

Sarah Wollaston MP
Chair, Health Select Committee
House of Commons
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11 April 2017

Dear Sarah,

Following the publication of the Department's Supplementary Estimates in February this year, the Committee have asked the Department four questions on its estimates. I am writing to set out the answers to those questions, and provide some further background information.

The option to transfer resources from the capital budget was recognised between the Department and HM Treasury at the time of the Spending Review. This was to allow the Department some flexibility to meet the overall spending priorities of the NHS, principally those outlined in the Five Year Forward View, as they continued to develop. We revisit the option of switching from capital to revenue each year, and this is formalised through the Supplementary Estimates process.

We agree with the committee that the NHS needs to maintain its asset base in a way which allows it to meet the efficiency and delivery challenges laid out in the NHS Five Year Forward View. NHS capital expenditure is mainly determined locally and should be based increasingly on the clinical strategies in Sustainability and Transformation Plans - with NHS providers determining their capital plans at the start of the year. The majority of these plans are funded by internally generated cash retained by providers from their normal business operations. This decentralised process is monitored monthly by the Department and NHSI to ensure overall spend is within the NHS allocation.

For the last 10 years this 'self-generated' capital expenditure has been significantly below the level of capital available. In 2016-17, the capital budget identified for the NHS was on the basis that a level of capital, confirmed as part of the Supplementary Estimates, would be required to be transferred to revenue. We are not aware of any

self-financed projects which have been cancelled or delayed as a result of the capital/revenue switches.

The Department also provides repayable, interest bearing, loan financing for larger projects where providers do not have the internal resources to meet these significant investments from their retained funds. For example “University College London Cancer Centre” and “West London Mental Health Trust Broadmoor Reconfiguration”. The department can also provide Public Dividend Capital (PDC) for providers to invest in certain assets, for example and most recently in updating and replacing linear accelerators, where there is a Value for Money case for these investments and they are affordable within the overall budget.

In deciding what level of loans and PDC the department can afford, we consider the level of budget available and the demands of the NHS for additional funding above the level of their self-generated resources. For the last ten years overall capital expenditure has been significantly lower than the budgets set, and so this has enabled us to use the difference between assessed capital demands, to make capital/revenue transfers in order to increase the level of revenue resources available to the front-line.

The Department is actively seeking ways to increase the capital resources available. This was also a strong theme from Sir Robert Naylor’s review of the NHS estate published on March 31st, which concluded that there would be significant additional investment required to address both backlog maintenance of the existing estate and to support service transformation through STPs. The review noted that the NHS needs to develop a robust capital strategy to determine the final investment requirements through the STP plans and set out that additional capital resources could come from three sources- surplus property disposals (where the Department already plans to generate £2bn over the SR period, about £180m of which was realised in 2016-17), private capital and from further publicly funded investment.

In the Spring Budget the government announced a further £325 million will be invested over the next three years to fund the strongest Sustainability and Transformation Plan (STP) capital schemes, and a further £100 million to invest in Accident and Emergency facilities. The Department is working with NHS England and NHS Improvement to assess which schemes will deliver the best improvements to patients and value to the taxpayer. Part of the assessment of the schemes is considering the extent they can make efficiencies and future cost savings. The Department will be further assessing the potential of other schemes to form part of an additional funding request in the Autumn. In developing their plans the NHS will need to demonstrate that they are maximising generation of its own capital resources through surplus land disposal and ensuring that its existing estate is being fully and efficiently utilised.

The committee asked if the Department if further switches are planned and if the government will meet the Chancellor's commitment for £20bn of investment in the NHS over the five years from 2016-17. Over the remaining three years of the Spending Review period the Department is planning to reduce the level of transfer with the aim to eliminate it by the end of 2019/20 and this will allow us to meet the commitment to £20bn investment over the period.

Yours ever,

A handwritten signature in black ink, appearing to read "Philip Dunne". The signature is written in a cursive style with a large initial "P".

PHILIP DUNNE