National Audit Office

Report
by the Comptroller
and Auditor General

Department of Health & Social Care

Review of capital expenditure in the NHS

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Key facts

£4.3bn

transferred from the capital budget to revenue budget between 2014-15 and 2018-19

£6.5bn

estimated total backlog maintenance as reported at October 2019

£1.7bn

difference between NHS foundation trusts' and NHS trusts' (NHS providers') capital spending plans and the available providers' capital budget at the start of 2019-20

20% minimum reduction requested by NHS England and NHS Improvement in the revised capital spending plans of NHS providers in July 2019, before additional capital funds were announced in August 2019

£1.1 billion of high-risk backlog maintenance reported at October 2019, putting patients at risk of harm

99% increase in the funds raised from the sale of assets between 2016-17 and 2018-19

£600 million remaining gap between NHS providers' original capital spending plans and their capital budget for 2019-20, following the announcement of additional funding

Summary

1 The Department of Health & Social Care (the Department) sets the overall strategic direction of the health system in England. It is accountable to Parliament for ensuring that its annual spending, including spending by NHS England and NHS Improvement (NHSE&I), other arm's-length bodies; and local NHS bodies, is contained within the overall budget proposed by the government and authorised by Parliament. This budget, termed a spending limit, is for day-to-day spending (the revenue budget) and capital investment (the capital budget).

2 The NHS capital budget is for the construction of new buildings and the replacement of medical and other equipment. It is also used to enhance existing assets and to develop the infrastructure for transforming services. Capital investment is essential for modernising and improving the quality of care and for achieving the changes that will make the NHS sustainable in the longer term. The Department sets an annual NHS capital budget based on local spending trends and central initiatives.

3 Many organisations share responsibility for the planning, allocation, approval and management of NHS capital. Overall, the Department is responsible for ensuring that the capital limit is not exceeded, and NHSE&I work with NHS trusts and NHS foundation trusts (NHS providers), who set out their capital needs in business plans. The rules around setting local capital spending limits are different for different types of NHS provider. NHS foundation trusts have greater freedom over their capital spending decisions compared with NHS trusts and those NHS foundation trusts in financial distress. Increasingly, individual capital plans of local NHS providers are being prepared within sustainability and transformation partnerships (STPs). STPs comprise local NHS providers, commissioners, local government and other stakeholders.

4 This report sets out the facts on capital investment in the NHS. It draws on and expands on issues we cover in our annual report on NHS financial sustainability. It includes:

- the age of the NHS estate and rising maintenance costs (Part One);
- the allocation of the capital investment budget (Part Two);
- sources of capital funding (Part Three); and
- challenges to planning and delivering an effective capital strategy (Part Four).

5 The primary care estate (for example, General Practice) is excluded from our scope as most capital investment in this area does not count towards the Department's capital budget. We also exclude capital expenditure on research and development since our focus is mainly on physical assets within NHS providers.

6 We set out our audit approach and evidence base in Appendix One. Appendix Two contains a list of the 20 projects that the government announced in August 2019 would receive additional capital funding investment, as well as the schemes and seed funding announced in the *Health Infrastructure Plan*.

Key findings

The age of the NHS estate and rising maintenance costs

7 Parts of the NHS estate do not meet the demands of a modern health service. NHS hospitals include Victorian-era buildings, and 14% of the NHS estate predates the formation of the NHS (1948). *The NHS Long Term Plan* acknowledges that elements of the estate do not meet the demands of a modern health service (paragraphs 1.2, 1.3 and Figure 1).

8 The growth in backlog maintenance indicates that there is an increased risk of harm to patients. In October 2019 NHS Digital reported that the backlog of maintenance work to restore buildings to an appropriate standard was around £6.5 billion. An appropriate standard includes the physical condition of the estate, as well as compliance with fire safety and health and safety standards. High-risk backlog maintenance currently stands at £1.1 billion, and grew by 139% between 2014-15 and 2018-19, indicating an increased risk of harm to patients. Individual NHS providers told us about specific risks from failing operating theatres and dangerous ligature points[1] (paragraphs 1.4 to 1.9).

Recent issues with allocating the capital budget

9 NHS providers' assessment of their need for capital funding has been consistently greater than the funding available. NHS providers' annual assessment of their need for capital investment has been, on average, £1.1 billion higher than their spending limit in each year from 2016-17 to 2018-19. The Department prioritised demands given that the total of NHS providers' plans exceeded the capital limit available for the Department (paragraph 2.7).

1 A ligature point is anything which could be used to attach a cord, rope or other material for the purpose of hanging or strangulation. Care Quality Commission, *Brief Guide: Ligature Points*, 2015.

10 Since 2014-15 the Department has transferred £4.3 billion from capital to revenue spending. The Department began transferring from its capital budget to its revenue budget in 2014-15. From 2016 it was given special flexibility by HM Treasury to transfer up to a maximum amount from capital to revenue in each year between 2016-17 and 2019-20. The Department has used all of this flexibility. It has transferred a total of £4.3 billion in the five years from 2014-15 to 2018-19. The Department was thus able to prioritise support for day-to-day spending on current services at the cost of foregoing longer-term investment in buildings and other long-term assets. In March 2019 the Department was unable to give a definitive measure of the impact on patients' services of repeatedly making these transfers (paragraphs 2.8 to 2.11 and Figures 8 and 9).

11 Capital investment budgets have not been fully used. There have been particular years where noticeable underspends have occurred. Between 2010-11 and 2012-13, there was an average underspend of £677 million (12%) against the capital spending limit. In 2017-18, £360 million (6%) was unspent. These underspends have occurred at a time when the UK has had lower levels of medical equipment per population than other countries, for example, 26th out of the EU28 countries for magnetic resonance imaging (MRI), and 27th out of the EU28 for computed tomography (CT) scanners (paragraph 2.12).

Sources of capital funding

12 Some NHS providers are in surplus and some NHS providers are in deficit and have had to borrow to fund capital plans. In 2018-19, 124 out of 230 NHS providers (54%) delivered a surplus, which improves providers' cash balances. The current capital regime means that the availability of cash, and ability to spend capital without approval from the Department (for example, in those trusts delivering surpluses and foundation trusts), does not necessarily match where there are the most urgent capital needs. Therefore, unlike providers with healthy cash balances, NHS providers in deficit are likely to resort to borrowing funds to meet their revenue and capital spending plans (paragraph 3.3).

13 NHS providers have increasingly sold their assets to fund day-to-day activities. Government policy encourages public sector entities to sell assets where they no longer serve a public purpose. NHS providers can sell assets such as land to finance capital investment, and profits made can fund day-to-day spending. The overall proceeds from asset sales rose by 99% (from £222 million to £441 million) between 2016-17 and 2018-19. During this time the proportion of profit made on these sales also increased, which assists the revenue position, and meant that not all of these asset proceeds have been available to reinvest into capital (paragraph 3.4).

14 NHS providers owe the government £10.9 billion in interim revenue and capital debt. Cash shortages affect the ability of NHS providers to invest in new capital assets. Another source of funding is loans from the government. In 2018-19, the total outstanding debt from interim loans reached £10.9 billion (paragraph 3.6).

Challenges to planning and delivering an effective capital strategy

15 The capital allocation process for 2019-20 was particularly challenging for the Department. At the start of 2019-20, NHS providers' capital spending plans exceeded the budget by around £1.7 billion. NHSE&I approached NHS providers twice in the following months requesting them to reduce their capital spending plans. However, in August 2019, the government announced a further £1.8 billion (£1.1 billion for 2019-20) for capital investment to include 20 specific capital projects. Effectively, this left a gap of £600 million between the NHS provider capital spending plans and their limit for 2019-20 (paragraphs 4.4 to 4.6 and Appendix Two).

16 Political events have delayed the announcement of a long-term capital strategy. The Department had intended to announce its capital strategy for 2020-21 to 2024-25 in the (now postponed) 2019 Spending Review. The original plan expected this five-year settlement to support the strategic direction of *The NHS Long Term Plan* and the revenue settlement for NHS England, agreed to 2023-24. Instead, a one-year spending round was delivered in September 2019 to allow government to focus on exiting the EU, with a full spending review postponed to 2020 (paragraphs 4.10 and 4.11).

17 Proposed legislative changes to improve capital planning by NHS England may disincentivise some NHS providers. There are proposals to limit the amount of capital spend of some individually named NHS foundation trusts, similar to the limits placed on NHS trusts. This may ease some of the challenges in managing the national capital budget and, in turn, improve the capital planning process. The individually named NHS foundation trusts would change each year, upon review from NHSE&I. However, some NHS foundation trusts have benefited from the greater freedom and autonomy in their capital planning since they have been able to generate surpluses and invest in service and facilities improvement. This was intended to act as one of the incentives for NHS providers to seek efficiencies and reinvest budget surpluses in current and new services. The Department aims to ensure there continues to be a benefit for those systems that have delivered and maintained overall financial balance (paragraphs 2.7 and 4.14).