Department of Health & Social Care

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Dear Ed

NHS Funding

Thank you for your letter of 24th September regarding the announcement made on 5th August 2019 on the provision of an additional £1.8 billion of capital funding for the NHS.

This is all "new" money for the NHS. The NHS capital budget was increased by £1.8bn and NHS capital expenditure can be £1.8bn higher as a result. I trust that the further detail below, including a brief description of government accounting rules, provides sufficient explanation of statements made by the Department for those who are keen to understand it in more detail.

Government Accounting Rules

Her Majesty's Treasury sets out the spending limits for government departments on capital (CDEL) and resource (RDEL) in spending reviews. These limits generally cover a number of years; although they are routinely changed at budgets and through the in-year Estimates process. These controls limit how much is spent in each year. Cash that is held (for example in reserves) by public sector organisations such as NHS trusts does not score against these controls until it is spent. These national limits are not always delegated to local organisations. For example, the NHS operates as a devolved system with individual hospitals enjoying a large degree of discretion over their capital investment decisions, but the spending still counts against the national total.

Irrespective of the source of cash, aggregate capital expenditure across all NHS organisations must be managed within the national CDEL.

The Extra Funding

The announcement of £1.8 billion additional investment in the NHS resulted in a £1.8 billion increase in the Department of Health and Social Care's (DHSC) capital expenditure limit (CDEL) across the current and subsequent financial years. The majority, £1.1 billion, of the increase is in the current year and comprises a £1 billion in-year boost to NHS operational capital and £100 million (out of a total of £850 million) for hospital upgrades. As a result CDEL in 2019-20 increases from £5.9bn [1] to £7.0 bn [2]. The increase is in DHSC's CDEL (rather than these announcements being funded by a re-allocation of underspends from other CDEL budgets), so clearly represents 'new money'; i.e. the DHSC is able to spend £1.1 billion more capital in 2019-20 than prior to the announcement and £0.7bn in subsequent years.

Some external challenge has reflected a conflation of <u>local</u> plans and the national CDEL limit. Capital expenditure is financed through a range of means. In some cases, Trusts are able to finance capital investment themselves through their own cash reserves (built up from surpluses on prior year trading). In other cases, finance can be provided by DHSC, including through Public Dividend Capital and loans.

However financed, the aggregate of NHS individual plans still has to fit within the <u>national</u> budget. The additional £1.1 billion CDEL provided in 2019-20, means that there was sufficient scope for DHSC to go ahead and approve emergency capital applications and PDC allocations as well as other nationally funded capital programmes, without it being necessary to ask trusts to constrain their own self-financed plans. It was in this context that the NHS Chief Financial Officer, Julian Kelly wrote to providers in August.

I hope this note answers your questions fully but if not please do come back to me.

Yours sincerely

Mark Svenson
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[1] Main Estimates (May 2019)

[2] Spending Round (September 2019)