REBUILD OUR NHS
Creating a 21st century health service

REBUILDING OUR NHS

The case for capital funding

NHS Providers

Key points

- The government has announced that the NHS in England will be given an extra £500m of capital funding over the next six months for increased theatre capacity and technology, to support elective recovery. Other investments made over the past 18 months demonstrate a welcome acknowledgement from ministers that NHS facilities need investment.
- In response to our recent survey, finance directors highlighted the positive impact that a properly funded and well-designed system of capital funding can have, such as:
  - more integrated care, for example one trust built a new primary care centre on site
  - greatly improved service access and patient experience
  - reduced infection prevention and control (IPC) risks
  - improved efficiency and productivity, which helps tackle growing waiting lists
  - accelerated digital transformation.
- On top of this, sufficient capital investment has the potential to support the government's 'levelling up' agenda and the NHS's ambition to become 'net zero' by 2040.
- However, it is evident that the current capital system presents a number of barriers to realising these benefits. The majority of finance directors told us that they have insufficient access to capital and need more freedom over capital spending to meet patients' needs:
  - 78% of trusts felt "very unconfident" or "unconfident" that they could access sufficient capital funding to transform in line with the ambitions of the NHS long term plan
  - 67% of trusts felt "very unconfident" or "unconfident" that they would have access to sufficient capital funding to address their total maintenance backlog.
  - 67% of trusts felt "very unconfident" or "unconfident" that they would have access to sufficient capital funding to transform as part of the journey to digital maturity.
  - 67% of trusts "agreed" or "strongly agreed" that they had funds to invest in capital projects, but national/system capital limits restricted their ability to do so.
- To protect patient care, support recovery from the pandemic and ensure staff work in safe environments, the forthcoming comprehensive spending review (CSR) must therefore address the following points:
  - first, the NHS needs a multiyear capital settlement and ideally at least 10 years of indicative budgets
  - second, the NHS needs a capital budget appropriate for a world-leading health service – estimates suggest an additional funding requirement of £1.5bn by 2024/25, although this figure should be seen as an absolute minimum
  - third, the system for accessing and allocating capital should be reformed in consultation with those planning and delivering services. Wherever possible, capital spending decisions should be devolved to the level where service accountability sits.

1 Context

In September 2021, the government committed an additional £5.4bn to the NHS for the latter half of the financial year (H2) and a further £15.8bn revenue investment (HM Government, 2021) over the next three-year period, to be funded by the new health and care levy. A longer-term capital settlement for the service is yet to be confirmed, but is expected in the comprehensive spending review (CSR) on 27 October 2021.

This briefing therefore takes into account the wider financial context facing health and care services, but focuses specifically on making the case for additional capital investment by:

- outlining the need for a properly funded and well-designed system of capital funding for the NHS provider sector
- expanding on NHS Providers 2019/20 #RebuildOurNHS campaign (NHS Providers, 2019/20), presenting key developments over the past 18 months and summarising the results of a recent survey of finance directors across the acute, mental health, ambulance and community sectors
- setting out our 2021 CSR asks for capital reform.

Headline government announcements

Various government announcements have been made over the past 18 months that, collectively, demonstrate a welcome acknowledgement from ministers that the health and care sector will need additional funds to cover the continuing costs of the pandemic, and that NHS facilities need investment. Below, we recap on recent key funding announcements from the government ahead of the CSR, and provide a more detailed summary of relevant capital announcements.

H2 funding and the revenue settlement ahead of the CSR: In early September 2021, the government announced a welcome investment of an additional £5.4bn for the NHS in the second half of this financial year, to cover a rise in costs directly attributable to dealing with COVID-19 and supporting elective recovery. This includes £500m of additional capital, which we expect to be prioritised to support elective care this winter (Department of Health and Social Care, 2021).

The government also confirmed additional revenue funding for the NHS in England of £15.8bn over the next three years, focused particularly on supporting elective recovery. The CSR on 27 October will still be pivotal in confirming a multi-year capital investment for the NHS, decisions on funding training, public health, local authority budgets and social care, and the specific support available to mental health, community, ambulance and primary care services.

Recent capital announcements

Plan for Jobs: As part of a *Plan for jobs 2020*, the government invested an additional £1.5bn in the NHS estate in 2020/2021: £1.05bn for NHS critical maintenance and A&E capacity across England, up to £250m to make progress on replacing outdated mental health dormitories across 25 mental health providers in England, and £200m to accelerate the health infrastructure plan (HIP). In October 2020, the secretary of state for health and social care expanded the funding available to replace mental health dormitories, committing more than £400m up to 2023/24 (Department of Health and Social Care, 2020).

New Hospital Programme (NHP) and other hospital upgrades: To date, the government has committed £3.7bn until 2024/25 to the NHP, in support of its manifesto commitment to build "40 new hospitals" by 2030. A selection process to identify a further eight new hospitals was launched in July 2021 (Department of Health and Social Care, 2021). The government has also committed £1.7bn until 2024/25 to upgrade an additional 70 hospitals.

Overall, the Department of Health and Social Care (DHSC) core capital budget for 2021/22 is £8.5bn (DHSC, 2020). This represents an increase of £1.5bn compared to a 2019/20 baseline of £7.0bn. The NHS provider capital allocation for 2021/22 was set at £6.2bn (NHS England and NHS Improvement, 2021) – it was £5.8bn in 2020/21. This can be broken down into a £3.9bn system level allocation to cover day-to-day operational investments, £1.2bn of nationally allocated funds to cover national strategic projects such as hospital upgrades and new hospitals, and £1.1bn of other capital investment, for example to pay for technology and the replacement of mental health dormitory wards. This core budget does not include the extra £500m capital funding announced in September 2021, as part of the extra £5.4bn funding over the next six months to respond to the fallout from COVID-19 and tackle the care backlog (DHSC, 2021).

However, while all additional funds are welcome, they do not go far enough to address the growing maintenance backlog, which currently stands at £9bn, nor do they allow for sufficient investment in transforming services. Furthermore, there needs to be more focus on ensuring that ambulance, community, and mental health services benefit from capital investment.

Recent government funding injections follow years of prolonged underinvestment in facilities across the NHS. The latest estates return information collection (ERIC) data from NHS Digital shows there has been a substantial deterioration in the NHS estate, with the cost of bringing assets back to a suitable working condition – known as the maintenance backlog – continuing to rise. In 2019/20, the maintenance backlog was £9bn. This represents a 40% increase on the 2018/19 figure of £6.5bn. Without appropriate capital investment, issues like leaking roofs and broken boilers, ligature points in mental health facilities and outdated technology cannot be fully addressed. This compromises both quality of care and patient safety.

The potential benefits of capital investment are significant. The government has set out plans to 'build back better' (HM Treasury, 2021) and 'level up' (Ministry of Housing, Communities and Local Government, 2021) the country, promising to increase prosperity, widen opportunity and redress regional inequalities. As an employer of 1.4 million people, with an annual budget of approximately £130bn in 2020/21 (HM Treasury, 2021), the NHS is an anchor institution that creates social value in local communities, and supports broader social, economic, and environmental aims – for example, by working with partners to support more high-quality, affordable housing and widening access to community spaces (The Health Foundation, 2019). However, as things currently stand, many NHS organisations are simply unable to support their local community's health and wellbeing through the use of land and estates due to the poor condition of many NHS estates and mounting maintenance backlogs.

Additional capital investment would also support the ambition for the NHS to become 'net zero' by 2040 – for example, by moving to zero-emission ambulances and building net zero hospitals, as well as day-to-day changes that can make a difference such as changing the light bulbs used across the NHS estate. Trusts have welcomed the progress made so far and believe the requirement to develop green plans by mid-January 2022 will help drive change (NHS England and NHS Improvement, 2021). However, trusts need further financial support to become 'net zero', on top of what has already been allocated to improve energy efficiency. Finally, adequate capital investment is central to the ongoing response to COVID-19, especially tackling the record care backlog across acute, mental health and community services, and unprecedented pressure on urgent and emergency care. Ongoing funding will be required to:

- facilitate increased physical capacity
- create a new network of community diagnostic hubs
- continue to reconfigure hospitals to deal with future waves of COVID-19 and winter pressures
- invest in new ways of treating patients, such as using new technology solutions in ophthalmology where the waiting lists are some of the longest (NHS Providers, 2021).

Survey results

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To better understand the impact of the current capital system on frontline services, we surveyed finance directors from 16 June to 15 July 2021. The survey received responses from finance directors across 58 trusts, representing 27% of the provider sector. All regions and trust types were represented in the survey. Key themes are summarised below (access to capital, freedom over capital spending and the benefits of capital investment).

Access to capital

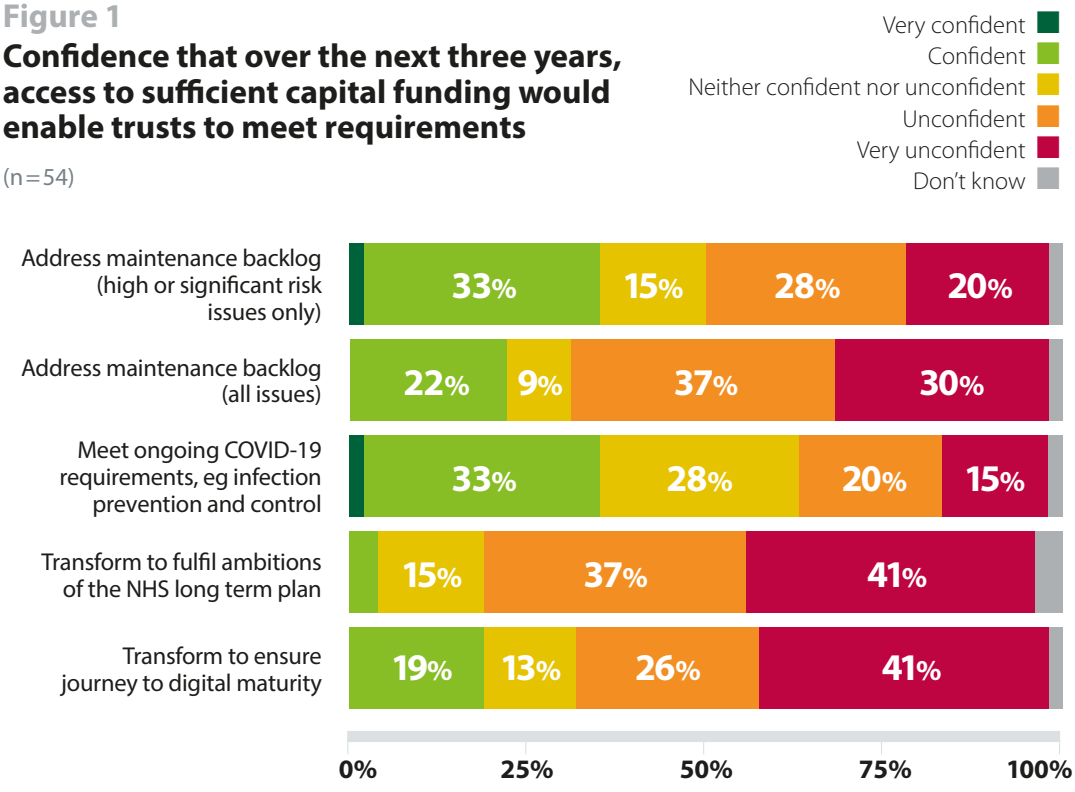
It is well established that current levels of capital spending are insufficient to meet the NHS' needs (NHS Providers, 2020). This was reflected in the feedback we received from trusts. When asked about access to capital funding over the next three years:

- 78% of trusts felt "very unconfident" or "unconfident" they would have access to sufficient capital funding to transform in line with the ambitions of the NHS long term plan
- 67% of trusts felt "very unconfident" or "unconfident" that they would have access to sufficient capital funding to address their total maintenance backlog
- 67% of trusts felt "very unconfident" or "unconfident" that they would have access to sufficient capital funding to transform as part of the journey to digital maturity.

Figure 1

Confidence that over the next three years, access to sufficient capital funding would enable trusts to meet requirements

(n=54)



Respondents specifically mentioned that national and system capital limits were insufficient to improve digital infrastructure, reduce the maintenance backlog and fulfil the ambitions of the long term plan.

"The level of capital that is going to be required in the future for digital changes totally outstrips the envelope that can realistically be allocated to digital after ensuring high risk backlog areas are addressed."

Acute and community trust

"We see no prospect of maintaining our five-year plan." Acute trust

Respondents also flagged a lack of middle size capital funding, and concerns about how historical private finance initiative (PFI) deals impacted their ability to access capital funding.

"There is currently no national direction of middle size capital funding. Integrated care system (ICS) allocations arguably fund backlog maintenance and small projects to maintain the status quo of service delivery and at the other end of the financial spectrum there is the hospital improvement programme large scale developments. There is currently a void with regards to say £20m-£70m projects, that fall in between, but for which there are a large number. In our ICS there are several in this category without a clear funding plan identified."

Combined acute and community trust

"The capital regime is based on internally generated depreciation. As a provider with a large PFI debt this is significantly limiting the level of capital funding the system can access and directly limiting the future investment."

Acute trust

Freedom over capital spending

National/system limits

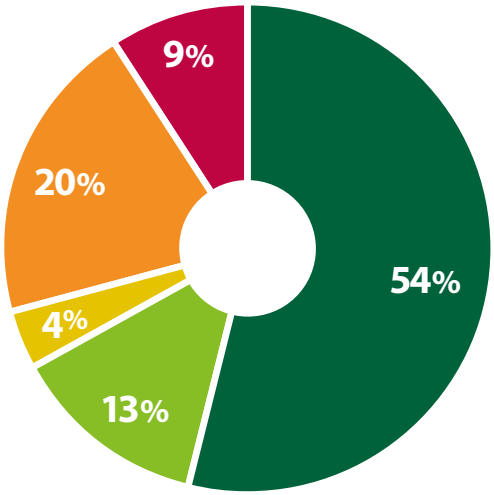
Trusts have long had to stay within the DHSC's national capital departmental expenditure limit (CDEL). NHS England and NHS Improvement then introduced a new approach to capital funding in 2020/21, breaking the total capital available nationally into individual system-level limits within which providers have to work together to prioritise spending.

Trusts understand, and generally accept, the rationale for system capital envelopes. However, they also reported that both national and system capital limits significantly hinder their ability to invest in their estates. 67% of trusts "agreed" or "strongly agreed" that they had funds to invest in capital projects, but national/system capital limits restricted their ability to do so.

Figure 2

To what extent do you agree with the following statement: 'my trust has funds to invest in capital projects, but national/ system capital limits our ability to do so'?

(n=54)



Trusts that "agreed" or "strongly agreed" said that they had cash to fund their capital projects (some with significant funds) but were restricted by the CDEL. One acute trust in the south west told us that they had to cut their capital programme by 20% in 2021/22 to stay within their system CDEL, even though they had the funds to spend. This ultimately meant that investment in extra capacity and reconfiguration for recovery of services was reduced. Furthermore, the trust was unable to pursue accommodation for overseas staff, making it much more difficult to resolve significant staffing pressures at a time when the need for staff has never been greater.

"We have cash which has been built up over a number of years to fund capital developments. We are now in danger of not being able to implement our estates strategy due to insufficient capital resource limit."

Community trust

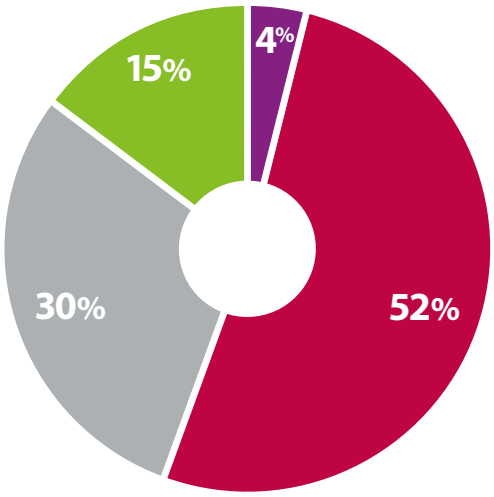
National ringfencing

Some trusts mentioned that there was a benefit of being part of the hospital building programme, otherwise you could be overlooked for capital funding. However, the majority of trusts did not agree that the government had appropriately divided capital funding between day-to-day needs and national programmes, saying too much focus was on national programmes. 15% of trusts agreed that the government had appropriately divided capital funding between day-to-day needs and national programmes, while 30% of trusts did not know. Another acute trust told us that the funding allocated to build 40 new hospitals was "grossly insufficient".

Figure 3

Do you agree with the following statement: 'the government has appropriately divided capital funding between day-to-day needs, e.g. maintenance backlog, and national programmes, e.g. "40 new hospitals"?

(n=54)



"The fragmented way capital is allocated between system capital and national initiatives also does not help plan transformation and leads to a postcode lottery." Community trust

The benefits of capital investment

Trusts told us that if they had sufficient capital funding, it would allow them to reduce their maintenance backlog, improve their estate (modernise, improve efficiency, and reduce their carbon footprint) and invest in digital infrastructure. One acute trust told us that capital investment would allow them to make further improvements in patient experience and reduce IPC risks, for example increased bathroom facilities on wards, investment in respiratory ward infrastructure to support an increase in patients requiring non-invasive ventilation (NIV) and high-flow care, which reduces time in intensive care.

Trusts also said that sufficient funding will allow them to expand wards and service capacity, reduce waiting lists and improve pathways. Given that waiting lists are at an all-time high due to the backlog of care created by the pandemic, it is imperative that trusts are financially supported to tackle these waiting lists through effective means like increased physical capacity and service expansion. While the government's September 2021 announcement of £500m capital funding for increased theatre capacity and technology will make a start on tackling backlogs, recurrent funding will be needed.

Respondents said that their top investment priorities in their digital portfolio included server infrastructure replacement, electronic patient records, electronic prescribing and medicines administration, implementing cloud storage, cyber security, shared patient records, automatic scheduling and rostering and a paperless documentation system. Some trusts also mentioned improved business intelligence, investment in mobile working and investment in various clinical pathway software and robotic tools.

The benefits of digital transformation are well documented, from improved clinical outcomes to efficiency savings. The scale and speed of digital innovation seen during the COVID-19 pandemic has been impressive and shown how adaptable and innovative the NHS can be in the face of unprecedented pressures. With the right combination of capital and revenue investment, trusts will be able to build on this to truly transform services in line with the needs of patients, service users and carers.

Respondents highlighted the positive impact that a properly funded and well-designed system of capital funding can have. Examples include:

"A clear strategy and access to cash has meant our trust has delivered some significant strategic and operational patient benefit – for example we have recently built a new primary care centre on our site. We have created a children's emergency care unit, a co-located urgent treatment centre, there is so much more we could do with proper access to funding."

Combined acute and community trust

"The ambulance sector needs both revenue and capital for transformation. The outcomes for (our trust) would be potentially in excess of 10% further reduction in ED conveyances and an efficiency potential of c£30m per annum by five years i.e. 5% efficiency."

Ambulance trust

"We would be able to fully meet our backlog maintenance requirements, while moving forward with a transformational estate development which greatly improves patient access and experience whilst providing a modern efficient health campus and develop our digital programme at the pace required to enable our staff to be productive and therefore increase throughput in services with built up waiting list."

Community trust

"[Sufficient capital funding] would allow us to further develop our plans for integrated community hubs across the county which would allow us to rationalise local public sector buildings and bring services together to provide integrated care."

Community trust

"Further improvements on patient experience and reduced IPC risks – i.e. increased bathroom facilities on wards. Investment in respiratory ward infrastructure to support an increase in patients requiring NIV and high flow care which reduces time on intensive care. Accelerate digital strategy and move to paper free records to reduce risks, improve IPC and increase efficiency."

Acute trust

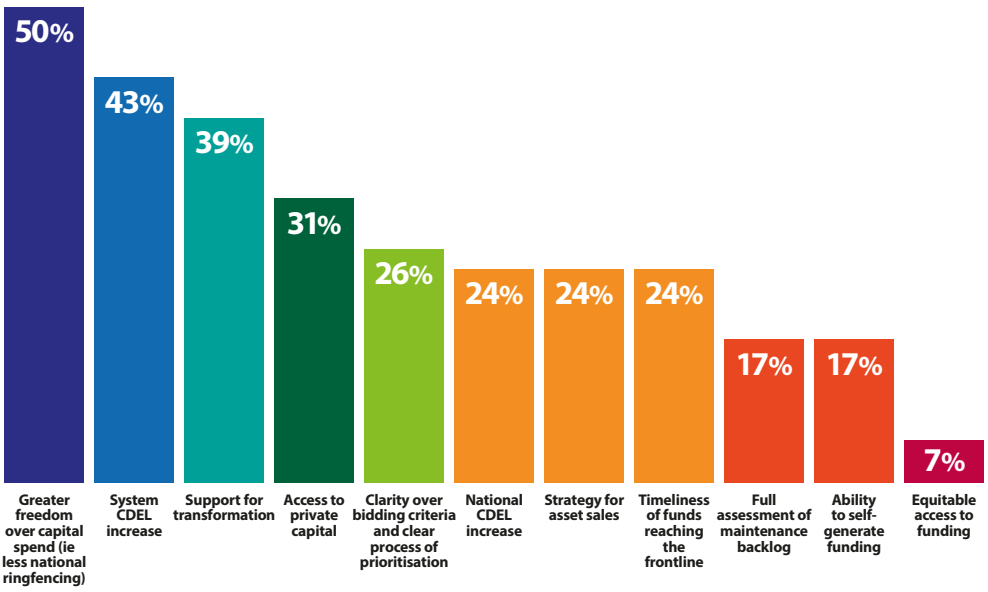
The top three priorities for capital reform

In response to the challenges trusts told us they were facing, it follows that their top three priorities for capital reform were:

- 50% of trusts said greater freedom over capital spend
- 43% said a system CDEL increase should be a top priority
- 39% said support for transformation should be a top priority.

Figure 4

The top three priorities for capital reform (n=54)



What the NHS needs now

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After years of underinvestment and capital budgets being diverted into revenue, there are too many providers with inadequate buildings, failing equipment and an inability to adopt new technologies to improve care for patients, and provide a modern working environment for staff. COVID-19 has exposed the challenges created by an outdated estate, such as difficultly expanding capacity at pace to adhere with strict IPC measures. These issues will only be rectified with a properly funded and well-designed system of capital funding. This will allow trusts to invest in the buildings and technology that will create a 21st century health service and help them continue to deliver high-quality care to patients and service users. Sufficient capital investment will allow greater strides to be made towards the government's 'net-zero' and 'levelling up' ambitions. Providers will be supported to reach the much higher levels of activity needed to clear the care backlog with substantial investment in extra diagnostic equipment, new technology and new ways of working. NHS leaders will only be able to build the 40 new hospitals announced by government and maintain safe estates with the right capital funding.

The forthcoming comprehensive spending review urgently needs to:

- **Set a multiyear NHS capital funding settlement**. This would allow the NHS to plan for the long term and transform its services and equipment. While the 2019 health infrastructure plan commits to "indicative multi-year planning envelopes over a rolling five-year period", to be confirmed annually, the NHS ideally needs at least ten years of indicative budgets.
- **Commit to a capital budget appropriate for a world-leading health service**. The NHS is overdue a capital settlement that will support it in meeting its goals of transforming services, embracing the use of technology, improving access to care, and keeping pace with demographic changes. Sufficient capital investment will also support broader government ambitions to reach 'net-zero' by 2050, alongside its 'levelling up' agenda. New analysis from The Health Foundation's REAL Centre estimates that, in response to growing operational pressures such as the care backlog, the DHSC's capital budget needs to increase to around £10bn by 2024/25 just to cover core day-to-day spending. Using the DHSC's 2021/22 capital budget of £8.5bn as a baseline, this suggests a need for yearly real terms funding uplifts reaching £1.5bn by the end of the spending review period. This figure should be seen as an absolute minimum as it does not account for the direct costs of COVID-19, nor the total funding that NHS Providers believes is required for national strategic projects such as new hospitals and hospital upgrades.
- **Reform the system for accessing and allocating capital**, in consultation with those planning and delivering services. This mechanism must enable all trusts to invest to improve, expand and transform NHS services. The capital system should be based on the principle of subsidiarity and align accountability for services with the ability to make necessary investments.

For more information:
www.nhsproviders.org/the-case-for-capital-funding