



HFMA, SDN & ONF East of England Annual Conference 2024

‘Familiar Problems, New Solutions’

26 – 28 February

INTRODUCTION TO THE NHS FINANCE SYSTEM IN ENGLAND

East of England Finance Conference
February 2024



Funding flows

Commissioners –
Integrated Care
Boards and NHS
England

Providers

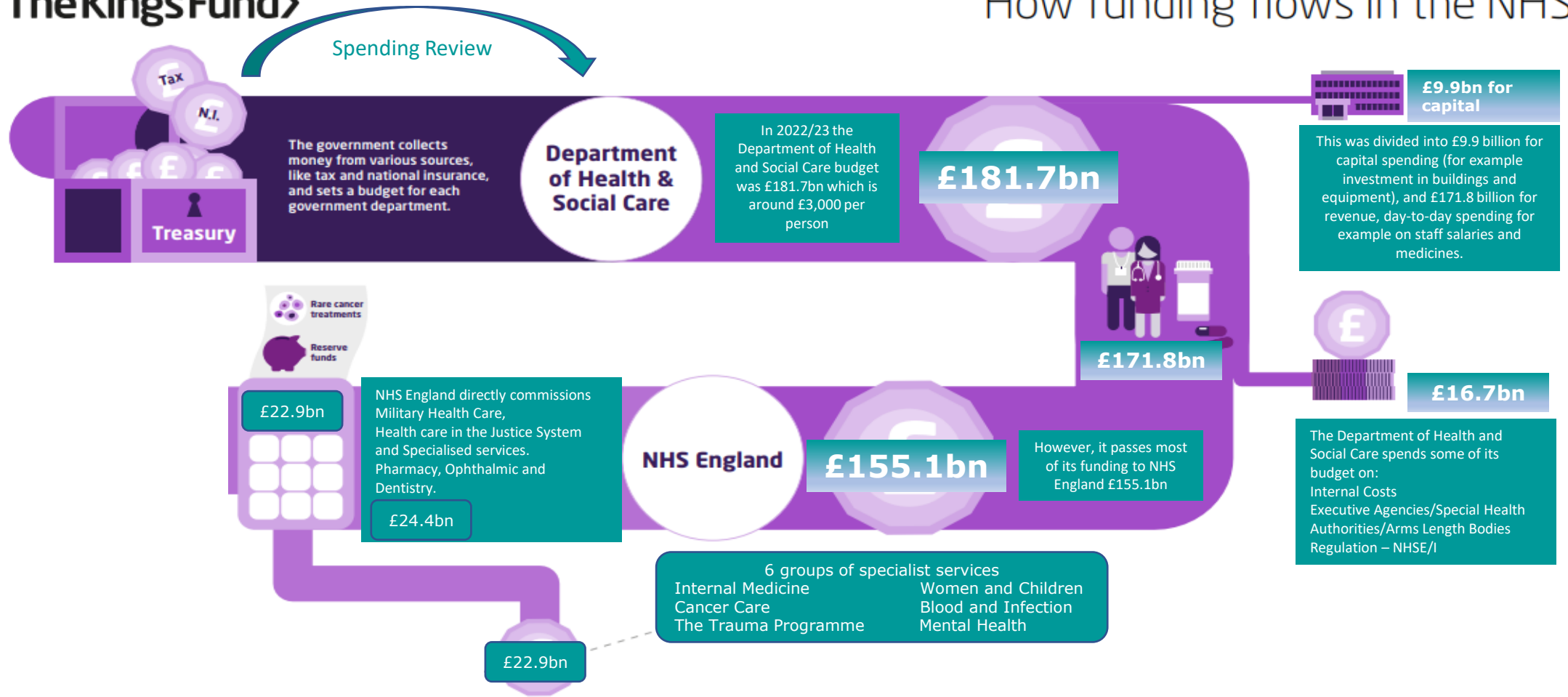
Systems

The Kings Fund >

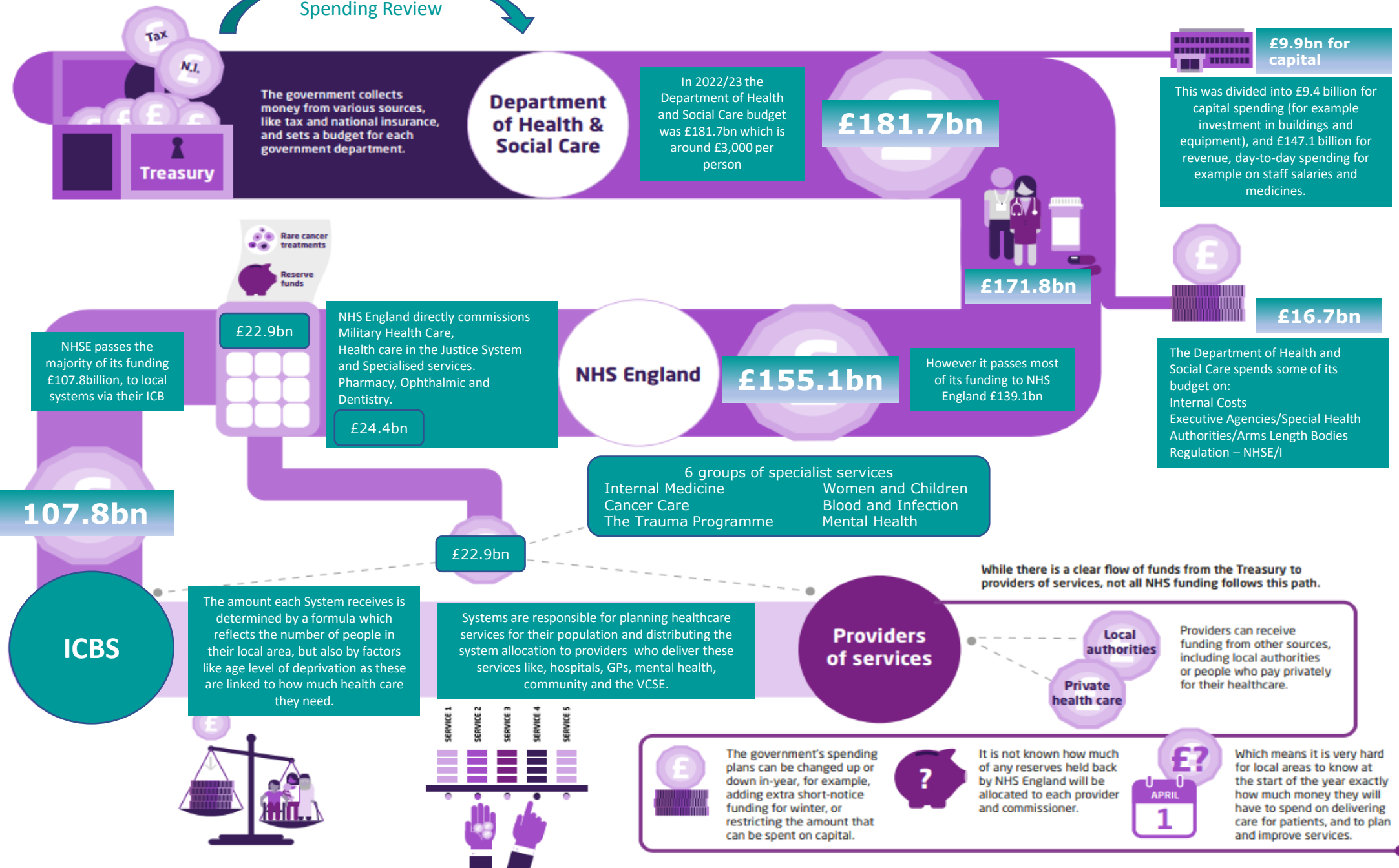


How funding flows in the NHS





Spending Review



Treasury

The government collects money from various sources, like tax and national insurance, and sets a budget for each government department.

Department of Health & Social Care

In 2022/23 the Department of Health and Social Care budget was £181.7bn which is around £3,000 per person

£181.7bn

£9.9bn for capital

This was divided into £9.4 billion for capital spending (for example investment in buildings and equipment), and £147.1 billion for revenue, day-to-day spending for example on staff salaries and medicines.

£171.8bn

£16.7bn

The Department of Health and Social Care spends some of its budget on:
Internal Costs
Executive Agencies/Special Health Authorities/Arms Length Bodies
Regulation – NHSE/I

NHSE passes the majority of its funding £107.8 billion, to local systems via their ICB

£22.9bn

NHS England directly commissions Military Health Care, Health care in the Justice System and Specialised services. Pharmacy, Ophthalmic and Dentistry.

£24.4bn

NHS England

£155.1bn

However it passes most of its funding to NHS England £139.1bn

6 groups of specialist services
Internal Medicine
Cancer Care
The Trauma Programme
Women and Children
Blood and Infection
Mental Health

£22.9bn

107.8bn

The amount each System receives is determined by a formula which reflects the number of people in their local area, but also by factors like age level of deprivation as these are linked to how much health care they need.

Systems are responsible for planning healthcare services for their population and distributing the system allocation to providers who deliver these services like, hospitals, GPs, mental health, community and the VCSE.

Providers of services

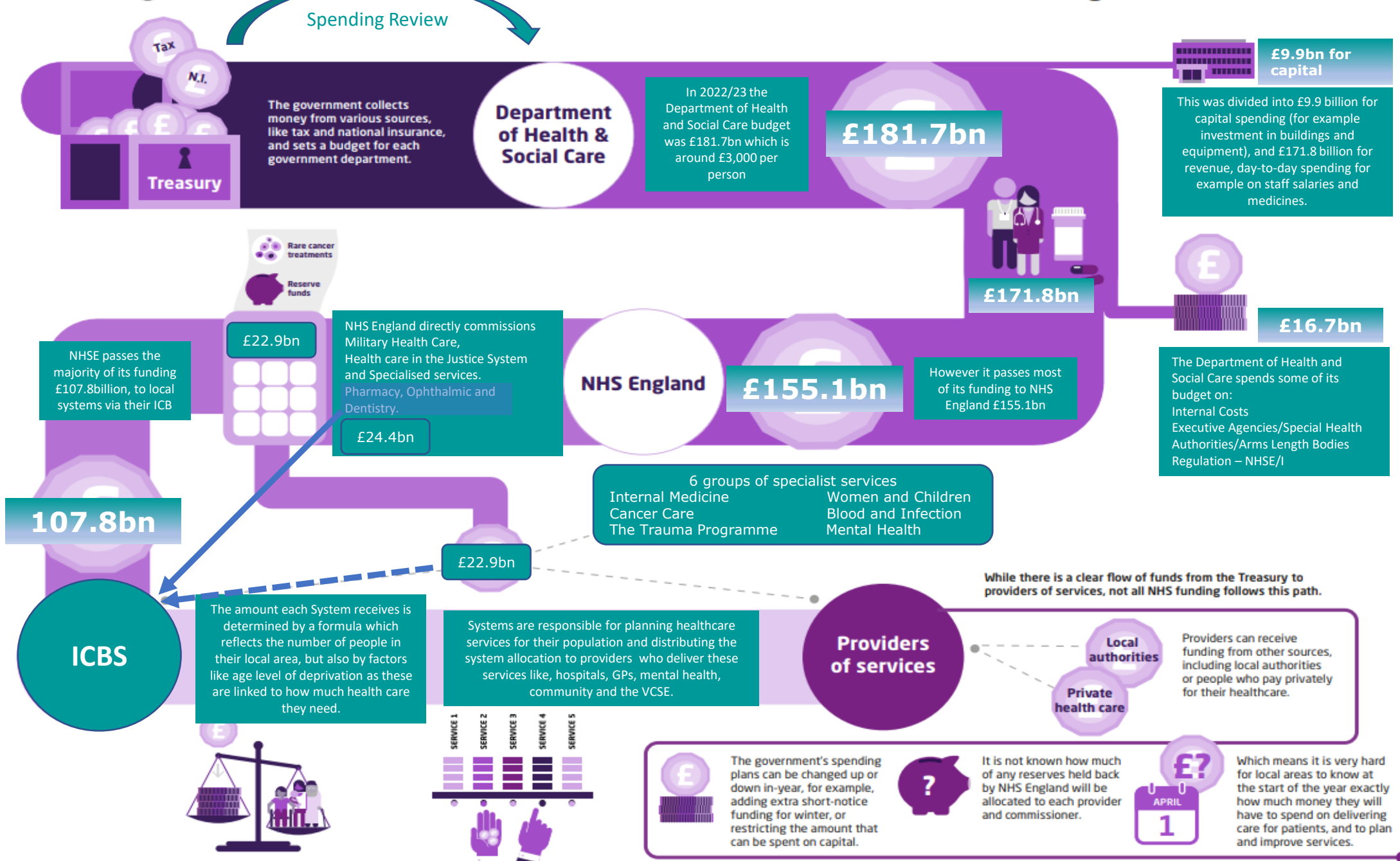
While there is a clear flow of funds from the Treasury to providers of services, not all NHS funding follows this path.

Local authorities
Private health care
Providers can receive funding from other sources, including local authorities or people who pay privately for their healthcare.

The government's spending plans can be changed up or down in-year, for example, adding extra short-notice funding for winter, or restricting the amount that can be spent on capital.

It is not known how much of any reserves held back by NHS England will be allocated to each provider and commissioner.

Which means it is very hard for local areas to know at the start of the year exactly how much money they will have to spend on delivering care for patients, and to plan and improve services.



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Fair shares: Target shares to allocations



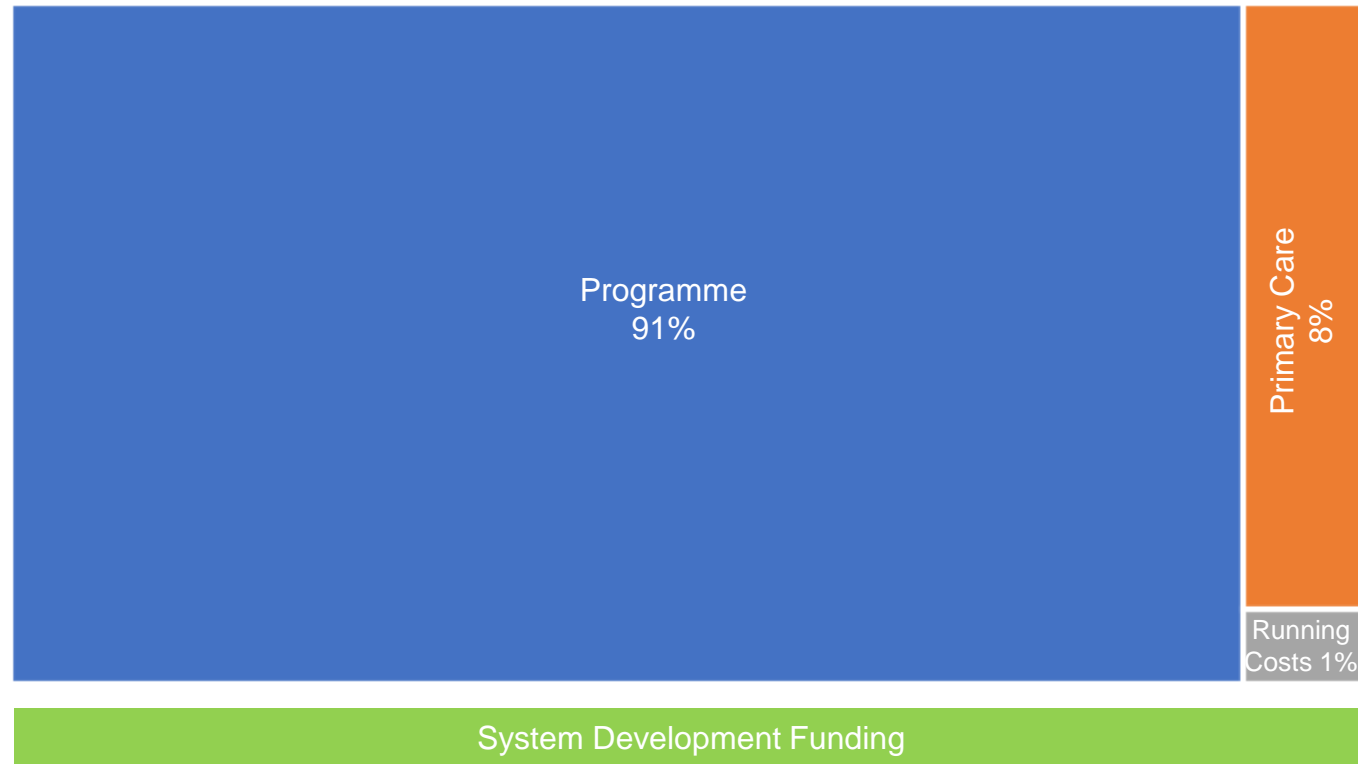
These icons have been designed to help users navigate through the slides (see top left corner for slide theme)

Target % shares	Target £ allocations	ICB £ baselines	Convergence	Final £ allocations
<p>The allocations model calculates weighted populations (% target share) for each relevant funding stream. Each component part of the model contributes a need index or weighted population, combined in accordance with the relative spending these areas represent. Targets are affected by population changes, source data updates, new technology, formula improvements and NHS policy changes.</p>	<p>The NHS has a fixed resource. National budgets are set across various funding streams, depending on historic spend, need and current priorities.</p> <p>These include ICB 'core' allocations (hospitals and secondary care), Primary Medical Care (combining funds for GP practices and other Primary Care) and some Direct Commissioning.</p> <p>Target shares (%) are applied to total budgets to calculate individual ICB target allocations (£).</p>	<p>Baselines (current ICB budgets) are based on published allocations, including any relevant adjustments and additional funding.</p> <p>Starting with current budgets ensures a level of stability between years.</p> <p>Changes to budgets may include adjustments for boundary changes.</p>	<p>After base growth is applied to all ICBs, to offset common pressures such as population growth, convergence (previously 'pace of change') applies differential growth, to move ICBs below target towards their 'fair share' target allocation over time.</p> <p>It determines how quickly ICBs are moved from their baselines towards target, constrained by available resources and without creating instability which could damage local health economies.</p>	<p>A final ICB £ allocation, also expressed as £ per head (for comparison) includes any other additional allocations.</p> <p>The overall allocation provides ICBs with the autonomy to determine their own spending based on local need.</p>

System Funding Allocations

Three main funding allocations for Systems

■ Programme ■ Primary Care ■ Running Costs

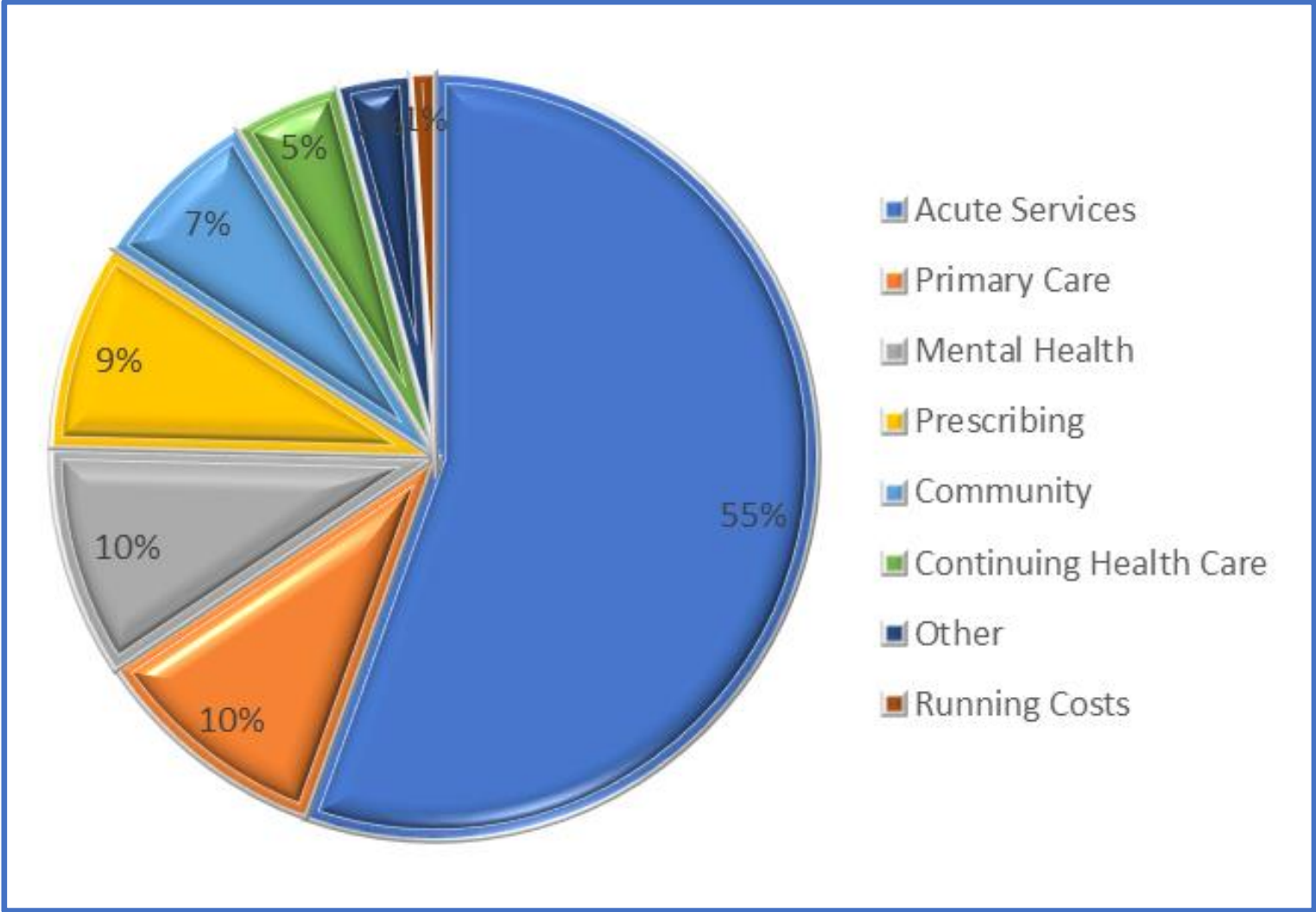


Plus System Development Funding

Often non-recurrent, for directed spending on specific transformational programmes

Where our system pound is distributed

Mid & South Essex Health & Care Partnership - Spend by Category



Do you think they are the right areas?

How our system £ is distributed

Block	A “lump-sum” payment to cover a specific or range of services, with no dependency on the quantity of demand or supply. Example: Community services
Capitation	A “lump-sum” payment linked to size and “complexity” of population served by a provider. Example: GP services
Pathway of care	A single payment to cover activity related to aspects of a specific pathway of care. Example: Hospital maternity services
Pay for performance	Payment linked to the delivery of specific performance targets. Example: GP Quality for Outcomes (QOF) - Commissioning for Quality and Innovation (CQUIN) in Acute, Community and Mental Health Services
Per diem	A “lump-sum” payment per patient per day of care. Example: Excess bed days in the acute sector
Care based	Activity based reimbursement based prospectively on complexity of diagnosis/treatment/patient characteristics. Example: National tariff based payments in acute and mental health services
Pass through	Cost of service delivery paid by commissioning body. Example: High cost chemotherapy drugs

Standard NHS Contracts

Grant Agreements with Voluntary Sector

Pooling arrangements such as section 75/76 with Local Authorities like the Better Care Fund (BCF)

BCF has mandated contributions from LAs and NHS which can be added to by local agreement

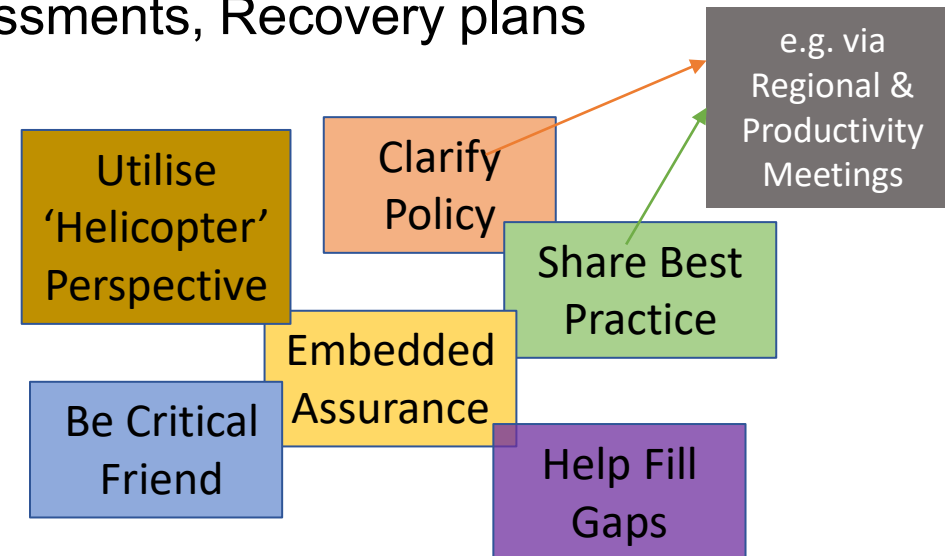
What is the role of NHS England?

National team

- Responsible for 'Operationalising' Government Policy

7 Regional teams

- Commission Specialised and Direct Commissioning Services
- Liaison between national team and local systems to apply policy and provide feedback
- Perform **Regulator Role** – request information & require improvements (e.g. 'apply directions'), contribute to 'Well Led' inspections, VFM assessments, Recovery plans
- Decide local priorities and award discretionary monies
- Matrix working with all departments
(esp. Performance and Workforce)
- ... but Primary role is to help and support



NHS England – Plan on a Page 23/24



Our Purpose – We are here....

To lead the NHS in England to deliver high-quality services for all

Our six longer-term aims – Our ambition is...

- Longer healthy life expectancy
- Excellent quality, safety and outcomes
- Excellent access and experience
- Equity of healthy life expectancy, quality, safety, outcomes, access and experience
- Value for taxpayers' money
- Support to society, the economy and environment

Our Tasks for 2023/24 – We must...

Recover our core services and productivity

Make progress in delivering the key ambitions in the NHS Long Term Plan

Continue transforming the NHS for the future

Create the new NHS England and continue to change how we work

Our Objectives for 2023/24 – We will...

1. Improve ambulance response and A&E waiting times

4. Improve mental health services and services for people with a learning disability and autistic people

2. Reduce elective long waits and cancer backlogs, and improve performance against the core diagnostic standard

5. Improve maternity and neonatal services

3. Make it easier for people to access primary care services, particularly general practice

6. Prevent ill health and narrow health inequalities in access, outcomes, and experience

10. Transform care through harnessing data, information, technology and innovation

11. Change how we work, empowering and supporting local system partners to deliver on their responsibilities

12. Create a simpler, smaller, high performing, organisation through the new NHS England programme

7. Recover productivity, increase efficiency and deliver a balanced financial position

8. Build and develop the workforce for now and the future

9. Build an improvement culture and continue to drive improvements in quality

Funding flows

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Providers

Systems

How are NHS Providers funded?

○ Sources of income

- Patient activity (tariff and non-tariff)
- CQUIN (quality related payments)
- Private Patient Income
- Education and Training/R&D funding
- Car Parking fees
- Other services (catering etc)
- Other non-recurrent funding (grants)

○ Types of payments

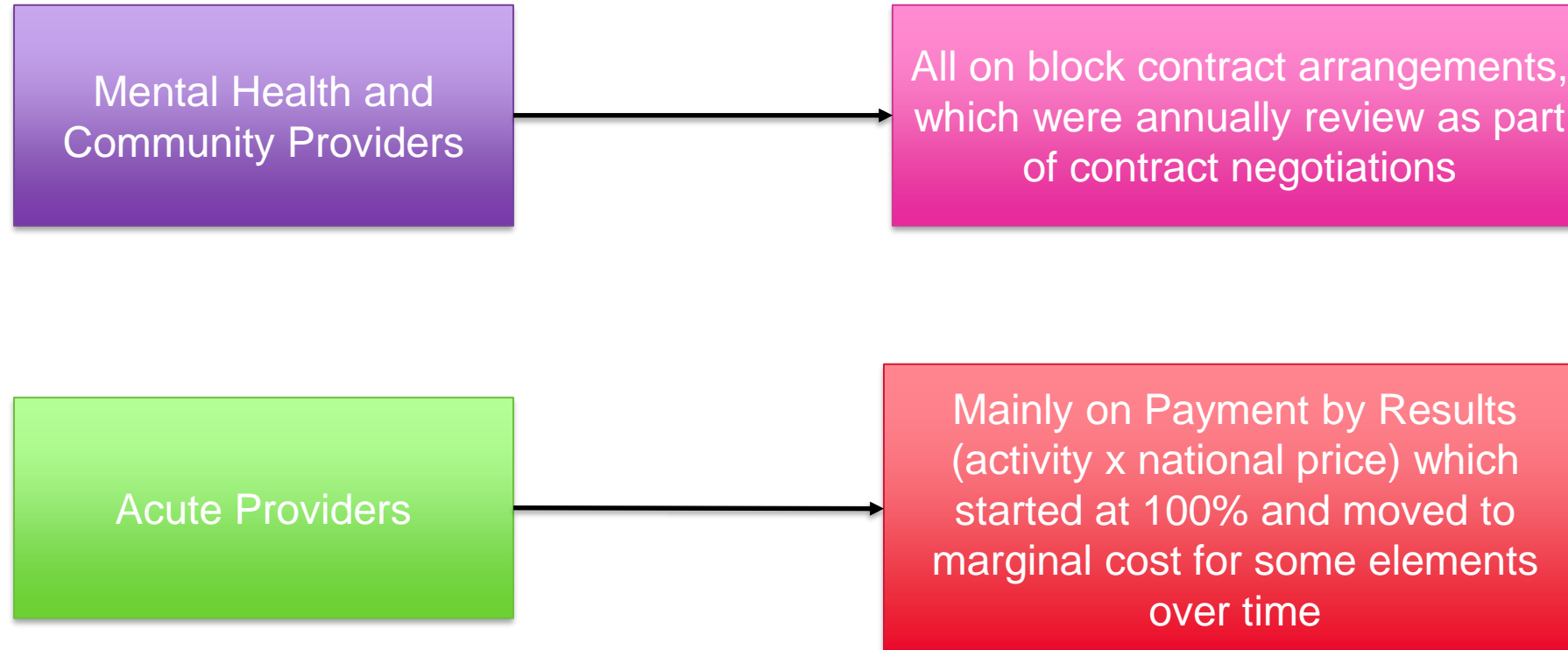
- Mandated Blocks (For some before and all since COVID)
- Specialist Commissioning
- Formerly PbR – tariff/non-tariff/local agreement, but we may see the return of these or a mix of Marginal Rates/Blocks/Blended tariffs
- Covid Top-Ups (For 2020 to 2022)



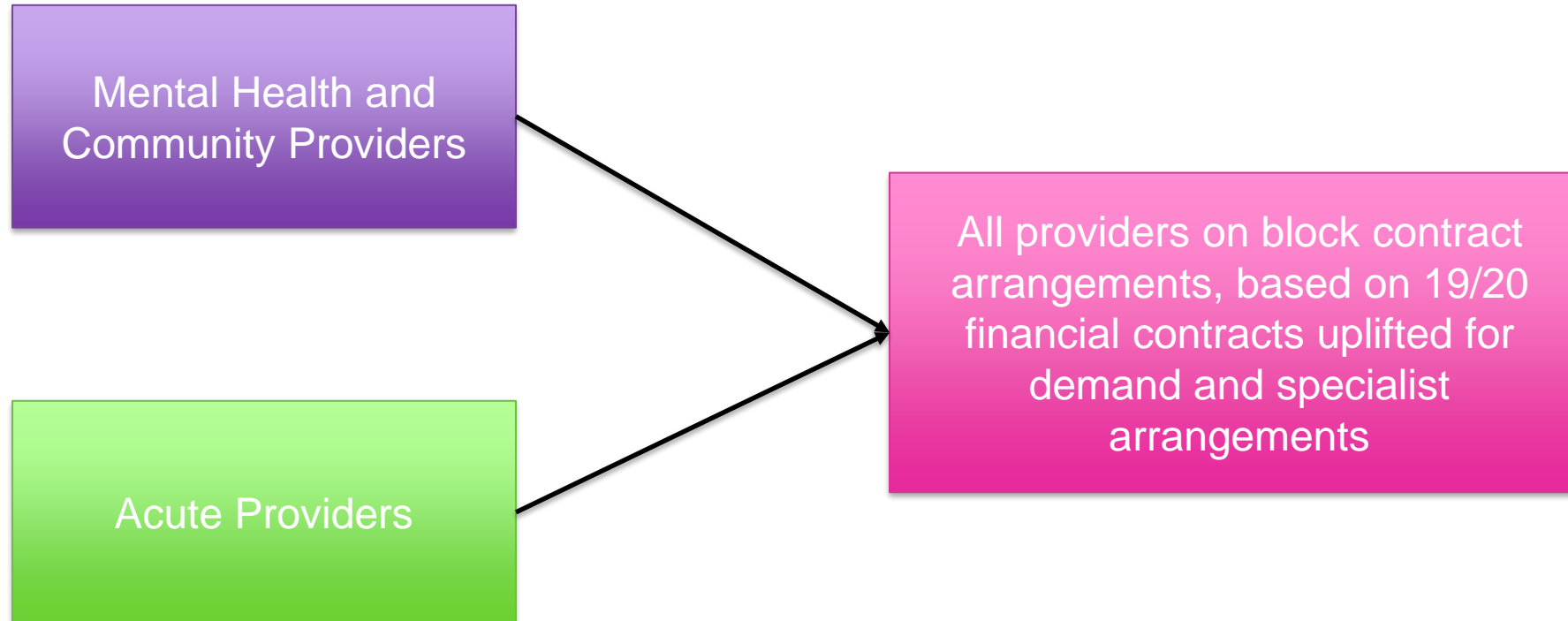
2.5%
CQUIN contract income value



Pre COVID contract arrangements



COVID contract arrangements



Contracting in a post-covid NHS

- Pressure to encourage providers to deliver more activity and reduce backlogs
- Drive to live within a more constrained funding envelope
- NHS Payment Scheme 2023/25 (NHSPS) : 4 payment mechanisms:
 - Aligned payment and incentive (API)
 - low volume activity (LVA) block payments
 - activity-based payments
 - local payment arrangements
- Gradual change to:
 - offer more freedom, to encourage the development of new service models
 - provide greater financial certainty to underpin effective planning
 - increase incentives to provide care more efficiently and increase activity
 - aiming to deliver 30% more elective by the end of 2024/25

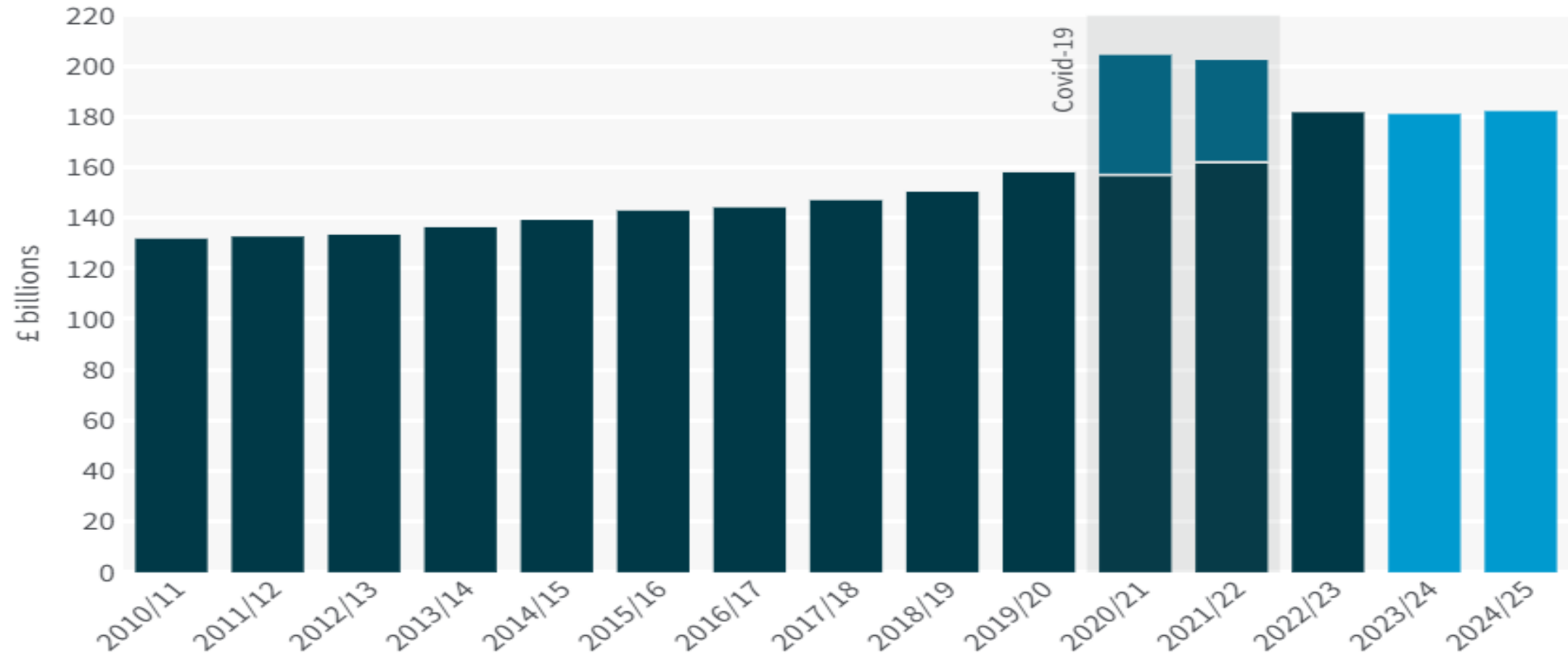
Aligned Payment Contract

- **Variable element** covers elective ordinary and day cases, outpatient procedures and outpatient first attendances, chemotherapy, and unbundled diagnostic imaging and nuclear medicine activity.
- **Fixed Element** covers everything else, this is fixed irrespective of the level and mix of activity delivered
- For the variable element, **NHS providers earn 100% of NHSPS unit prices** for all elective activity delivered within scope of the variable payment. Unit prices based on 2022/23 tariff updated for inflation and efficiency.
- For 2023/24 commissioners have been given an **activity target based on 2019/20 (pre-covid) activity levels – initial average 107%**. Elective Recovery funding allocated at system (ICB) level on a fair shares basis. Where commissioners (overall) exceed their activity target, additional funding will be made available at NHSPS prices.
- **Targets have been reduced in year** – target for 23/24 reduced to 105% and now 103% due to delivery factors, most significantly strikes.
- More info can be found here - [Elective Recovery Fund technical guidance \(england.nhs.uk\)](https://www.england.nhs.uk/elective-recovery-fund-technical-guidance/)

		Total (£m)
A	Value of 2022/23 fixed payment	250
B	2023/24 growth + ERF money	265
C	Elective target for 2023/24 @ 107% of 2019/20	107
D	Deductions for chemo, unbundled	5
E	Value of 2023/24 fixed payment (B – C – D)	153

NHS Funding Changes: The Department of Health and Social Care's budget Real terms (2022/23 prices)

■ Spending (outurn) ■ Spending (planned) ■ Additional Covid-19 spending



Source: [Department of Health Annual Report and Accounts \(2010/11-2016/17\)](#), [DHSC Annual Report and Accounts \(2017/18-2021/22\)](#), [Public Expenditure Statistical Analyses \(2022/23-2024/25\)](#).

Summary of the challenge facing the NHS



- Elective recovery
- Number of patients waiting for operations (RTT)
- Successful Integration post creation of ICB, including Stakeholders working together
- Planned activity shift to Community Settings
- Savings Challenge such as:
 - Theatre utilisation,
 - Length of stay,
 - Day cases,
 - Staffing ratios,
 - Waste reduction,
 - Inappropriate referrals,
 - DNAs,
 - non-recurrent savings
- Limit without damaging quality however there are real opportunities to:
 - Improving health prevention
 - Utilise Transformation technologies
 - Moving to new models of care quickly

Funding flows

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7 NHS England regions covering 42 ICBs



Our regional footprints

North East and Yorkshire

1. Cumbria and the North East
2. West Yorkshire and Harrogate
3. Humber, Coast and Vale
4. South Yorkshire and Bassetlaw

North West

5. Lancashire and South Cumbria
6. Greater Manchester
7. Cheshire and Merseyside

East of England

19. Cambridgeshire and Peterborough
20. Norfolk and Waveney
21. Suffolk and North East Essex
22. Bedfordshire, Luton and Milton Keynes
23. Hertfordshire and West Essex
24. Mid and South Essex

London

25. North West London
26. Central London
27. East London
28. South East London
29. South West London

Midlands

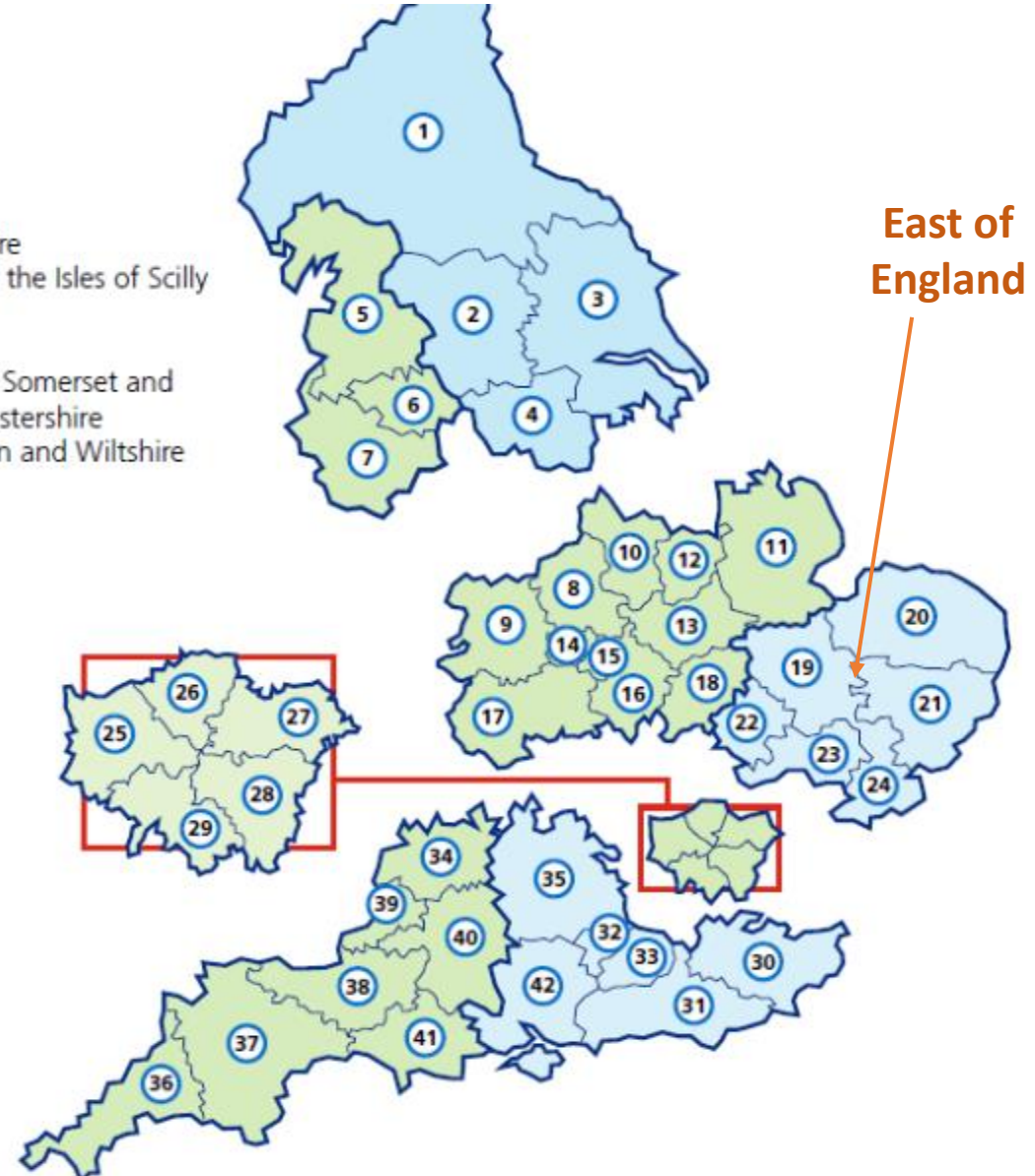
8. Staffordshire and Stoke on Trent
9. Shropshire and Telford and Wrekin
10. Derbyshire
11. Lincolnshire
12. Nottinghamshire
13. Leicester, Leicestershire and Rutland
14. The Black Country
15. Birmingham and Solihull
16. Coventry and Warwickshire
17. Herefordshire and Worcestershire
18. Northamptonshire

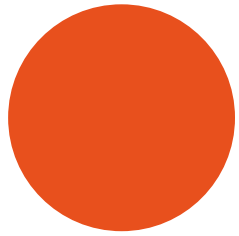
South East

30. Kent and Medway
31. Sussex and East Surrey
32. Frimley Health and Care
33. Surrey Heartlands
35. Buckinghamshire, Oxfordshire and Berkshire West
42. Hampshire and Isle of Wight

South West

34. Gloucestershire
36. Cornwall and the Isles of Scilly
37. Devon
38. Somerset
39. Bristol, North Somerset and South Gloucestershire
40. Bath, Swindon and Wiltshire
41. Dorset





Some new three letter acronyms ... ICS, ICB, ICP - But, what do they mean?

TLA	In Full	What it is ...	What it isn't ...
ICS	Integrated Care System	A description of all the different elements of health, care, the VCSE and wider partners like police and fire working together to improve outcomes for residents	<ul style="list-style-type: none">• an organisation• a statutory body• a decision-making body
ICB	Integrated Care Board	<ul style="list-style-type: none">• A statutory NHS organisation established by the Health and Care Act 2022.• Responsible for delivering the joint forward plan for health and care in the area and for NHS system quality, finance & performance• Responsible for putting collaborative working arrangements in place	<ul style="list-style-type: none">• a new name for the Clinical Commissioning Group (CCG)• responsible for social care services provided by local authorities• responsible for front-line delivery of NHS services to residents
ICP	Integrated Care Partnership	<ul style="list-style-type: none">• Local name e.g. Bedfordshire, Luton and Milton Keynes Health and Care Partnership, many similar to the name of the ICB• A Joint Committee that develops the integrated population health strategy for the residents of the area	<ul style="list-style-type: none">• an organisation• responsible for service delivery• taking decisions about resource allocation



What do systems do?

The **four core aims** of Integrated Care Systems are to:

- **Improve outcomes** in population health and healthcare.
- **Tackle inequalities** in outcomes, experience and access.
- Enhance **productivity and value for money**.
- Help the NHS support broader **social and economic development**





Impact of working as a system for Finance

- **Duty to break even as a System**
- **Managing System Financial Risks**
- **System financial reporting**
- **Capital managed as a system**
- **Many systems have developed financial principles**
- **Financial Planning**
- **Supporting transformation, pathway redesign and partnering**



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‘Same Problems, New Solutions’

Thank you for attending
Any questions?

26 – 28 February

USEFUL LINKS

- [HFMA Introductory guide to NHS finance](#)
- [NHS England » Infographics: Fair shares – a guide to NHS Allocations](#)
- [ONF Homepage \(onenhsfinance.nhs.uk\)](#)
- [Healthcare Financial Management Association \(hfma.org.uk\)](#)
- [NHS Skills Development Network \(NHS SDN\)](#)
- [An introduction and glossary to NHS and local government finance and governance in England \(hfma.org.uk\)](#)
- [NHS Acronyms & Glossary of Terms - SDN Y&H v1.pdf \(skillsdevelopmentnetwork.com\)](#)
- [Acronym Buster | NHS Confederation](#)

