Renaissance 2.0 Reboot 2020

COVID-19
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Good Governance Institute

A glimpse into the abyss – NHS finances

NHS debt and capital funding involve numbers so large that they usually qualify as 'someone else's problem' – and that perhaps encapsulates the current issue for trusts: that important decisions are increasingly being determined centrally.

COVID-19 has been a distraction as far as estates and equipment are concerned. The welcome influx of ventilators is only part of the story and boards need to remain conscious and vigilant not only about the state of their estate and equipment but their future investment plans which should be coming off hold.

Capital has always felt rationed, with never enough to do what needs to be done. Foundation trusts are (or is it were?) able to generate their own capital more easily than NHS trusts but that relied on their success in generating a surplus. Achieving that has become more and more difficult over recent years and deficits can be found almost anywhere in the NHS. So there is an ageing stock of buildings – some over-used and others under-utilised – and trusts on the verge of bankruptcy, unable to spend and invest, leading to a build-up of maintenance needs. Capital also buys equipment, including to meet the burgeoning digital agenda, but it is the estate that dominates the demands on the capital budget.

PDC and debt

Interwoven in this are two other issues: public development capital (PDC) and debt. PDC was invented in the 1990s when trusts were first set up and handed assets. PDC valued those assets and they are regarded as the equivalent of the public's equity stake in each trust. The advantage is that PDC is not debt but can be increased to offset debt as happened earlier this year when historic operating debt was written off. Or rather exchanged for PDC, which represents the cost of servicing debt at a rate set by the Treasury (currently 3.5%). It forms the largest component of foundation trust liabilities at £15.7bn in 2018-19.

Welcome though the write-off has been for trusts that benefited, it does not address the root causes of financial imbalance across the system. And if this is not dealt with we are likely to see renewed appetite for 'interim' relief, which will now most probably be in the form of PDC.

This is relevant because it seems to form part of the current policy drift to centralise decision-making. While there may be some attractions overall to smoothing out differences, it is as important to bear in mind the consequence that it undermines one of the key freedoms won by those who succeeded in becoming foundation trusts. How good central decision-making is remains to be seen but it is always difficult without real, detailed local knowledge.

Flowing from the Long Term Plan, two documents have appeared: Robert Naylor's review of property and estates in 2017 and a Health Infrastructure Plan in 2019. The first sets out what, in estates terms, needs to be done and the second defines a 10-year, 40-project programme to make a start. Both recognise that digital technology, including artificial intelligence, and other developments such as genomics will also have to be part of the programme.

Extra money

> "Capital has always felt rationed, with never enough to do what needs to be done"

There is also extra money announced, though, as ever, it is difficult to distinguish brand new from recycled. But there is £3.9bn available in addition to the 5% proportion of the DHSC vote that is devoted to capital: £7.1bn. The HIP is also discouraging of trusts accessing private finance, urging them to test out their thinking on anything innovative before committing themselves. The Treasury is being both hawkish and cautious.

However, the messaging from these two reports as well as the Long Term Plan is to move the focus away from individual institutions to system solutions – at least £2.6bn of the additional capital funds are to be used for 'STP [sic] transformation' and £700mn devoted to turnaround and backlog maintenance. Also in the mix is pressure to dispose of surplus property, with trusts allowed to retain all the proceeds provided they are being used to fund STP capital priorities.

It is notable that the Naylor review recommends that national bodies work together to develop a robust investment plan for the NHS. And the NHS Property Board, set up at Naylor's behest, has no provider representation, no external real estate expertise and meets in private with neither agendas, meetings dates nor minutes published.

Questions for boards

So the rapture that greets extra money and real movement on the NHS estate is somewhat modified by the central drift. What then should boards be thinking about?

- How fundamental has the thinking been about service delivery – are pathways being modernised at the same pace as the estate and equipment?
- A system-wide solution is not necessarily bad – as your board emerges from being focused on the pandemic to thinking about ensuring that maintenance and investment are in the right place, what wider solutions are you thinking about?
- NHS England is working with the Treasury to streamline processes for approval of major projects – a welcome development – but how can your board work with the centre to achieve your objectives?

If you have any questions or comments about this briefing, please call us on 07732 681120 or email **advice@good-governance.org.uk**.