Guidance on NHS system capital envelopes for 2021/22

March 2021

This note sets out the arrangements for system capital envelopes for 2021/22, building on those established in 2020/21.

NHS capital settlement for 2021/22

Following the Spending Review, the NHS provider capital allocation for 2021/22 has been set by the Government at £6.2bn; it was £5.8bn in 2020/21.

Within this the operational capital allocation distributed through system capital envelopes will remain at £3.7bn, as in 2020/21. £0.2bn additional funding on top of this core allocation will be added to envelopes to support the procurement of diagnostics equipment and help address issues within hospitals with reinforced autoclaved aerated concrete (RAAC). A key priority for 2021/22 is that funding addresses the high and severe RAAC risks and reporting demonstrates that critical infrastructure risk (CIR) is appropriately prioritised by systems and trusts through at least a proportionate increase in investment compared with the last five years. In addition, investment should continue to improve digital maturity.

The settlement also allows for other projects outside envelopes, including community diagnostic hubs (CDHs), mental health dormitory eradication, year 2 of the A&E schemes, new hospitals and hospital upgrades.

NHS operational capital funding

This capital settlement means that trusts can continue with affordable self-financed spending, taking account of normal slippage, emergency capital requirements and investments in backlog maintenance. Alongside the operational capital settlement, the Government continues to back the NHS national strategic investments; the New Hospitals Programme (NHP) as part of the delivery of the wider Health Infrastructure

Plan (HIP) and sustainability and transformation partnership (STP) capital schemes, for which they have provided a multi (four)-year settlement.

For 2021/22, the NHS capital allocation will be split into three categories:

1. **A system-level allocation (£3.9bn)** – to cover day-to-day operational investments (which have typically been self-financed by organisations in integrated care systems (ICS)/STP or financed by the Department of Health and Social Care (DHSC) through emergency loans). This allocation includes funding for CIR, high and severe risk RAAC hospitals, diagnostic equipment and COVID-19 responses.

2. **Nationally allocated funds (£1.2bn)** – to cover nationally strategic projects already announced and in development and/or construction such as hospital upgrades (STP capital funded schemes) and new hospitals.

3. **Other national capital investment (£1.1bn)** – including national programmes such as CDHs, national technology funding and the continuation of the Mental Health Dormitory Replacement Programme started in 2020/21.

The Health Infrastructure Plan

The HIP sets out reforms to make clearer and more transparent links between local spending plans and national spending limits. Every ICS/STP will receive a 2021/22 operational capital spending envelope derived from the system-level allocation.

While providers remain legally responsible for maintaining their estates and for setting and delivering their organisational-level capital investment plans, every ICS/STP will be responsible for ensuring overall capital spending across its system remains within these budgets. Consequently, organisational plans and the deployment of discretionary emergency capital will ultimately need to be consistent with these envelopes and reflect system-wide discussions on prioritisation.

Methodology for system allocations

The table below summarises the basis on which the envelopes have been distributed.

Funding line	Allocation methodology
Depreciation	2020/21 forecast outturn (based on month 7)
Self-financed and other internal cash (including commercial loans)	Allocated based on gross asset value and historical surpluses
Emergency finance [including previously agreed loans and emergency finance public dividend capital (PDC)]	Allocated based on gross asset value and backlog maintenance
RAAC	Allocated on a bespoke risk-assessed basis to those trusts/systems with the most urgent issues to resolve
Additional diagnostics equipment contribution	Allocated based on gross asset value

The table below sets out what expenditure is included and excluded from the national capital envelopes in 2021/22.

Included	Excluded
• Depreciation funded • Other internal cash • Emergency capital PDC – new and previously approved • Normal course of business loans • Other loans, e.g. Salix • Other commercial borrowing • Replacement diagnostic equipment (CT and MRI machines) • Backlog maintenance and CIR • RAAC hospitals • BAU digital/IT investments including match funding • Finance leases • COVID responses • CIR or COVID costs committed in 2020/21 but accounted for in 2021/22	• STP waves 1 to 4b (nationally agreed elements) • NHP/HIP 1 and 2 (nationally agreed elements) and other large schemes previously agreed to be nationally funded and outside envelopes • Energy efficiency schemes where funded by national allocations • NHSX nationally-funded projects • Other national programmes (nationally-led diagnostic programmes, mental health dorms, year 2 of the A&E schemes, etc) • Residual interest

Commissioner BAU capital for primary care and learning disability will also be allocated at ICS/STP level, initially on a ring-fenced basis. Movement between provider and primary care capital allocations within the system can be accommodated where it would maximise efficiency and is consistent with ICS/STP transformation plans and the objectives for which the funding is provided.

The system-level spending envelope for each ICS/STP has been notified separately. The methodology is kept under review each year to ensure available capital is best allocated against need and reflects where systems have cash as a result of successful delivery of their revenue position. We hope to be able to set these envelopes over a multi-year period in future, subject to the outcome of the next Spending Review.

Other key notes

CIR and RAAC

In 2020/21 the NHS received a separate allocation for CIR. The approach in 2021/22 has been amended to include both CIR and RAAC hospitals within system envelopes.

CIR capital has been allocated as a general increase to envelopes and will not be separately identified within system envelopes. No additional national/central funding will be available for CIR or backlog maintenance during 2021/22.

Funding for RAAC hospitals will be separately identified within envelopes (where this funding is available) and will be made available with cash. Any funding for RAAC hospitals will need to be approved through a separate route which will be confirmed shortly. A quarterly update on RAAC is a condition of funding.

Diagnostics

System envelopes include £52m of funding to support the replacement of aged diagnostic equipment, specifically MRI and CT scanners and other diagnostic equipment near the end of its economic life. As part of the new requirements on capital reporting described separately in this note, NHS England and NHS Improvement will monitor capital expenditure on diagnostic equipment. In tandem, we will utilise existing mechanisms to collect data on the age and condition of the existing diagnostic asset base.

Above and beyond the £52m included in envelopes, we will shortly set out further details of the national investment strategy to support delivery of diagnostic transformation and implementation of Sir Mike Richards' recommendations, drawing on the remainder of the £325m capital allocated to diagnostic transformation in the

Spending Review. This will include the implementation of CDHs, laboratory information management systems (LIMS) replacement and imaging digital infrastructure.

COVID-19 capital

DHSC is not anticipated to make any further COVID-19 capital available and therefore systems should plan to meet any further capital expenditure for COVID-19 requirements from within ICS/ STP capital envelopes.

Ambulance trusts and mental health trusts

System envelopes include allocations for ambulance and mental health trusts. Organisations are not split between ICS/STPs for system capital envelope purposes.

2020/21 carry over – mental health dormitories and A&E schemes

As above, schemes with a two-year (or more) profile from 2020/21, specifically mental health dormitory eradication and the A&E refurbishments, are ringfenced and will not be part of system capital envelopes in 2021/22.

System overspends

Overspends against 2021/22 envelopes will be deducted from the 2022/23 capital envelope allocations.

Emergency capital and previously agreed DHSC PDC and loan funding

For 2021/22 systems will receive a system allocation for emergency financing but should note that previously approved DHSC PDC and loan commitments with a spend profile in 2021/22 will form the first commitment against this allocation. Where this is the case the value of ‘new’ emergency financing available to the system will be less the value of pre-committed previously approved DHSC PDC and loans. Where DHSC has approved PDC and loan financing in financial year 2020/21 or before and this is slipping into 2021/22 and future periods, it will also form the first commitment against emergency financing available within 2021/22 ICS/STP capital envelopes.

In 2021/22 all emergency financing applications will need to be submitted to NHS England and NHS Improvement by 30 November 2021 to ensure that they are processed and capital spend is made in a timely manner and before 31 March 2022. We would like to receive financing applications as early in the new year as possible; the timings of approvals will depend on the quality and speed of query resolutions.

Capital planning and reporting

Planning

Provider capital planning returns are due back in the week beginning 12 April 2021.

In-year reporting and monitoring

For 2021/22 we need more transparency on the deployment of capital within the NHS and impact at a local level, for example to understand in more detail during 2021/22 and beyond the impact of investment on backlog maintenance levels and age of key diagnostic equipment. In 2021/22 enhanced reporting will be introduced and ICS/STPs may need to explain variances against plan for key categories of spend. Delivery reporting (quarterly) will be introduced for key categories including RAAC and diagnostics. This reporting will enable the local NHS and central government to assess unmet need for capital and target future resources. It is a step towards better linking of spend and delivery, as well as maximising the use of the overall NHS capital envelope.

Every ICS/STP is expected to spend within its envelope, and NHS England and NHS Improvement will monitor performance against the ICS/STP capital envelopes in 2021/22 on a monthly basis. We will provide each ICS/STP with regular information to support local monitoring and decision-making. It is important that providers and systems provide robust and realistic central forecasts for capital expenditure in year. Where in-year reporting indicates a potential overspend, then ICS/STPs will be expected to agree local actions to address potential overspends, supported by their regional teams.

Given the early issuance of capital envelopes, we expect a flatter spend profile with less end-loaded spend, and trusts are expected to manage those profiles.

Local overspends have in-year system implications, reducing the budget available for other organisations within ICS/STPs to invest in their prioritised projects and impacting on DHSC's ability to release funding for emergency capital and national strategic projects. In addition, spending in excess of the allocated envelope will be considered when calculating future years' capital envelopes for relevant ICS/STPs. When setting future capital envelopes consideration will also be given to the way that the overall system capital is controlled and monitored. For NHS trusts, the current process for issuing capital resource limits (CRLs) and making any subsequent adjustments to CRLs to align these with ICS/STP plans and affordability will remain in place.

Categorisation of spend

To provide more granular data on capital spending and support national capital planning, trusts will be asked to report capital spend for 2021/22 and beyond against a more detailed set of categories than in previous years. These are set out in the right-hand column of the table below and will be incorporated into planning and reporting templates.

Current capital spend categories		New capital spend categories
New build – Land, buildings and dwellings	1	New build – Land and dwellings
Routine maintenance (non-backlog) – Land, buildings and dwellings	2	New build – Theatres and critical care
Backlog maintenance – Land, buildings and dwellings	3	New build – Wards
IT	4	New build – Diagnostics
Fire safety	5	New build – A&E/AAU
Plant and machinery/equipment/transport/ fittings/other	6	New build – Non-clinical
Other – Intangible assets	7	New build – Car parking
Other – Investment property	8	New build – Multiple areas/other
Other	9	Routine maintenance (non-backlog) – Land, buildings and dwellings
	10	Backlog maintenance – Land, buildings and dwellings
	11	IT – Clinical systems
	12	IT – Other software
	13	IT – Hardware
	14	IT – Telephony
	15	IT – Cybersecurity, infrastructure/ networking
	16	IT – Other
	17	Fire safety
	18	Plant and machinery
	19	Equipment – Non-clinical
	20	Equipment – Clinical theatres and critical care
	21	Equipment – Clinical diagnostics
	22	Equipment – Clinical other
	23	Fleet, vehicles and transport
	24	Fixtures and fittings
	25	Other – Intangible assets
	26	Other – Investment property

Current capital spend categories	New capital spend categories
	27 Other

Providers are asked to ensure that financial systems are set up to report on this level of detail within 2021/22 plans and, going forward, through the in-year monthly monitoring process. Information will be reported back to systems using this categorisation and will be subject to increased performance management and monitoring of delivery. Enhanced reporting by systems on the impact of investment on focused areas of expenditure, such as backlog maintenance, should be anticipated from 2021/22 onwards.

Disposals and surplus land

Each ICS/STP must make it clear within its estates strategy which estate is surplus to requirements both in the short term and in a future disposal pipeline. This is key to efficient use of estates and maximising land values in the medium to long term.

Capital proceeds will be available to the system to invest in line with the system estates strategy in the year of disposal and, by agreement, the two subsequent years in addition to system-level allocations. The usual business case rules and process continue to apply. Significant disposals that are expected to result in large capital proceeds will be managed on a case-by-case basis and require discussion with NHS England and NHS Improvement and DHSC as appropriate.

The net book value of disposed assets is recorded as a ‘credit’ to capital departmental expenditure limit (CDEL) and therefore increases CDEL spending power in the year that it occurs – that is, additional in-year capital expenditure can be made to offset this credit and this will not increase CDEL expenditure or consequently increase the charge against ICS/STP capital envelopes. However, where a net profit on disposal, over and above net book value (NBV), is reinvested in capital expenditure, this expenditure is charged to CDEL and does increase the capital expenditure charged against the ICS/STP capital envelope.

Other sources of finance

In line with government budgeting rules, capital receipts from external charitable sources and grants will provide additional spending power on top of the issued ICS/STP capital envelope, in the year that the funding is received.

However, all expenditure financed through loan/finance lease funding from external sources (including commercial borrowing and private finance) counts as a capital

resource charge and will therefore score against the ICS/STP capital envelope in the normal way.[1]

The implementation of IFRS16 for the NHS has been delayed until 1 April 2022. Further information on the implementation of IFRS16 will be provided as soon as possible.

Nationally allocated funding

Most national programmes are subject to specific HM Treasury conditions and related delivery requirements. NHS England and NHS Improvement and DHSC need to be notified of changes to expected spend profiles (as part of existing delivery monitoring where this is already in place) and any reassignment agreed across all parties.

Queries

Queries on this guidance should be sent to: NHSI.CapitalCashQueries@nhs.net

[1] At HM Treasury instruction, DHSC will no longer approve taxpayer funded, privately financed, off balance sheet Design Build Finance Operate and Maintenance (DBFOM) projects within the public sector. For that reason, we strongly encourage organisations to contact NHS England and NHS Improvement or DHSC before proceeding with any private finance funding arrangement, even where the terms are different from those of a PFI/PF2 deal, to discuss whether the arrangement is likely to be viable

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