

# hfma briefing

Contributing to the debate on NHS finance  
July 2013

## Your NHS: NHS finance for beginners

A simple explanation of how the National Health Service is funded across the four UK nations

### Introduction

The National Health Service (NHS) is the world's largest publicly funded health service.

The NHS was created on 5 July 1948 to provide free healthcare to the whole population, based on the clinical need for treatment and not the ability to pay.

Since then, the NHS has grown to be the fourth largest employer in the world and now employs about 1.7 million staff across the United Kingdom. The NHS deals with more than one million patients every 36 hours.

The NHS has changed considerably since its creation 65 years ago and is continually being reorganised and reformed. However, its founding principle – that treatment should be provided to patients for free at the point of delivery – remains true to this day. This is part of the NHS Constitution,

which sets out the guiding principles of the NHS alongside patients' rights.

This document has been created by the Healthcare Financial Management Association (HFMA) to provide a simple explanation of:

- How NHS services are paid for
- How the money flows through the different health systems of England, Scotland, Northern Ireland and Wales.



More detailed explanations can be found in the HFMA's *Introductory Guide to NHS Finance*.



Shaping healthcare finance...



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## How is the NHS funded?

### Who pays for the NHS?

Running a service as large and extensive as the NHS costs a lot of money. In 2012/13, the total amount the government spent on health in England was about £110bn, considerably more than was spent on other public services such as education, transport or defence.

The public (people like you and me) and businesses pay for public services via taxation. The income tax and national insurance contributions from our salaries, as well as other taxes such as corporation tax and value added tax, go directly to the government to pay for public services including the NHS.

Because the government spends public money, it is very important that the money it receives is distributed fairly and spent properly. This is also true for the money spent by the NHS.

### How is the money distributed?

The government decides how much money to allocate to public services in a Spending Review. In a Spending Review, the Treasury (the number-crunching department within the government) decides how much money to allocate to each public service per year, based on the amount of money available and how important a public service is considered to be.

Because health is currently a priority, its funding is greater than any other area except social protection, which includes welfare benefits.

The arrangements for funding health services in Scotland, Northern Ireland and Wales are different. The Treasury allocates funding to the three countries. It is then allocated across their own public services, including the NHS, as they see fit.

Now we know how the NHS is funded, we need to look at how the money it receives is spent.

### How are NHS funds spent?

Most money spent in the NHS goes on paying the salaries of the people that work in it (about 70% in a typical hospital). The rest of the money is spent on areas such as drugs, medical supplies, equipment, energy and building maintenance.

Each and every treatment provided by the NHS – from a check-up with a GP to going to hospital for



an operation - costs the UK government, and therefore the general public, money. The cost of treatments vary due to a number of factors, such as the complexity of the treatment, where the treatment takes place, how many health professionals are involved, and whether any diagnostic tests or drugs are required. To give you an idea about the amounts involved, a hip replacement can cost between £4,000 and £7,000.

Many people do not realise that if you fail to attend an appointment, no matter how big or small your treatment, it still costs money. For every appointment a patient fails to attend, the NHS has less money and time to spend on services for their other patients.

There is increasing pressure on NHS resources because people are living longer and more people are living with chronic diseases such as diabetes. Historically, the NHS has enjoyed annual funding increases above the level of inflation to help keep pace with the increasing demand for services. However, recent economic pressures mean that the funding available to the NHS is expected to stay more or less the same for the foreseeable future. This means that there will be no above-inflation increase in funds to pay for the rising demand for health services. NHS organisations are always looking at ways to become more efficient and to deliver more for the money they receive, but it is particularly important at the moment.

### How do we know NHS money is spent properly?

Because of the amount of taxpayers' money that is spent on the NHS and the pressure on NHS resources, we need to know that it is being used properly.

Although the NHS is usually referred to as a single organisation, it actually comprises a wide range of different bodies with specific responsibilities. Each organisation is ultimately accountable to the government but functions independently. To ensure that NHS organisations are performing as they



should, and are spending their money properly, there are many systems, processes and rules in place. This ensures that our health system is run effectively, with integrity and that taxpayers' money is appropriately spent.

### Who does what?

In this section we will look at the structure of the NHS in England, Scotland, Northern Ireland and Wales and how money flows from the government to the organisations providing NHS services.

#### The NHS in England

Significant changes have been made to the NHS in England as a result of the coalition government's Health and Social Care Act 2012. The diagram below illustrates how the NHS is structured following the reforms completed in April 2013.

### How does money travel from the government to the patient?

The diagram shows the different organisations that money 'flows through' on its way from Parliament to the patient receiving treatment. The role of each of these organisations is set out below.

#### ● Parliament

Parliament is the highest legislative body and sits at the top of the accountability tree. Parliament holds the secretary of state for health to account for the Department of Health's functioning and use of resources.

#### ● Secretary of state for health

The secretary of state for health is politically accountable for the NHS and for the resources allocated to health and social care in England. The secretary of state is an MP and member of the Cabinet and is chosen by the government.

#### ● Department of Health

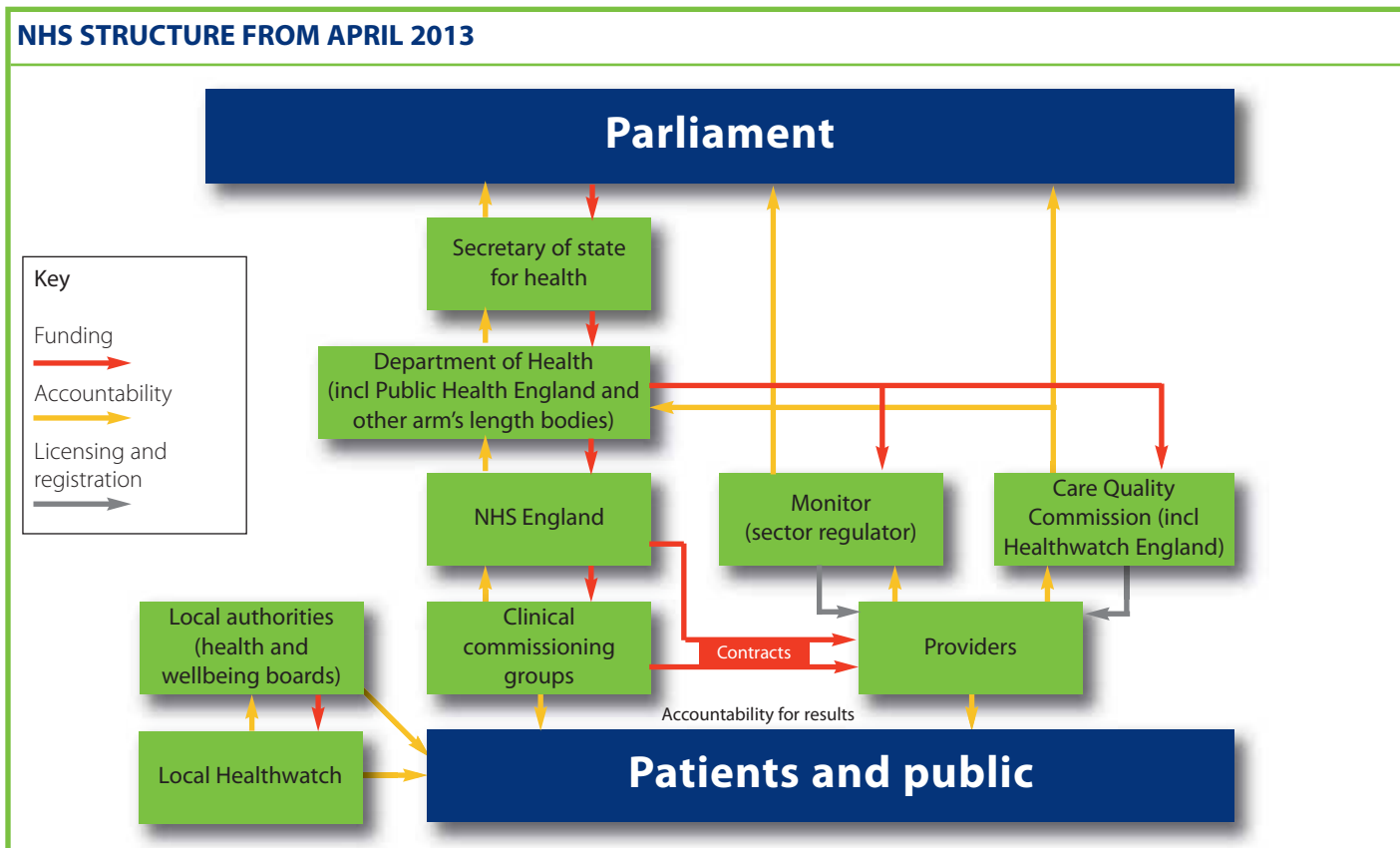
The Treasury transfers money to the Department of Health, which is the organisation responsible for leading the NHS, public health and social care in England. The Department of Health keeps a small amount for its running costs and for its own budget, including for the new organisation known as Public Health England.

## HFMA

The professional body representing NHS finance for more than 60 years:

- Providing high-quality advice to members and the wider healthcare community
- National and local networks to promote best practice and innovation in financial management and leadership
- Exerting influence to shape the wider healthcare agenda

[www.hfma.org.uk](http://www.hfma.org.uk)





## NHS finance just got easier...

HFMA's publications and training packages

Guidance on NHS finance for finance and non-finance professionals

[www.hfma.org.uk/e-learning](http://www.hfma.org.uk/e-learning)

As part of the changes to the NHS, the responsibility and funding for public health has been handed to local authorities, with Public Health England set up in the Department of Health. However, the majority of the Department of Health's funding is issued to a new arm's length body called NHS England and the rest to other smaller arm's length bodies.

### ● **Arm's length bodies**

The Department of Health allocates funds to a number of arm's length bodies. These are standalone national organisations that exist to carry out specific roles under the categories of regulatory, public welfare and standards on behalf of the Department of Health (see box, above right).

### ● **NHS England**

NHS England is a new arm's length body formed as part of the changes to the NHS. The main aim of NHS England is to improve health outcomes for people in England. It has overall responsibility for commissioning in the NHS. Commissioning is a complex process involving assessing which services are needed in a local area, procuring (buying) those services and monitoring that the services are being delivered.

NHS England spends some of the money allocated to it by the Department of Health on commissioning primary care services, such as GPs, dentists,

## ARM'S LENGTH BODIES

Some of these bodies act as independent regulators of the NHS:

- **Monitor** is the sector regulator for healthcare in England. Its role is to protect and promote patients' interests. Monitor is responsible for licensing healthcare providers and setting prices (with NHS England)
- **The Care Quality Commission (CQC)** checks whether hospitals, care homes and care services are meeting national standards.

pharmacists and opticians. NHS England also commissions specialised services that are provided regionally or nationally, such as transplant surgery.

NHS England's other role is to authorise and support the new clinical commissioning groups (CCGs). It provides funding to them and is responsible for overseeing their performance.

### ● **Clinical commissioning groups**

CCGs are groups of GPs that, from April 2013, are responsible for planning and designing local health services in England. CCGs are authorised by, and accountable to, NHS England.

CCGs are responsible for commissioning community, secondary and tertiary care medical services for the patients living in their area. This includes both planned care and emergency care, but excludes the specialised services commissioned by NHS England.

CCGs can commission services from any qualified provider (AQP) – in other words, any provider that is registered with the CQC and licensed by Monitor. Examples of AQPs include NHS organisations, private sector healthcare providers and voluntary or charitable sector providers.

Commissioning support units (CSUs) have been set up to provide a range of services to CCGs, including information analysis, business planning and contract management, medicines management, human resources and finance. Each CSU serves multiple CCGs, enabling economies of scale to be achieved. At the outset of the new system in 2013, CSUs are hosted by NHS England, but there are longer term plans for them to become independent businesses.

### ● **Providers**

Provider organisations are paid by clinical commissioning groups to deliver healthcare services

## DIFFERENT TYPES OF CARE

### ● **What is community care?**

Community care covers health services provided in community settings such as in patients' homes, GP practices and (small) community hospitals. For example, services for physically disabled people.

### ● **What is primary care?**

Primary care is where people normally go when they first develop a health problem – usually a GP, a nurse, health visitor, dentist, optician or pharmacist.

### ● **What is secondary care?**

Secondary care is treatment or care provided in a hospital setting, either following a referral from a primary care professional (for example, a GP) or because of an emergency admission. This covers hospital services provided by NHS trusts and foundation trusts and private sector providers. There may be several hospitals in a trust, and trusts may work in partnership with others to expand the range of services available or to share resources.

### ● **What is tertiary care?**

Tertiary care comprises services provided in a limited number of specialist units, usually in larger hospitals – for example, paediatric cardiac surgery.

to the public. About a third of these services are paid for via a system called payment by results (PBR). Under PBR there is a single national price – or tariff – for a range of healthcare treatments. Each time a patient is treated by a provider organisation, the organisation receives the relevant payment for that treatment. PBR ensures that money flows with the patient and that payments given to providers are linked to the services actually provided. For services that are not covered under PBR, commissioners and providers agree local arrangements.

While NHS services can be provided by non-NHS providers, providers in the NHS are called NHS trusts. NHS trusts specialise in providing hospital-based secondary and tertiary care services, community services, mental health services, or ambulance services (see box, below left).

Trusts have legal, financial and quality requirements they must meet. NHS trusts are self-governed, and so have their own board of directors who ensure funds are used effectively and responsibly. NHS foundation trusts are NHS trusts that have proved their ability to provide good-quality services and manage their finances successfully, so have extra managerial and financial freedoms compared with NHS trusts. They have a council of governors, made up of local people, patients and staff, who represent the public and hold the foundation trust to account.

The NHS Trust Development Authority has been set up by the Department of Health to oversee NHS trusts and to support them to achieve foundation trust status. Monitor, while responsible for licensing all providers of NHS services, has a responsibility for assessing whether NHS trusts should achieve foundation trust status and ensuring that foundation trusts are well led, in terms of quality and finances.

#### ● **Local authorities**

Local authorities have a role in improving health in England and receive funding from the Department of Health for this work. As from 1 April 2013 they are responsible for commissioning public health services. Public Health England supports local authorities with this new role. Local authorities are also responsible for establishing a health and wellbeing board to act as a forum for local commissioners across the NHS, social care, public health and other services.

#### ● **Healthwatch**

Local Healthwatch networks are funded directly by local authorities and exist to ensure that the views of

patients, carers and the public are taken into account. Healthwatch England has been set up as a committee within the CQC to support and lead local Healthwatch.

### **Healthcare in Scotland, Northern Ireland and Wales**

#### **The NHS in Scotland**

The Scottish Government is responsible for deciding how to spend the money allocated to it by the Treasury, including how much will be spent on healthcare.

#### ● **Scottish Government Health and Social Care Directorate (SGHSCD)**

The SGHSCD is responsible for allocating money and planning activities for NHS Scotland, including the development and implementation of health and community care policy. The cabinet secretary for health and wellbeing has overall responsibility for the SGHSCD and NHS Scotland. There is also a director-general, health and social care, who is head of staff and chief executive of NHS Scotland.

#### ● **NHS Scotland health boards**

Providing NHS healthcare to the public in Scotland is the responsibility of 14 regional NHS health boards and a number of national special health boards. The regional NHS boards in Scotland are responsible for both the planning and the delivery of all health services in their own area.

In addition to the regional boards, there are also seven special NHS boards, such as the Scottish Ambulance Service and Healthcare Improvement Scotland and one public health board.

*Trusts have legal, financial and quality requirements that they must meet. NHS trusts are self-governed and so have their own board of directors*



## OTHER SOURCES OF INFORMATION

• Care Quality Commission  
[www.cqc.org.uk](http://www.cqc.org.uk)

• Department of Health  
[www.gov.uk/government/organisations/department-of-health](http://www.gov.uk/government/organisations/department-of-health)

• Health and Social Care in Northern Ireland  
[www.dhsspsni.gov.uk](http://www.dhsspsni.gov.uk)

• Monitor [www.monitor-nhsft.gov.uk](http://www.monitor-nhsft.gov.uk)

• NHS England  
[www.england.nhs.uk](http://www.england.nhs.uk)

• NHS Northern Ireland  
[www.n-i.nhs.uk](http://www.n-i.nhs.uk)

• NHS Scotland  
[www.scot.nhs.uk](http://www.scot.nhs.uk)

• NHS Trust Development Authority  
[www.ntda.nhs.uk](http://www.ntda.nhs.uk)

• NHS Wales  
[www.wales.nhs.uk](http://www.wales.nhs.uk)

• Scottish Government Health and Social Care Directorate  
[www.scotland.gov.uk/Topics/Health](http://www.scotland.gov.uk/Topics/Health)

• Welsh Government: Directorate of Health and Social Care  
[www.wales.gov.uk/about/civilservice/directorates/hsscdirectorate](http://www.wales.gov.uk/about/civilservice/directorates/hsscdirectorate)

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0117 929 4789

• HFMA membership  
[www.hfma.org.uk/membersandpartners](http://www.hfma.org.uk/membersandpartners)  
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### The NHS in Northern Ireland

The Northern Ireland Executive is responsible for deciding how funds are distributed among 11 government departments.

In Northern Ireland, health and social care services are integrated. So health and social care services such as home care services and family and children's services are provided by the same organisations.

#### ● **Department of Health, Social Services and Public Safety for Northern Ireland (DHSSPS)**

Funding for public health services is issued by the Northern Ireland Executive to the DHSSPS. The department has three main responsibilities – health and social care; public health; and public safety.

#### ● **Health and Social Care Board (HSCB)**

The HSCB is responsible for commissioning health and social care services and managing resources. It is also responsible for managing contracts for family health services provided by GPs, dentists, opticians and community pharmacists.

#### ● **Health and social care (HSC) trusts**

HSC trusts are responsible for the management of staff, health and social care services on the ground in Northern Ireland and for providing the services commissioned by the HSCB to the public.

At the moment, there are six HSC trusts. Five are local trusts that deliver services in a particular area. The sixth trust, the Northern Ireland Ambulance Service, manages the ambulance service for Northern Ireland.

### The NHS in Wales

The Welsh Government is responsible for deciding how funds are distributed among its seven directorates.

#### ● **Directorate of Health and Social Services (DHSS)**

Funding for health in Wales is issued by the Welsh Government to the DHSS, which comprises the Department of Health, Social Services and Children and the Department of Public Health and Health Professions.

The DHSS advises the Welsh Government on policies and planning for health and social care in Wales. This includes contributing to relevant legislation and providing funding for the NHS and other bodies.

The Welsh minister for health and social services has overall responsibility for this Directorate and NHS Wales.

#### ● **Local health boards and NHS trusts**

NHS Wales delivers its services through seven local health boards and three NHS trusts.

The seven local health boards in Wales plan, secure and deliver all health services within a particular area of Wales. They both provide and commission services.

In addition, three NHS trusts control national services: the Welsh Ambulance Service, Velindre NHS Trust (providing specialist services in cancer care) and Public Health Wales.



## Further information

This document is intended to give a very simple overview of how the NHS is financed and was produced by the Healthcare Financial Management Association (HFMA).

The HFMA is the representative body for finance staff in healthcare. For the past 60 years, it has provided independent and objective advice to its members and the wider healthcare community.

We are a charitable organisation that promotes best practice and innovation in financial management and governance across the UK health economy through our local and national networks. We also analyse and respond to national policy and aim to exert influence in shaping the wider healthcare agenda.

We have a particular interest in promoting the highest professional standards in financial management and governance and are keen to work with other organisations to promote approaches that really are 'fit for purpose' and effective.

If you would like to find out more about NHS finance, the HFMA offers a range of products and services that may be of interest, including:

- *Introductory Guide to NHS Finance in the UK* (11th edition)



- *Introduction to NHS Finance in England* e-learning module
- *Introduction to HSC Finance (Northern Ireland)* e-learning module
- *Introduction to NHS Finance in Wales* e-learning module
- *Introductory Guide to NHS Governance* publication
- *Introduction to Governance (England)* e-learning module
- *Introduction to HCS Governance (Northern Ireland)* e-learning module
- *Introduction to Governance (Wales)* e-learning module

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## Introducing the

# Healthcare Financial Management Association

The HFMA is already the recognised UK representative body for the finance profession and finance staff in healthcare. Supported by a thirteen strong branch network, the Association sets and promotes the highest standards of financial management and governance in healthcare. With membership open to both finance and non-finance professionals, HFMA currently has around 4,000 members throughout the UK. As a voluntary, independent body and registered charity, the Association works to develop good practice and represents finance professionals' views to Government, the Department of Health, and Monitor, the independent regulator of foundation trusts. In addition, HFMA provides training and education to both finance and non-finance professionals on a range of issues associated with NHS finance.

**Why not join HFMA and enjoy access to a wide range of information which will support you through this time of significant change within the NHS.**

### HFMA key members benefits are:

- + Annual subscription to Healthcare Finance – ten editions of HFMA's popular magazine for healthcare finance professionals
- + News alert service – topical news summaries posted to the HFMA website daily and sent directly to your email account every week
- + Access to a professional network through the extensive and active HFMA branch community
- + Discounted attendance at regional HFMA conferences and events
- + Free briefings and access to HFMA's exclusive online library of briefings, guides, surveys and presentations given at national events
- + The opportunity to take part in research, benefit from shared good practice and contribute to national policy.

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