

HFMA introductory guide to NHS finance

Chapter 13: Revenue planning and budgeting



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Overview

NHS organisations are responsible for spending taxpayers' money to ensure that patients have access to high quality care, free at the point of delivery. As this is taxpayers' money there is an absolute requirement to demonstrate that the money is used well and for its intended purpose. Every NHS organisation also has a specific statutory duty to make 'proper arrangements for securing economy, efficiency and effectiveness in its use of resources'. To be able to meet this requirement, each organisation needs to plan the activities it will deliver or commission and establish the associated resource implications – not just in terms of money but also in relation to staffing, equipment, supplies and so on.

Planning and budgeting take place across two areas, revenue and capital. These are then brought together in an overall financial plan. This chapter focuses on the revenue side – in other words, how NHS organisations plan and budget for their day-to-day activities. Capital planning is covered in chapter 14.

13.1 Why are revenue planning and budgeting important?

Revenue planning and budgeting are integral parts of an organisation's business planning process and help it by establishing:

- an agreed way ahead
- key aims and objectives
- how those aims will be achieved and by when
- a framework for day-to-day operations and decisions
- a performance management and accountability framework.

13.2 What the planning process involves

The planning process enables the NHS to allocate its resources to meet both national and local priorities. It is designed to facilitate the efficient and effective delivery of high-quality services, demonstrate accountability and ensure consistency with national policy and local plans, targets and outcomes frameworks. It also supports integrated care systems (ICSs) to work together to develop joint plans to improve population health, through ensuring that system wide priorities are agreed, and all partners are resourced appropriately. To find out more about the role of the ICS, see chapter 4.

During the Covid-19 pandemic the normal planning process was suspended. The usual planning process was re-instated from 2022/23.

Key guidance

NHS England publishes operational and planning guidance on an annual basis, together with additional supporting documents for other key areas. Full guidance for 2024/25 remains outstanding, however an update on planning²⁴⁴ was provided in December 2023. At the same time, guidance was issued regarding:

²⁴⁴ NHS England, *Update on planning for 2024/25*, December 2023

- Draft NHS Standard Contract for 2024/25²⁴⁵
- Proposed amendments to the NHS Payment Scheme for 2024/25²⁴⁶
- Guidance on developing 2024/25 plans²⁴⁷.

A full suite of guidance would include:

- Priorities and operational planning guidance
- Revenue finance and contracting guidance for 2023/24
- NHS financial framework: Integrated care board and system finance business rules
- Capital guidance for 2023-24
- Guidance on developing the joint forward plans
- Allocations.

NHS England provides additional guidance where required to address specific planning areas, and issues technical guidance to support the completion of planning templates

13.3 National, system and local plans

There are several key documents that systems and organisations complete as part of the planning process:

- a system level implementation plan that address the requirements published in the *NHS long term plan*²⁴⁸
- an annual system operating plan for the local health economy, covering shared priorities and parameters for organisational planning to meet the implementation plan. This is supported by system level activity, financial and workforce plans
- an annual organisational operating plan to support the delivery of the system operating plan. This is supported by organisational level activity, financial and workforce plans
- a long-term (usually 3 to 5 years) strategic business plan for the organisation. This is sometimes referred to as the integrated business plan (IBP)
- a long-term financial plan for the organisation that looks at best case and downside scenarios.

NHS long term plan implementation plan

The *NHS long-term plan* implementation plan sets out what the system plans to deliver over the next five years, linking to the priorities set out in the *NHS long term plan implementation framework*²⁴⁹. Current plans cover the period from April 2020 to March 2024. The plan includes a description of local need and how services will be developed to address this need.

Plans are expected to align with the following principles:

²⁴⁵ NHS England, *2024/25 NHS standard contract*, December 2023

²⁴⁶ NHS England, *Proposed amendments to the 2023/25 NHS Payment Scheme*, December 2023

²⁴⁷ NHS England, *Guidance on developing the joint forward plan*, December 2023

²⁴⁸ NHS England, *The NHS long term plan*, January 2019

²⁴⁹ NHS England, *Long term plan implementation framework*, June 2019

- **clinically-led:** In practice this means that systems will need to identify and support senior clinicians to lead on the development of implementation proposals for all NHS long term plan commitments that have clinical implications and on the totality of their plan.
- **locally owned:** Build on existing engagement with local communities to ensure they can meaningfully input into the development of local plans.
- **realistic workforce planning:** Systems should set out realistic workforce assumptions, matched to activity and their financial envelope.
- **financially balanced:** Systems need to show how they will deliver the commitments in the plans within the resources available.
- **delivery of all commitments in the *NHS long term plan* and national access standards**
- **phased based on local need:** While the *NHS long term plan* must be delivered in full, this does not mean that all initiatives should be implemented simultaneously everywhere. The scale and pace of local implementation should be based on local need and priorities.
- **reducing local health inequalities and unwarranted variation:** System plans should set out how they will use their allocated funding to deliver tangible improvements in health outcomes and patient experience and help reduce local health inequalities.
- **focused on prevention:** System plans must consider not just how to deliver health services but how to prevent ill health.
- **engaged with local authorities:** System plans should expect to be developed in conjunction with local authorities and with consideration of the need to integrate with relevant local authority services.
- **driving innovation:** All system plans must consider how to harness innovation locally.

Strategic business plan

Each individual NHS organisation will have its own individual long-term strategic business plan. The business plan is the written end product of a process that identifies the aims, objectives and resource requirements of the organisation over a three-to-five-year period. It is a detailed document that sets out the assumptions that underlie service plans and budgets for the period covered.

What a business plan includes

- an activity and income and expenditure plan, together with cashflow plan
- details of planned service developments
- savings/ waste reduction or cost improvement plans (CIPs)
- performance measures
- workforce implications
- a strategy for the organisation's support services - for example, the estate and information technology
- an analysis of the needs and priorities of the wider health community and how and where the organisation fits in; it is particularly important that this is in line with the requirements set out by the integrated care partnership in the integrated care strategy.

The business plan is considered and approved by the organisation's board and then used as a benchmark against which to measure progress towards achieving the organisation's aims and objectives. In practice, this means that the business plan is kept under constant review and updated

to reflect the impact of external changes - for example, government announcements, and internal developments such as clinical techniques.

Long term financial plan

Accompanying the business plan, a long-term financial plan is used by NHS organisations to look at the financial impact of achieving their goals over the medium to long term (again over a three to five year period). This plan focuses on the assumptions made in the business plan and enables the organisation to see how potential changes - for example, local demographics could affect financial viability. The long-term financial plan also includes an analysis of best case and downside scenarios – enabling the organisation to anticipate what might happen if things do not go as planned and have strategies in place to mitigate the impact if they do.

Operational plan

Operational plans show how national targets - for example, as set out in the *NHS constitution*²⁵⁰ and the *NHS long term plan* and local priorities - for example, as set out in joint local health and wellbeing strategies and joint strategic needs assessments developed by health and wellbeing boards (see chapter 8) will be delivered within available resources. They are used by the ICB to outline how it intends to address health inequalities, improve health outcomes and better focus healthcare provision in line with integrated care partnership intentions and strategies, national and local priorities. For providers, the focus of an operational plan is how they will deliver the services agreed with commissioners as well as meet their own objectives and priorities - for example, the need to achieve required savings or carry out service re-design or integration.

Operational plans are reviewed regularly throughout the year and if significant issues arise that affect progress, adjustments are made - for example, if serious financial problems develop in the health economy.

Financial plan

Alongside the operational plan, all NHS organisations must produce an annual financial plan (usually referred to as the budget) that shows the expected income and expenditure of its planned activities for the coming year (both revenue and capital) and demonstrates that the organisation will achieve its financial duties. Chapter 11 looks in detail at these duties but in relation to the budget, the key statutory requirement for NHS providers and commissioners is that they must not spend more money than they have coming in, in other words, they must at least break-even (achieve a 'balanced budget') or deliver a surplus. Although NHS foundation trusts do not have a specific statutory duty to break-even, they must remain solvent if they are to continue as going concerns.

To assess the financial position accurately, the budget must cover all expected sources of income and expenditure across the full range of activities for which the organisation is responsible and take account of other non-financial information, such as activity levels, savings schemes and staffing requirements. The budget is approved by the board in March and is then used to monitor progress and performance throughout the year so that an organisation knows how much income it is receiving, what it is spending, and how much it is overspending or saving at any point in time.

For commissioners, the expenditure side of the budget is based on the activity levels that they have commissioned from providers to meet their commissioning intentions. For providers, the expenditure budget is based on the capacity and workforce they need to have available to meet these levels of activity. This will include the costs of running a service, department or organisation on a day-to-day basis - for example, to meet the costs of staff pay, travel expenses, overheads, drugs and other

²⁵⁰ Department of Health and Social Care, *The NHS constitution for England*, March 2012 (updated August 2023)

consumables. Providers will also have a budget for income - for example, split between income for patient care activity, teaching and education, and other areas such as research and development activity and commercial activities such as catering and the treatment of private patients.

The capital budget is based on plans for major spending on land, buildings, equipment and other durable items that are expected to be used for more than one year and have a value of £5,000²⁵¹ or more. This expenditure is subject to separate funding and regulations (see chapter 14 for details).

13.4 Annual planning submissions to NHS England

Systems and individual providers are required to submit annual plans that reflect the planning priorities as set out in the *Operational and planning guidance*. National templates will be issued to allow consolidation at a national level.

Although providers will produce individual plans, the process will operate at a system level.

In year activity and performance plans

Submission to NHS England include:

- Activity and performance – details contracts and activity levels, and profiles this across months
- Finance – the financial plan for the year on a month-by-month basis
- Workforce – workforce numbers by staff group and profiled on a monthly basis.

NHS England will also issue a triangulation tool that compares the three individual plans and checks for inconsistencies – for example, a plan that has additional workforce numbers, but where the financial costs are not reflecting the increase to the level expected.

Annual joint forward plan (JFP)

ICBs have a statutory duty to prepare an annual plan²⁵² known as the joint forward plan (JFP). These are described in more detail in chapter 5.

The JFP sets out how an ICB proposes to 'exercise its functions'. The JFP must, as a minimum, describe:

- how the ICB and its partner trusts will provide NHS services that meet the physical and mental health needs of their local population
- how it plans to spend the funding received, ensuring that expenditure will be contained within the limits set for the year.

JFPs are submitted to NHS England.

13.5 Budgeting in practice

Approaches

Although organisations refer to their budget (singular), it is actually made up of a series of separate budgets for each activity, service, department or practice. Each part of the organisation develops its own financial, workforce and activity plans to indicate how it will use its share of the money to meet

²⁵¹ Department of Health and Social Care, *Group accounting manual 2023 to 2024*, June 2023

²⁵² Section 14Z11 of the *NHS Act 2006* as inserted by s26 of the *Health and Social Care Act 2012*

needs and priorities within the overall strategy. There are three basic budgeting approaches: historic, zero-based and activity-based. The NHS tends to use a combination of all three.

Historic or incremental budgeting – this uses the previous year’s budget, adjusted for known changes - for example, as required in cost improvement programmes, cost rises (such as, pay awards and other inflationary factors) and developments - for example, if a new service is introduced or another discontinued or if National Institute for Health and Care Excellence (NICE) guidance changes. Allowance is also made for the financial consequences of any new policy developments.

Zero-based budgeting – this involves starting with a blank sheet of paper each year and results in a completely fresh financial plan. It tends to be used for the introduction of new services or when activities are under review.

Activity-based budgeting – this approach looks at what drives costs and is linked to activity levels. It requires those involved in setting the budget to know and understand the costs of delivering particular activities and services - for example, being clear about what costs are fixed and those that are variable (i.e. costs that will increase or decrease as activity increases or decreases – see chapter 17 for more on costing). The aim is to ensure that no matter what the actual level of activity, the correct resources are available to fund it.

Budget management

Another important feature of any budget in the NHS is that it is not primarily the responsibility of the finance experts. That is not to say that their role is not crucial, but that it is essential to have a single named individual responsible (at the operational/ service level) for developing and managing each budget (the budget holder or manager). That person uses their knowledge and experience to help develop the budget and has the authority to take decisions relating to it. This means that responsibility for a budget must be aligned with the ability to control income and expenditure (i.e., the ability to take decisions that will incur a cost or result in a flow of income). To be effective, a budget holder must understand what needs to be delivered and which organisational, local and national objectives they contribute to. As such, the finance manager will provide information, advice and support, but ultimate responsibility lies with the budget holder.

In practice, this means that each budget is managed at the lowest practicable level in the organisation by the person who understands the activity or service covered and who is responsible for committing the expenditure. This is known as devolved budget management.

Budget monitoring

Once a budget is agreed, it is used by the budget holder to monitor how the budget is performing via regular (usually monthly) monitoring. In other words, actual performance is compared with what was planned so that, when necessary, corrective action can be taken - for example, there may be an unexpected increase in the cost of equipment, or a new initiative may fail to deliver the level of savings expected.

13.6 The planning process – key external constraints

Given that all NHS organisations are statutory bodies, they do not have a free hand when it comes to developing their plans. Instead, they must follow national planning guidance, reflect national policy imperatives, meet targets and financial duties set by government and reflect local priorities. The main factors that directly affect revenue planning are:

- the *NHS constitution*

- the *NHS outcomes framework*²⁵³
- the *NHS long term plan*
- annual planning guidance
- efficiency requirements
- quality, innovation, productivity and prevention (QIPP) plans
- allocations – the money received from the Treasury via the DHSC or NHS England
- the national tariff document
- National Institute for Health and Care Excellence (NICE) guidelines
- local system planning.

The NHS constitution and the NHS outcomes framework

The *NHS constitution* and the *NHS outcomes framework* are key documents for all NHS organisations as they set out overall objectives and responsibilities that apply across the board. The Constitution's focus is on overarching rights, values and principles. The *NHS outcomes framework* has a more direct impact on day-to-day planning as it sets out what NHS organisations are expected to achieve in terms of healthcare outcomes for patients across five broad domains. For each domain several areas for improvement are identified but there are no set targets associated with them.

NHS outcomes framework – the five domains

1. Preventing people from dying prematurely
2. Enhancing quality of life for people with long term conditions
3. Helping people to recover from episodes of ill-health or following injury
4. Ensuring people have a positive experience of care
5. Treating and caring for people in a safe environment and protecting them from avoidable harm.

The outcomes framework is published annually, but is currently under review with NHS Digital consulting on proposals²⁵⁴.

System level plans

Plans are set at organisation and system levels. Each organisation's financial position is part of the overall system plan, and systems are expected to be in financial balance at a system level.

Five-year system plans were required from ICBs in March 2023. ICBs must ensure that system plans reflect local priorities, with specific objectives aligning to the four primary purposes of an ICS:

- improving outcomes in population health and healthcare
- tackling inequalities in outcomes, experience and access
- enhancing productivity and value for money
- helping the NHS support broader social and economic development.

²⁵³ NHS Digital, *About the NHS Outcomes Framework (NHS OF)*, 2023

²⁵⁴ NHS Digital, *NHS outcomes framework (NHS OF)*, December 2023

ICB plans are also expected to reflect national priorities for the NHS and consider the additional responsibilities that ICBs will take on for commissioning primary care and some specialised services.

Efficiency requirements

The NHS budget is now growing at a much slower rate than over recent years but demand for its services continues to rise. This means that all NHS organisations must deliver year on year real cost savings and reflect this in their annual plans. During the Covid-19 pandemic, the efficiency requirement was removed, however a 2.2% efficiency target was set for 2023/24.

Organisations also experience inflationary pressures such as the rising cost of utilities or consumable items, meaning that further efficiencies are required to address these financial demands, if not funded through increases in their allocation or income.

At a more detailed level, if the cost of an organisation's plans to purchase and/ or deliver services exceeds its anticipated levels of income, further savings must be included within the budget to bring it back in line with the available resources.

QIPP plans

To help achieve efficiency targets while maintaining and improving quality, DHSC introduced the 'quality, innovation, productivity and prevention (QIPP) challenge'. In practice, this means organisations seek to follow the 'lean management principles' of avoiding duplication, preventing errors that need to be corrected, and stopping ineffective practices. International evidence has shown that it is possible to improve the quality of care and patient experience while reducing costs. ICBs are responsible for leading the QIPP agenda, but all NHS organisations have a role to play in its delivery.

Allocations

As mentioned earlier in this chapter, all non-foundation NHS organisations must achieve a balanced budget each year (and FTs must remain solvent) and so the income level they receive is of critical importance. For commissioners the key factor is the funding allocation they receive from NHS England and for providers, the income secured through contracts with commissioners. The 2023/34 financial framework is system-based with a funding envelope issued to cover all organisations within an ICS. For more about the allocation process and how services are funded, see chapter 12.

The NHS payment scheme

The 2023/25 NHS payment scheme²⁵⁵ places almost all secondary healthcare services, including acute, community, ambulance and mental health onto an aligned payment and incentive approach building on the blended payments introduced in 2019/20.

A blended payment is made up of a fixed and variable element. The fixed payment is locally determined and covers an agreed level of activity. For providers of acute services, this excludes elective activity. The variable element is used to incentivise specific activity - in the case of acute services, to pay for elective activity based on national unit prices.

See chapter 16 for more about the NHS payment scheme.

²⁵⁵ NHS England, *2023/25 NHS payment scheme*, March 2023

NICE guidelines

NICE provides national guidance and advice that is designed to improve the quality of health and social care. Of particular importance in planning terms are its quality standards – these are developed in collaboration with relevant professions using a variety of evidence sources.

The quality standards are also used to inform payment mechanisms and incentive schemes – for example, the Quality and Outcomes Framework (QOF); see chapter 6 for more details.

13.7 Planning process – other influences

As well as reflecting national guidelines in its annual financial and operational plans, an organisation must allow for a range of other factors - for example:

- service developments (as outlined in its business plan)
- nationally agreed changes to pay and agreed increments for staff
- the impact of changes in clinical practice
- changes in drugs or medical devices used (NICE guidelines are relevant here)
- income streams that are no longer available or received
- changes in national and/or local priorities.



Key learning points

- The planning process is designed to ensure efficient and effective delivery of services, demonstrate public accountability, and ensure consistency with national and local plans and targets.
- The *NHS long-term plan* implementation plan is designed to meet the needs of the health and social care system in a geographical area.
- The business plan sets out the assumptions that underpin service plans and budgets.
- The operational plan shows how national targets and local priorities will be delivered within the resources available and forms the first year of the NHS long-term plan implementation plan.
- The financial plan or budget shows organisations' expected income and spending levels for the year ahead and demonstrates how their financial duties will be met.
- Although organisations refer to the budget, it is made up of a series of separate budgets for individual activities or services.
- There are three main budgeting approaches (historic, zero-based and activity-based), all of which are used in the NHS.
- Budgets are managed by budget holders who monitor actual performance during the year and take corrective action when needed.



Key learning points

- When NHS organisations develop their plans, they must take into consideration both external and internal requirements. Of particular importance are the *NHS constitution*, the *NHS outcomes framework* and the annual planning guidance.

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, including sections dedicated to the financial regime and the *NHS long term plan*. It also highlights online learning courses that are available. [The directory of resources can be found here.](#)