social care and the voluntary sector.
Prime financial policies / standing financial instructions (SFIs)	Set out the organisation's detailed financial procedures and responsibilities. They are designed to ensure that NHS organisations account fully and openly for all that they do
Programme income or expenditure	Any income spent or expenditure incurred on the direct provision of healthcare or healthcare related services
Public dividend capital (PDC)	Represents the Department of Health and Social Care's equity interest in defined public assets across the NHS. The Department is required to make a return on its net assets of 3.5%. For NHS providers this is paid as a PDC dividend
Quality, innovation, productivity and prevention (QIPP)	A programme designed to identify savings that can be reinvested in the health service and improve the quality of care. Responsibility for achievement lies with CCGs
Recurrent	On-going income, expenditure or savings

Reference costs	NHS organisations are required to submit a schedule of costs of delivered healthcare resource groups/ activities to allow direct comparison of the relative costs of different providers. The results are published each year in the national schedule of reference costs
Reserves	Monies that are set aside for a specific purpose, often on receipt of specific or ring-fenced income
Resource limit (RL) or revenue resource limit (RRL)	One of the financial performance targets used to determine whether or not operational financial balance has been met by health boards (RL), NHS England and CCGs (RRL)
Revenue costs	The day-to-day costs of running an organisation
Revenue funding	The funding received by an NHS organisation to meet the costs of its day-to-day activities
Scheme of reservation and delegation	A detailed listing of who the governing body empowers to take actions or make decisions on its behalf
Semi fixed / step costs	Costs that tend to remain fixed for a given level of activity but change in steps when activity levels exceed or fall below given levels
Service line management (SLM)	An 'organisation structure and management framework' where specialist clinical areas are identified and managed as distinct operational units
Service line reporting (SLR)	Looking in detail at the profitability and financial contribution of services in much the same way as a private sector company analyses its business units
Standards of business conduct	The strict ethical standards to be applied by all staff when conducting NHS business
Sustainability and transformation partnership (STP)	Precursor to ICSs, bringing health and care partners together across a geographical area
Sustainability and transformation plan (STP)	A five-year strategic plan, designed to ensure that organisations within the partnership were working towards the same priorities
Transformation programmes	Enable an NHS organisation or number of organisations to fundamentally change the way that a service is provided/ delivered
Underlying deficit	A recurrent, ongoing mismatch between an organisation's revenue and expenditure
Value for money (VFM)	The maximum benefit has been obtained from the goods or services bought or investment made

Variable costs	Those costs that increase/ decrease in line with changes in the level of activity
Variance	The difference between what was planned and what actually happens in financial terms
Virement	The process of transferring money from one budget heading/ line to another
Working capital	The money and assets (owned resources) that an organisation can call upon to finance its day-to-day operations
Zero based budgeting (ZBB)	An approach to budgeting that involves starting with a blank sheet of paper and building up the budget, working out all figures based on the agreed objectives and what it will cost to meet them
