

Glossary of terms used by Finance

Financial Terminology

Adverse variance	A movement that erodes the bottom line. WTE that are above plan may have a positive impact on safety but for the purposes of fiscal performance is considered to be adverse on increase expenditure.
Balance sheet	Provides a snapshot of the Trust's assets and liabilities as at the end of the month (contrast with income and expenditure position).
Budget holder	Budget holders are accountable for the budgets delegated to them, including managing income and expenditure and the financial stewardship of the budget. A budget holder will be expected to monitor income and expenditure and liaise with the finance department if underspends or overspends are expected. A budget holder is responsible for authorising expenditure against the budget and ensuring that the proper financial procedures are followed when obtaining quotes and for monitoring supplier performance to ensure the best value for money.
BPA	Business and Performance Analyst, the Divisional finance accountant
Capital expenditure	Typically for purchasing large items which have a useful life of over one year such as buildings and equipment.
CIP	Cost improvement programmes. A series of actions identified by an NHS body which are intended to reduce costs or improve efficiency. The programme should be established to meet both Department of Health minimum targets for efficiency improvement and internal requirements to secure income or expenditure balance.
Comprehensive Spending Review	HM Treasury sets expenditure for each government department covering a 3 year period, with the latest in 2007 setting spending plans for 08/09, 09/10 and 10/11
Current assets	Assets on the balance sheet which are not held long term, comprising stock, trade & other debtors and cash
Depreciation	The process of charging the cost of an asset to the income and expenditure account over its estimated useful life. It is essentially an estimate of the annual "using up" of an asset. Depreciation is an accounting charge and does not involve any cash outlay (as the cash is spent when the asset is first bought).
Direct costs	Those costs that can be attributed to a particular service, for example drugs.
EBITDA	Earnings before interest, tax, depreciation and amortisation (broadly surplus before interest & depreciation).
EBITDA margin	EBITDA expressed as a percentage of total income. This is a key ratio for Monitor as it enables comparison of operating efficiency between organisations.
Favourable variance	Any movement that improves surplus or cash.
FRR	Financial Risk Rating. This is the methodology developed by Monitor for assigning a score to represent a Trust's overall financial risks. 1 is high risk, 5 is low risk. The score is calculated by reference to a number of accounting ratios (or "metrics").

FTFF	Foundation Trust Financing Facility is a government body that acts as a lender to the NHS
GDP	Gross Domestic Products, the most commonly used indicator of national income. NHS expenditure is approx 8% of GDP.
HMRC	Her Majesty's Revenue and Customs, responsible for collection of all UK taxes including income tax, corporate taxes and VAT
HRG	Healthcare Resource Groups, place patient procedures and/or diagnosis into bands which are clinically similar and consume similar levels of resources. HRG4 is the basis of 2009/10 tariffs.
IFRS	International Financial Reporting Standards. The annual plan and accounts for 2009/10 are based on these. They replace the previous UK specific financial reporting standards (known as UK GAAP), but are fundamentally similar.
Indirect costs	Those costs that cannot be directly allocated to a particular service, but are shared over a number of them, for example the provision of cleaning services.
Income & expenditure	Income & expenditure position records the income and costs incurred by the Trust during the period in question (contract with balance sheet).
Liquidity	Defined as Cash + debtors – current liabilities + unused working capital facility. This is a definition adopted by Monitor to identify the funds that a Trust has available to finance its day to day operations
Liquidity ratio	Liquidity expressed as the number of days operating expenditure which can be covered. Calculated as Liquidity divided by planned annual operating expenditure multiplied by 365 days.
NHS expenditure	NHS expenditure is approx 8% pf GDP.
Non – cash releasing efficiency savings	Occur when more activity is provided but the cost of delivering the service remains the same (contrast with cash releasing which results in the cost of the service provided being reduced)
Non-recurring funds	A one-off allocation of funds.
Operating framework	Department of Health document issued in December that sets out key priorities and financial rules for the financial year starting in April.
Overhead costs	The costs of support services that contribute to the effective running of a hospital. An example of this is the cost of the finance department.
PbR	Payment by Results was introduced in 2003/04, is a rules-based approach for paying for acute and specialist hospital services and was designed to directly link the payments that healthcare providers receive to the activity they undertake. It underpins patient choice by enabling the money to follow the patient.
PCT expenditure	PCT expenditure is approx 90% of NHS expenditure, which in turn is approx 8% of GDP.
PDC	Public dividend capital. This is effectively the Government's equity stake in the Trust. The majority of PDC was created when the NHS Trust was formed in 1993 and represents the net value of assets transferred to the Trust from Cambridge Health Authority. Further PDC has since been

	received to support certain large capital projects, but this is being phased out as a form of capital funding going forward.
PDC dividend	The annual amount payable to the Treasury to reflect the cost of capital. The current rate is 3.5%, which represents the long-term cost of capital in the public sector.
PFI	Private Finance Initiative. A form of public/private partnership designed to fund major capital investments over a number of years, thereby avoiding a large up-front cash cost to the public sector. The public sector works with private sector partners who are contracted to design and build the assets needed.
Practice-based commissioning	Allows GP's to take on the commissioning and financial responsibility for large parts of PCT budgets and change the patterns of service providers.
Price/Volume mix	Shows breakdown of pay and WTE variances (YTD) and splits variance into: <ul style="list-style-type: none"> • "Price" variance – average pay cost variance to plan multiplied by actual WTEs in period. In other words, the premium paid over plan. • "Volume" variance – WTE variance multiplied by planned average pay cost. In other words, the expected variance due to staff changes assuming no price change to plan.
Provisions	Amounts accrued in the accounts in respect of liabilities where the timing or value of future payments is uncertain, but which have arisen as a result of past events e.g. the estimated value of legal claims relating to past injuries at work.
Reference costs	Itemised costs of treatments in every trust and are used for a number of purposes including benchmarking cost improvements, measuring relative efficiency, identifying best practice and costing health improvement programmes. At an individual trust level they are compared against the national tariff to highlight the relative efficiency of activities and to assess where the trust is likely to incur a profit or loss under PbR.
Reserves	There are two types of reserves: <ol style="list-style-type: none"> 1. Income and expenditure reserves – comprising unallocated developments, contingencies and pay & price reserves 2. Balance sheet reserves - A collective term to describe sources of funding which appear at the bottom of the balance sheet (under "Taxpayers Equity") and which do not pass directly through the income and expenditure account. This includes charitable donations, revaluations of the Trust's assets and cumulative income and expenditure net surpluses
Revenue expenditure	Day to day items such as salaries and running costs.
Scheme of delegation or Delegation of authority	This is a schedule setting out where responsibility lies for decision making within the organisation. Some decisions will be reserved to the board and the scheme of delegation sets out the management arrangements in place to enable responsibility to be clearly delegated to senior executives.
SIFT	Service Increment for Teaching is funding provided to a Teaching Hospital such as Cambridge University Hospitals.
Standing financial instructions	This document details the financial responsibilities, policies and procedures adopted by a trust. They are designed to ensure that its financial transactions are carried out in accordance with the law and with government policy in order to achieve probity, accuracy, economy, efficiency and effectiveness.

ROA	Return on Assets. An efficiency ratio to identify how well the Trust uses its assets. Defined as (net surplus + dividend)/(average net assets).
Trade debtor days	Trade debtors divided by planned total income multiplied by 365 days
Working capital	The money and assets that an organisation can call upon to finance its day to day operations. It is essentially the organisations net current assets.
Working capital facility	A term used to describe a committed overdraft facility which can be called down at short notice to finance day to day operations.
WTE	Whole time equivalents is a financial term to convert part time workers to the equivalent of one full time employee
YTD	Year to date

Meeting nomenclature	
Joint Clinical & Corporate Executive	Chaired by CEO with Divisional Directors and Corporate Directors
Clinical Executive	Chaired by CEO with Divisional Directors and Executive Team
Corporate Executive	Chaired by CEO with Corporate Directors
Divisional Executive	Chaired by CEO with Divisional Management and Executive Team
Divisional Team	Chaired by Divisional Director with associated Divisional Management Team
FOP	Finance Operations & Performance. Chaired by CEO with mix of NEDs, EDs and other managers