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Department of Health & Social Care

NHS

Reforms to the NHS Cash Regime effective from 1 April 2020

Summary of key changes

The financial support available to providers under section 42A of the National Health Service Act 2006 currently includes providing loans, public dividend capital or guarantees of payment to Foundation Trusts and NHS Trusts. The nature of support available to providers will not change but the products and terms on which it is received will. In summary the most significant changes are:

Interim revenue and capital debt:

- Interim revenue loans, including working capital facilities and interim capital debt at 31 March 2020 are to be extinguished during FY20/21. Providers will be issued Public Dividend Capital (PDC) to effect the repayment of outstanding balances at 31 March 2020. This excludes capital normal course of business (NCB) loans.

Future revenue support

- Future revenue support will be available for exceptional short-term cash flow requirements and longer-term revenue support for providers in financial distress.
- This support will be provided as PDC which does not require principal repayment but carries a dividend payable at the current PDC rate. This reflects the opportunity cost to the taxpayer of diverting finance to unplanned cash requirements.
- During the CoVID-19 outbreak temporary arrangements are being put in place to ensure all providers have sufficient funding to respond to the crisis, including meeting reasonable additional costs. DHSC revenue support should not be needed during this period but will be available as a safety net, should it be required.
- Once the CoVID-19 outbreak ends and normal business is resumed, future revenue support will be available on the same basis. But the need will be at greatly reduced levels as a result of the changes to the Financial Recovery Fund (FRF).
- To maintain consistency there is no change to the application process for revenue support for April. Applications already received will be processed as normal but receive PDC rather than a loan.
- DHSC and NHSEI will carry out a review of the PDC dividend rate as it applies across the NHS financial architecture in FY20/21.

Future capital support

- The capital regime will move to affordable capital envelopes being allocated to STP/ICS for local prioritisation of system driven operational capital expenditure. This will primarily be self-financed from the depreciation element of tariff and self-financed cash balances as an element of discretionary capital allocated to each system for the purpose of dealing with the most pressing maintenance needs for trusts that are cash constrained.
- An emergency capital allocation will be available for applications that meet the criteria. Applications must demonstrate urgent and essential capital expenditure that has been prioritised by their STP/ICS and NHSE/ I regional team but are unaffordable to individual organisations. Where accepted, applications will receive PDC. This is a temporary measure intended to be phased out over a number of years as the sector returns to financial balance.
- PDC will be issued to providers for all genuinely additional capital expenditure driven directly by the CoVID-19 response and this will be on top of affordable capital envelopes.
- Finally, there remains the possibility for providers to receive a capital loan from DHSC. However, this facility will be by exception and the provider must demonstrate that it is clearly affordable within the ICS/STP envelope through guaranteed underspends from other providers across the area.

Historic Debt

Interim revenue support, including working capital loans and interim capital support loans will no longer be issued to providers. In order to reset the wider financial architecture and simplify the system, interim revenue debt, working capital loans, and interim capital debts at 31 March 2020 will be repaid with new Public Dividend Capital (PDC) issued by DHSC in FY20/21. Effectively this will extinguish liabilities due to DHSC from providers. Normal course of business loans remain repayable in line with current practice.
This will remove over £13bn in loan principal from provider balance sheets, as well as outstanding interest, knocking down a sizeable hurdle and giving all providers a headstart on the path to financial sustainability. In the future, valuable cash that would otherwise have been needed to repay past liabilities, will be freed up to maintain vital services and self-finance more capital investment.

- The effective date of the transaction to repay the loan will be 30 September 2020.
- All loans will be frozen at 31 March 2020 and interest payments will cease from that date.
- Amounts due for loan principal and accrued interest will be calculated and reconciled to provider's audited financial statements for the year ended 31 March 2020. PDC in the equivalent amount will be issued to providers alongside an MoU to be repay the loans on 30 September 2020.
- We do not expect any adjustment to balance sheets at 31 March 2020 or opening balances as a result of this change

- The national top-up payment for Covid-19 arrangements during the outbreak and allocation of FRF income once business as usual is restored will be adjusted so the revenue impact of the debt write off does not create a revenue gain or loss.
- Providers will want to consider appropriate disclosures with their external auditors.

Future revenue support

Future revenue support will be available for demonstrable short-term cash flow requirements and longer-term revenue support for providers in financial distress as PDC. Revenue support provided by DHSC has been harmonised with the wider revenue regime and will be available both during and following the CoVID-19 outbreak.

Longer-term revenue support (after CoVid-19 arrangements have ceased):

After the end of the current exceptional financial arrangements due to the CoVid-19 outbreak and given changes to the Financial Recovery Fund set out in the NHS Operational Planning and Contracting Guidance for 2020/21 published in January, the need for longer-term financial support will be rare and should only arise in exceptional circumstances.

Where the need arises revenue support will be provided as PDC. This recognises that any provider with a requirement for revenue support must be facing exceptional financial difficulties and therefore the need and the timeframe for provider recovery plans in the large majority of cases is highly likely to be unknown or uncertain. Should a provider be confident of a time limited cashflow need of less than one year (for example a surplus provider with a specific cashflow timing issue), DHSC will consider requests from surplus providers for a repayable working capital facility with a low daily interest charge, but only where it is clear that this will be repaid in full.

Revenue support PDC will not require repayment however, a temporary dividend is payable which will be set at the prevailing PDC dividend rate, currently 3.5%. This represents the opportunity cost to taxpayers of unplanned cash made available to support providers. The dividend will apply for at least one year from the date the revenue support is drawn and will cease after one year (if a provider is and remains in surplus), or once a provider succeeds in reaching breakeven or surplus and no longer requires additional financial support (if a provider is currently in deficit).

- Future revenue support can be applied for monthly through the same route and on the same timetable as present.
- Successful applications will be required to sign a Memorandum of Understanding (MoU) as part of the application process. This will include standard and may include bespoke terms and conditions for receiving revenue support which will be notified to providers during the application process.
- For example, the Secretary of State may require the Board of a recipient Trust to agree to additional conditions linked to its operational management likely to include, but not be limited to, the use of particular procurement routes, commitment to implement best practice and agreement to other matters.
- To collect the PDC dividend providers in receipt of revenue support are required to add the value of revenue support PDC received to their net relevant assets value when calculating their PDC dividend.
- The value will be added in full to the PDC dividend calculation for a minimum of one year from the date it is drawn, or until a deficit provider achieves target surplus if longer.

- Revenue support is only available for the cost of urgent and essential revenue expenditure that cannot be self-financed. It cannot generate a net relevant asset and so will only be charged once. Any unspent cash held in GB facilities is not chargeable in the PDC calculation.
- No action will be needed until the first FY20/21 dividend payment. DHSC will issue an updated PDC policy ahead of this payment highlighting changes to the PDC calculation.

To maintain consistency there is no change to the application process for revenue support for April 2020. Applications have already been received will be processed as normal but provided as PDC under the new regime rather than interim revenue debt where they are approved. In the months that follow we will consider changes to simplify the application process however, we will only implement changes that reduce the administrative burden during the CoVID-19 outbreak.

DHSC and NHSEI will carry out a review of the PDC rate as it applies across the NHS financial architecture in FY20/21. This review will consider the impact of lowering the PDC rate against the benefits of doing so with the intention of making any appropriate changes for FY21/22.

During the CoVID-19 outbreak:

During the CoVID-19 outbreak providers will be funded through a block contract and national top-up payment with reimbursement for any genuinely additional CoVID-19 costs as set out in the letter from Simon Stevens to system leaders dated 17 March 2020 and subsequent guidance.

Block contract, national top-up payment and Covid-19 cost reimbursement during the outbreak will be backed by income from NHSEI. DHSC revenue support should not be needed during this period but will be available as a safety net, should it be required.

Where historic interim and revenue debts are written off, the national top-up payment will be adjusted so that the revenue impact of the debt write off does not create a revenue gain or loss.

Following the CoVID-19 outbreak:

Once the system returns to business as usual providers will be expected to deliver a breakeven or surplus position. Providers currently in deficit will be expected to reach balance or agree an achievable financial improvement trajectory with NHSEI to make reasonable progress towards this goal before the start of each financial year. This is temporarily suspended for the duration of the CoVID-19 response but will be re-established once the threat has passed.

On return to business as usual the requirement for DHSC revenue support will be greatly reduced as a result of the complementary reforms to the FRF, which means that providers will be able to earn FRF income from NHSEI to cover planned deficits agreed before the start of each financial year with NHSEI.

Where providers meet planned levels of expenditure there will be no requirement for further revenue support even for providers in deficit and we expect a provider’s Executive Board to manage their finances effectively within resources available to support agreed plans, and in accordance with the highest standards of public and parliamentary accountability.

Revenue support available from DHSC is a safety net, only to be called upon in the most exceptional circumstances. It is not for use as a business as usual finance facility or for convenience to supplement agreed plans.

Future capital support

The capital regime will move to affordable capital envelopes being allocated to ICS/STPs for local prioritisation of system driven operational capital expenditure. Full details are set out in

the guidance on the capital regime. This will be self-financed from the depreciation element of tariff and cash on trust balance sheets as well as an element of discretionary capital allocated to each system for the purpose of dealing with the most pressing maintenance needs for trusts that are cash constrained.
For providers with urgent and essential capital expenditure that have been prioritised by their STP/ICS and NHSE/I regional team but are unaffordable to individual organisations, there is a limited emergency capital allocation. Applications to this facility will be supported with PDC where successful.

The emergency capital allocation is a temporary measure to aid providers with cash generation constraints afford urgent and essential maintenance. It is intended to be phased out over a number of years as the sector returns to financial balance.

- This is a restricted allocation only available for capital expenditure of an essential and urgent nature that has been prioritised by the ICS/STP.
- Providers will need to submit an application to NHSEI for consideration.
- NHSEI will perform detailed scrutiny considering factors which include but are not limited to; regional affordability / prioritisation, deliverability, providers financial position, statement of need, capital source and application of funding.
- Finance will be traditional PDC that is not repayable and attracts a dividend at the prevailing rate, currently 3.5% on the providers' net relevant assets.

Finally, there remains the potential for providers to receive a capital loan from DHSC, where in the short term they cannot self-finance the full cost of capital expenditure from cash reserves. However, this facility will be by exception where provider's operational capital expenditure has been prioritised by the ICS/STP and they can demonstrate that it is clearly affordable within the ICS/STP envelope through guaranteed underspends from other providers across the area.
If this can be established, there will be a light touch approvals process which considers the providers overall financial position and ability to service a loan only. The Accounting Officer of each provider is responsible for ensuring that the provider is capable of repaying its liabilities as they fall due. The basis of such loans is set out below:

- Appropriate terms will be determined for repayment of the principal, including whether this should be by equal instalments, in full at maturity or subject to another arrangement.
- Capital loans are repayable over any period up to 25 years but subject to the term not exceeding the useful economic life of the underlying asset or investment.
- Capital loans will be provided at National Loan Fund Rates of interest.
- Repayment of loan principle and interest will operate in the same way as they do at presently.
- If a provider defaults on their loan repayment then this will be recovered by reducing the capital allocation for their ICS/STP in future years to recover any amounts not paid.

Assets under construction:
There is an increasing level of capital investment going into the system on large, nationally directed capital projects. We understand this invariably causes a strain on providers financial planning and revenue positions which is difficult to manage. This is exacerbated where plans

and announcements are developed at pace and assets under construction attract sizeable PDC dividends before they are available for use or can be managed into existing plans. From 1 April 2020 certain assets under construction will no longer attract a PDC dividend until they are brought into use for the purposes intended and reclassified from assets under construction to completed fixed assets in the providers' financial statements. This relief is solely at the discretion of DHSC, in consultation with NHSE/I and those providers that are eligible will be informed directly. Criteria that DHSC will consider in determining eligible providers and assets will include, but is not limited to:

- Announced by Ministers or DHSC and centrally funded with PDC for strategic investment.
- Capital investment of £50m or more. Business cases above NHS provider delegated authorities where NHSE/I approval is required as well as DHSC Investment Appraisal Committee and HM Treasury business case approval

DHSC Capital Delivery PMO will monitor progress on all schemes agreed for assets under construction PDC Dividend relief.

CoVID-19 capital expenditure:

PDC and an additional capital allocation will be issued to providers for all genuinely additional capital expenditure driven directly by the CoVID-19 response. No PDC dividend will be payable on PDC issued for CoVID-19 related expenditure in FY19/20 and FY20/21. Providers should adjust their net relevant assets calculation for FY19/20 and FY20/21 to exclude the value of PDC issued by DHSC for CoVID-19 capital expenditure.

General conditions

The Department will only agree to provide financial support that it considers to be affordable from the overall budget it is allocated by Parliament – the Departmental Expenditure Limit (DEL).

Decisions to provide financial support to providers will comply with HM Treasury's Green Book. In some cases, the Department may be required to obtain HM Treasury's approval, for example, where investments exceed delegated limits or are novel, contentious or repercussive.

Further information

There will be further information provided in updated Secretary of State guidance under Section 42A of the National Health Service Act 2006, planned to be released at the end of April and including further guidance on the PDC dividend calculation. In the meantime any queries can be directed to providerfinance@dhsc.gov.uk.