Burrum River Advisory

CF Experts in health

The cost of quick fixes:

Aligning NHS capital investment with need

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Matt Custance, Catherine Skilton, Joanna Craven

Summary

Burrum River Advisory (Burrum) and CF have taken a data-led look at the impact of current NHS capital policy and whether reforms could more effectively support system transformation.

We have looked at the relationship between efficiency, surplus/deficit and estates backlog using nationally available data at Trust level for 2023/24.

Our analysis suggests that there may be a relationship between Trusts' need for capital and their financial performance, but this is probably weakened and drowned out by a range of much more significant cultural, strategic and operational factors.

There is no evidence that breakeven-or-better Trusts have greater capital needs than their deficit-running counterparts and the reverse is probably true. If the goal is to target capital investment where it is most needed, the current approach is misallocating resources.

Using capital investment as a financial incentive mechanism may also mean that the capital budget which is made available is spent, not on long term transformative projects, but on capital spend that can be delivered quickly.

We suggest that a shift towards need-based capital allocation, coupled with systemic reforms to enhance planning and capital allocation processes, would enhance the NHS's ability to fulfil its commitment to patient care and operational excellence.

Contents

Introduction

Is the current capital planning and budgeting regime driving transformation?

The Healthcare Financial Management Association (HFMA) reported that in the 2023/24 fiscal year, NHS providers spent 42% of their annual capital budgets in the final two months[1]. Such a surge suggests a reactive rather than strategic approach to capital investment, likely driven by uncertainties in the allocation process and late-stage capital funding enhancements. The HFMA's analysis underscores a disconnect between capital planning and expenditure, highlighting the challenges Trusts face in executing well-planned investments under the current regime.

The NHS Confederation has also criticised the existing capital regime, describing it as "broken" and inefficient in using the limited capital funds available[2]. They advocate for a comprehensive overhaul to enhance productivity and support economic growth.

Under the NHS England Capital Guidance, where systems are set a deficit plan limit and receive support funding above their notional fair share of the support funding, a deduction will be applied to their core capital allocation[3]. Where systems are set a breakeven plan limit, they will receive 30% of their notional fair share as an in year capital allocation bonus. NHS England is also considering enhanced capital flexibilities for systems that have delivered a breakeven position in 2024/25.

The typical funding amounts provided to systems in surplus/breakeven range from £10 million to £30 million, amounts that are unlikely to deliver transformative change within any given system or Trust, and won't generally pay for remediation in beneficiary Trusts, given that average Trust estates backlog is around £66m.

Capital is central to delivering the three shifts

Health Secretary Wes Streeting has articulated a vision for NHS reform, focusing on performance evaluation and the empowerment of successful Trusts to reinvest their surpluses. However, his overarching strategy is delivery of the three shifts – from hospital to community; analogue to digital; and treatment to prevention. Transformation of the NHS's infrastructure will be key to delivering these shifts. An emphasis on rewarding financial performance could sideline Trusts in greater need of capital investment, thereby exacerbating inequalities within the system.

In light of this, DHSC and NHS England's current approach to capital allocation, which rewards systems delivering breakeven or better, warrants critical examination. Our analysis indicates that these systems do not have greater capital needs than those operating at a deficit and there are indicators (although not statistically significant) that the reverse is true.

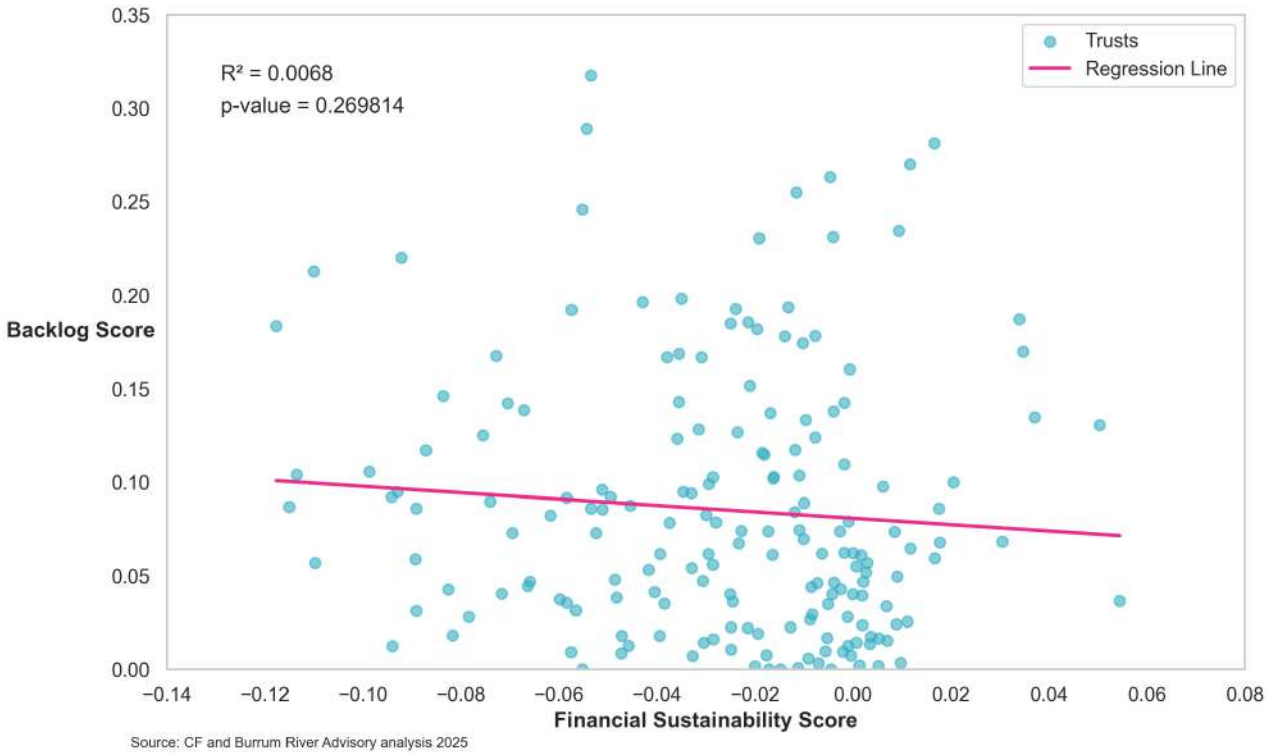
Do breakeven-or-better Trusts need more capital?

There may be a relationship between need for capital and poor financial performance but it is not statistically significant.

We set out our full analysis in the Method and Results section. In brief, we looked at National Cost Collection Index (NCCI) scores as a proxy for efficiency, surplus/deficit position divided by turnover (the Financial Sustainability Score) as a proxy for financial performance and total backlog divided by turnover (the Backlog Score) as a proxy for the level of capital needed by Trusts. All data was for 2023/24.

Our analysis suggests that there is no clear relationship between a Trust's ability to deliver a financial surplus and its level of capital need, as demonstrated by the chart below. The analysis does suggest that Trusts with lower backlog perform better financially – but this relationship explains very little (1%) of the variation in financial results – and this relationship is not statistically significant.

Regression analysis results: Backlog score vs. Financial sustainability score (Outliers excluded)



Source: CF/Burrum analysis of Trust Accounts Consolidation, ERIC data and NCCI 2023/24 for 181 Trusts, 20 Trusts removed as outliers for either backlog or FS scores, 6 Trusts excluded because they were dissolved or recently merged.

Highlights from the analysis

- If capital allocation were designed to reward financial performance while addressing the most pressing capital needs (whether estate, digital or equipment), we would expect to see some correlation between financial surplus and levels of estates backlog. In fact, the Trusts with the worst financial outcomes have somewhat higher backlog pressures – but the data is not conclusive. So, there doesn't seem to be a case for investing scarce additional capital in the best performing Trusts, as the financial incentives currently do. Unfortunately, we can't assess the whole picture as there is no backlog data for equipment and digital in the way that there is for estates.
- Some of the Trusts with the largest maintenance backlogs are those least likely to receive additional capital, as they are not operating at breakeven or better.
- The assumption that surplus-generating Trusts are also those best placed to invest in transformation does not hold up when looking at actual estate condition and backlog data.
- In reality, some Trusts that deliver surpluses probably do so by deferring capital investment rather than through efficient management of their estate.

In summary, there is no evidence that breakeven-or-better Trusts have greater capital needs than their deficit-running counterparts and the reverse is probably true. If the goal is to target capital investment where it is most needed, the current approach is misallocating resources.

If capital is transformative, why don't low-backlog Trusts perform better?

If investing in estates led to better financial performance, we might expect Trusts with lower backlog maintenance to also perform better financially. However, this is not demonstrably the case, because the results are not statistically significant and the Backlog Score explains little of the overall Financial Sustainability Score.

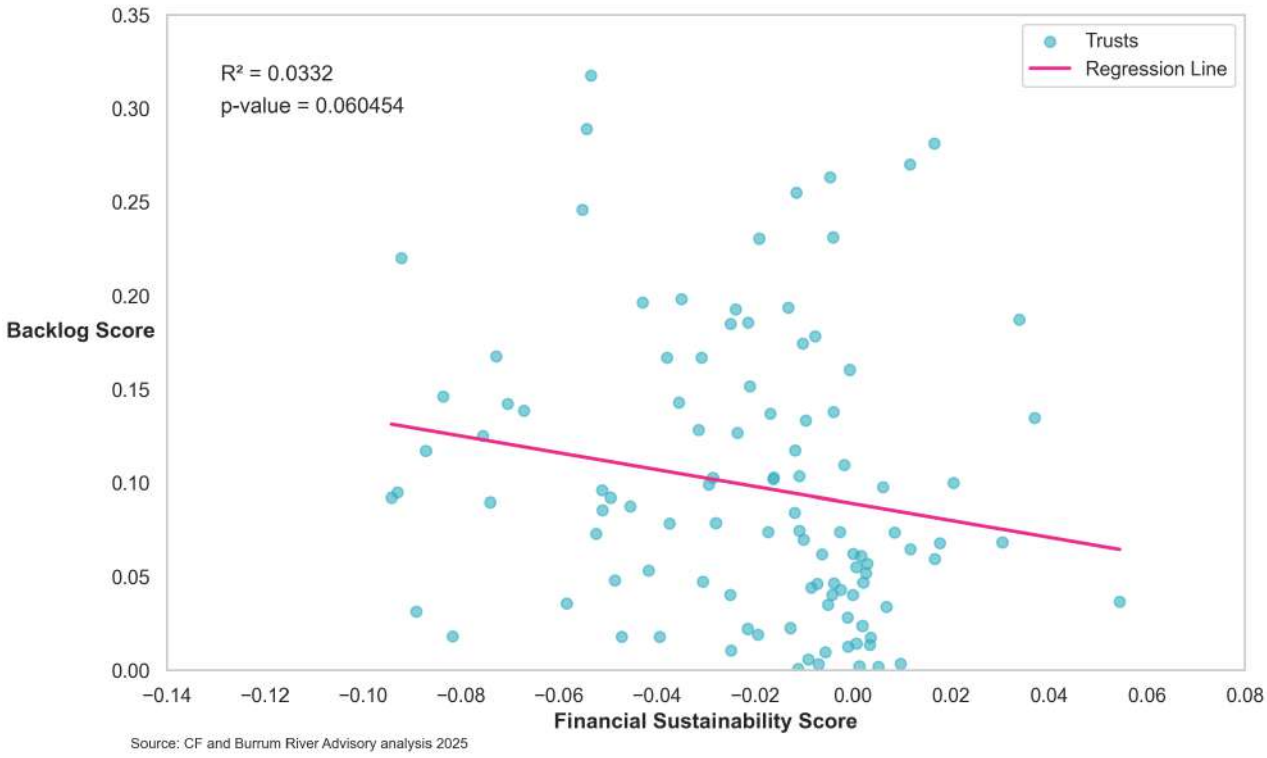
There are several possible explanations:

1. **High-quality estates do not aways mean lower running costs**
   - Well-maintained estates do not necessarily lead to cost savings. Older but well-maintained buildings may still have high energy consumption, inefficient layouts, or costly maintenance contracts.
   - Some Trusts with newer or well-maintained estates may be locked into expensive facilities management (FM) contracts, particularly if they have outsourced services.

2. **Capital charges and depreciation weigh on finances**
   - Trusts that have invested in estate improvements may face higher ongoing capital charges, including Public Dividend Capital (PDC) dividends and depreciation, which could offset any financial benefits from lower maintenance costs.

This explains why even excluding PFI Trusts from the analysis does not change the lack of correlation—capital investment itself carries financial costs that can depress surpluses. There is a correlation between having lower backlog and delivering better financial results, but it isn't a strong correlation and not quite statistically significant[1].

Regression analysis results: Backlog score vs. Financial sustainability score (PFI and outliers excluded)



Source: CF/Burrum analysis of Trust Accounts Consolidation, ERIC data and NCCI 2023/24 for 107 Trusts, 20 Trusts removed as outliers for either backlog or FS scores, 6 Trusts excluded because they were dissolved or recently merged, 80 Trusts excluded as having PFI projects. Note that these exclusions may overlap.

3. Other cost pressures drown out estate effects

- Financial performance is driven by much more than estate condition. Trusts with high emergency demand, complex case mix, or tertiary specialisms may struggle to generate surpluses, regardless of their estate quality, especially in the current predominantly block funding regime which may misallocate resources.

4. Trusts may sacrifice surplus to maintain estate

- Some Trusts with lower backlog maintenance may actively choose to invest in estate upkeep at the expense of financial surplus.
- In contrast, others may defer maintenance in order to improve their financial position, creating a surplus at the expense of estate condition.

The lack of a strong relationship between backlog maintenance and financial performance suggests that capital investment alone does not drive efficiency or surplus generation. This raises serious questions about the effectiveness of rewarding financial performance through capital incentives.

But doesn't well-maintained estate improve productivity?

The common wisdom is that well-maintained and strategically designed estates enhance operational productivity.

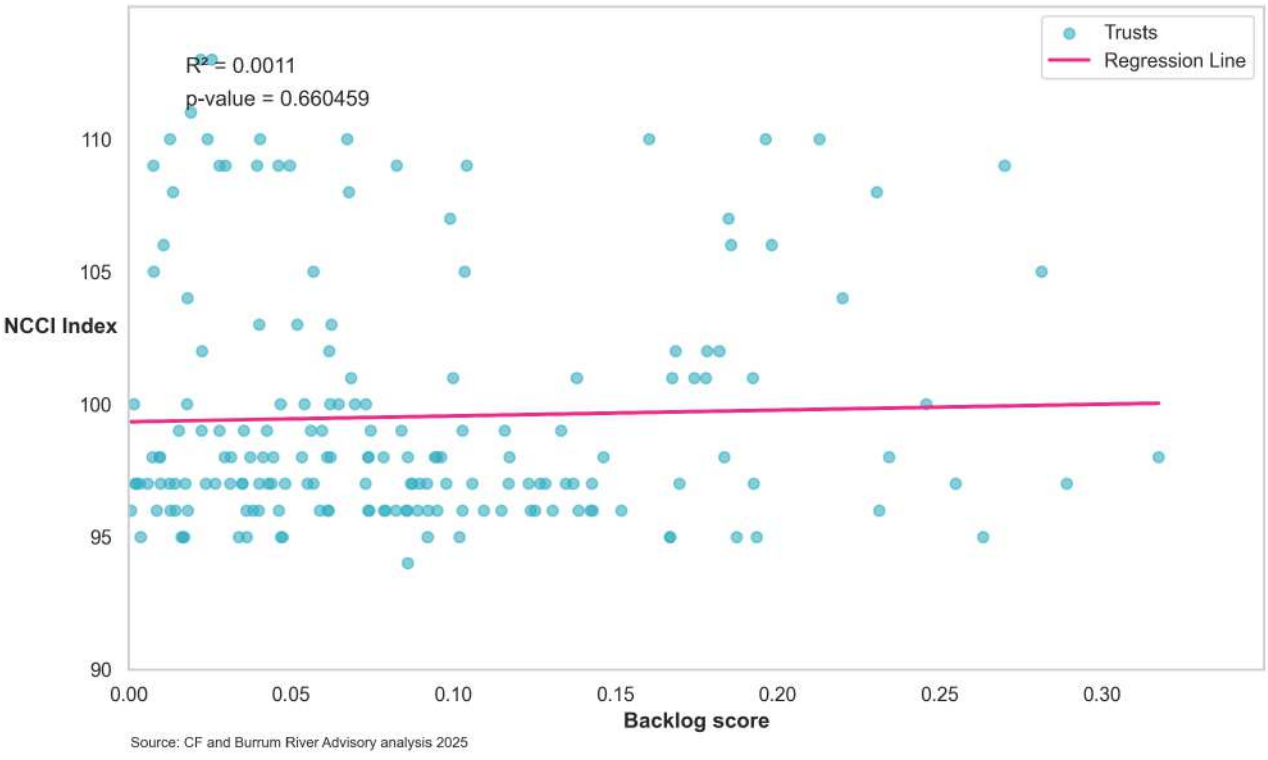
For example:

- Optimising the use of space and integrating modern technologies can reduce the floor area per patient attendance, improving performance.
- High-quality estates with efficient layouts and well-maintained facilities can improve patient flow, reducing waiting times and enhancing patient experience.
- High-quality estates with effective infection control measures can reduce the incidence of hospital-acquired infections, minimising complications that can increase a patient's length of stay.

However, this is not borne out by our analysis of the backlog score vs the NCCI which although showing that the majority of Trusts with reference costs below 100 also have a lower backlog score, is not a statistically significant finding.

This is likely because other issues, such as the level of investment in diagnostic equipment and technology, or a Trust's workforce model and ability to recruit and retain staff, have a much more significant impact than estate condition. It is part, but not all, of the story.

Regression analysis results: NCCI Index vs. Backlog score



Source: CF analysis of Trust Accounts Consolidation, ERIC data and NCCI 2023/24, 16 Trusts removed as outliers for backlog, missing data for 12 Trusts.

So what should we do?

> **"The NHS has been starved of capital and the capital budget was repeatedly raided to plug holes in day-to-day spending....The result has been crumbling buildings that hit productivity - services were disrupted at 13 hospitals a day in 2022-2023. The backlog maintenance bill now stands at more than £11.6 billion and a lack of capital means that there are too many outdated scanners, too little automation, and parts of the NHS are yet to enter the digital era."**
>
> **Independent investigation of the NHS in England, Lord Darzi**

Our analysis shows that there is no evidence that breakeven-or-better Trusts have greater capital needs than their deficit-running counterparts and the reverse is probably true. If the goal is to target capital investment where it is most needed, the current approach is misallocating resources.

We have to reassess the current capital allocation framework. Prioritising need-based funding over performance-based incentives could ensure that resources are directed to areas where they are most required, fostering a more equitable and effective healthcare system.

Additionally, providing Trusts with greater certainty and flexibility in capital planning would enable more strategic investments, ultimately leading to improved patient outcomes and system-wide efficiency. Trusts and systems also have a role to play – by creating proper long term capital plans including already-procured strategic investment which can be moved forward or back within the available capital envelope, so that more of the available capital is spent on transformative investment.

Rewarding financial surpluses may seem a logical strategy, but it doesn't deliver high-quality, equitably-funded healthcare infrastructure where it is most needed. A shift towards need-based capital allocation, coupled with systemic reforms to enhance planning and capital allocation processes, is what the NHS needs to fulfil its commitment to patient care and operational excellence.

Recommendations for DHSC and NHS England

1. Create a needs based capital allocation framework that prioritises organisations with the biggest requirement or opportunity for improvement.
2. Provide greater certainty and flexibility for capital planning with clear guidance as to future capital envelopes, by ICS and by Provider, in line with Government's aspiration to deliver 5-year capital plans.
3. Require Trusts and systems to create long term capital plans including already procured strategic investment which can be reprioritised within available capital envelopes.
4. Trusts could also be encouraged to expect that their allocations will not decrease beyond this horizon, to enable even longer-term planning.
5. Consider creating an equivalent to the backlog index for equipment and digfital infrastructure to ensure this is also prioritised according to need.
6. Align (and streamline) approvals processes to allow organisations to be more agile with their transformational capital programmes.

Method and Results in Detail

Method

CF collected the total income (ie turnover) for each provider Trust in England, along with its National Cost Collection Index (NCCI) and most recent available full year surplus/deficit outturn. Together, CF and Burrum River Advisory (Burrum) collected the total backlog (sum of all types) for each Trust from nationally published Estates Return Information Collection (ERIC) data. All data was for 2023/24.

The Backlog score was derived by dividing the total backlog by turnover. The top twenty Trusts by backlog score were identified as:

Trust name	Backlog	Income	Backlog Score
Airedale NHS Foundation Trust	339.27	250.64	1.3536
The Royal Marsden NHS Foundation Trust	405.76	513.10	0.7908
Mersey and West Lancashire Teaching Hospitals NHS Trust	443.35	709.71	0.6247
Imperial College Healthcare NHS Trust	873.89	1,523.42	0.5736
The Hillingdon Hospitals NHS Foundation Trust	155.00	346.03	0.4480
London North West University Healthcare NHS Trust	374.13	921.20	0.4061
Buckinghamshire Healthcare NHS Trust	255.50	640.76	0.3987
The Queen Elizabeth Hospital, King's Lynn, NHS Foundation Trust	109.21	297.41	0.3672
Bolton NHS Foundation Trust	147.33	464.15	0.3174
West Suffolk NHS Foundation Trust	115.84	370.81	0.3124
The Mid Cheshire Hospitals NHS Foundation Trust	110.07	375.26	0.2933
Doncaster and Bassetlaw Teaching Hospitals NHS Foundation Trust	147.89	507.97	0.2911
Nottingham University Hospitals NHS Trust	439.84	1,521.03	0.2892

West Hertfordshire Teaching Hospitals NHS Trust	144.16	512.34	0.2814
South London and Maudsley NHS Foundation Trust	151.42	560.74	0.2700
North Tees and Hartlepool NHS Foundation Trust	103.61	393.47	0.2633
East Sussex Healthcare NHS Trust	162.70	638.13	0.2550
Medway NHS Foundation Trust	106.69	433.96	0.2459
East Kent Hospitals University NHS Foundation Trust	208.75	875.71	0.2384
Salisbury NHS Foundation Trust	78.02	332.93	0.2343

Surplus / deficit positions were also scaled by turnover to derive the Financial Sustainability (FS) Score. The top and bottom ten are shown below:

Trust name	Surplus or (deficit)	Income	FS Score
West Suffolk NHS Foundation Trust	(96.25)	370.81	(0.26)
East Kent Hospitals University NHS Foundation Trust	(153.01)	875.71	(0.17)
The Mid Cheshire Hospitals NHS Foundation Trust	(60.29)	375.26	(0.16)
Liverpool Women's NHS Foundation Trust	(22.60)	140.79	(0.16)
South West London and St George's Mental Health NHS Trust	(47.25)	301.81	(0.16)
The Christie NHS Foundation Trust	(59.28)	408.27	(0.15)
Doncaster and Bassetlaw Teaching Hospitals NHS Foundation Trust	(72.08)	507.97	(0.14)
University Hospitals Sussex NHS Foundation Trust	(178.71)	1,417.64	(0.13)
The Queen Elizabeth Hospital, King's Lynn, NHS Foundation Trust	(37.49)	297.41	(0.13)
Sherwood Forest Hospitals NHS Foundation Trust	(56.28)	456.25	(0.12)
Milton Keynes University Hospital NHS Foundation Trust	7.84	382.39	0.02

Kent Community Health NHS Foundation Trust	11.26	369.32	0.03
Norfolk Community Health and Care NHS Trust	5.12	150.86	0.03
Sandwell And West Birmingham Hospitals NHS Trust	23.08	666.08	0.03
Walton Centre NHS Foundation Trust	7.01	189.25	0.04
Northumbria Healthcare NHS Foundation Trust	29.49	586.04	0.05
Lincolnshire Partnership NHS Foundation Trust	8.91	163.59	0.05
Moorfields Eye Hospital NHS Foundation Trust	18.99	301.00	0.06
Somerset NHS Foundation Trust	90.09	1,031.51	0.09
Mersey and West Lancashire Teaching Hospitals NHS Trust	76.83	709.71	0.11

We excluded outliers which were defined as Trusts who had results for either the Backlog Score or the FS score which were outside 1.96 standard deviations from the Mean (in either direction).

This excluded the following organisations:

- Airedale NHS Foundation Trust
- Barnet, Enfield And Haringey Mental Health NHS Trust
- Buckinghamshire Healthcare NHS Trust
- Doncaster and Bassetlaw Teaching Hospitals NHS Foundation Trust
- East Kent Hospitals University NHS Foundation Trust
- Imperial College Healthcare NHS Trust
- Liverpool Women's NHS Foundation Trust
- London North West University Healthcare NHS Trust
- Mersey and West Lancashire Teaching Hospitals NHS Trust
- Moorfields Eye Hospital NHS Foundation Trust
- Sherwood Forest Hospitals NHS Foundation Trust
- Somerset NHS Foundation Trust
- South West London and St George's Mental Health NHS Trust
- The Christie NHS Foundation Trust
- The Hillingdon Hospitals NHS Foundation Trust
- The Queen Elizabeth Hospital, King's Lynn, NHS Foundation Trust
- The Royal Marsden NHS Foundation Trust
- University Hospitals Sussex NHS Foundation Trust
- West Suffolk NHS Foundation Trust
- The Mid Cheshire Hospitals NHS Foundation Trust

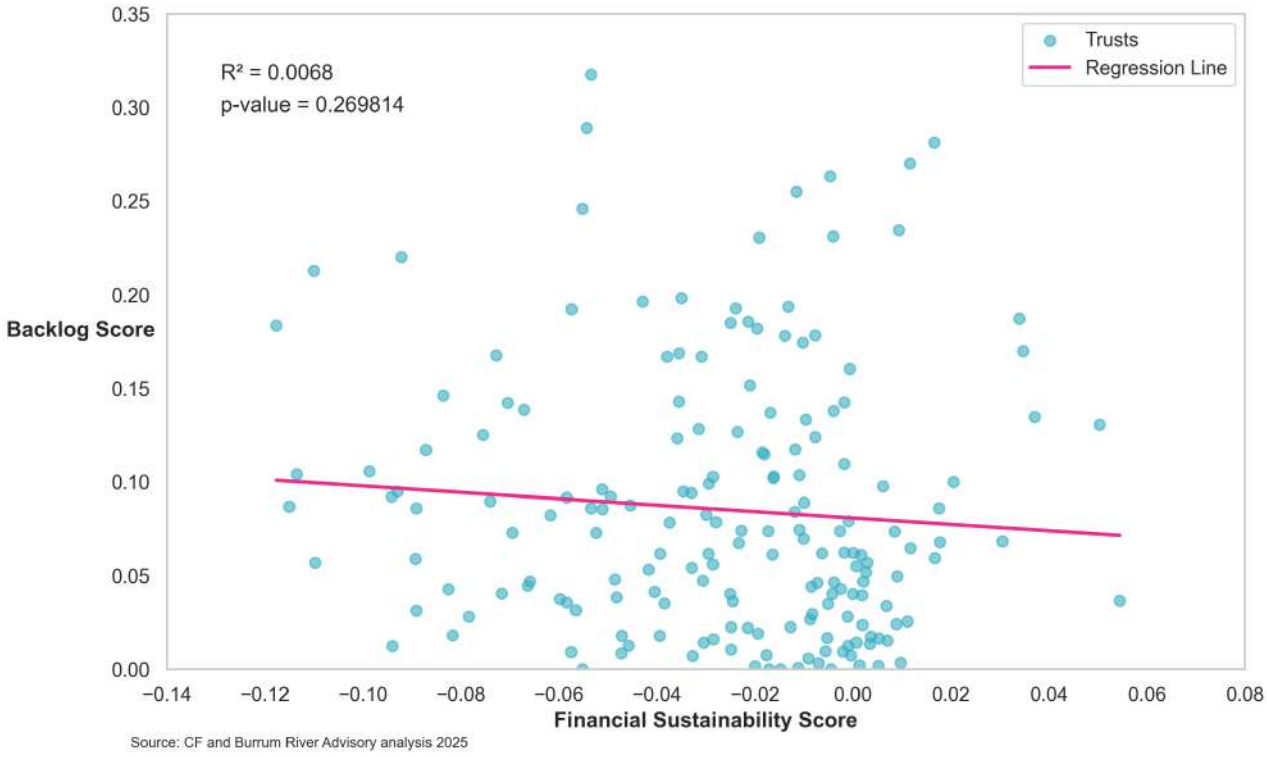
We also excluded the following Trusts included in the ERIC data, because of dissolution, recent merger or, in the case of Tavistock and Portman, significant business disruption:

- Barnet, Enfield and Haringey Mental Health NHS Trust
- Bradford District Care NHS Foundation Trust

- Camden and Islington NHS Foundation Trust
- Southport And Ormskirk Hospital NHS Trust
- Dudley Integrated Health and Care NHS Trust
- Tavistock and Portman NHS Foundation Trust

For the remaining population of 181 Trusts, we then performed a simple linear regression between the FS score and the Backlog score. This provided the following results:

Regression analysis results: Backlog score vs. Financial sustainability score (Outliers excluded)



Source: CF/Burrum analysis of Trust Accounts Consolidation, ERIC data and NCCI 2023/24 for 181 Trusts, 20 Trusts removed as outliers for either backlog or FS scores, 6 Trusts excluded because they were dissolved or recently merged.

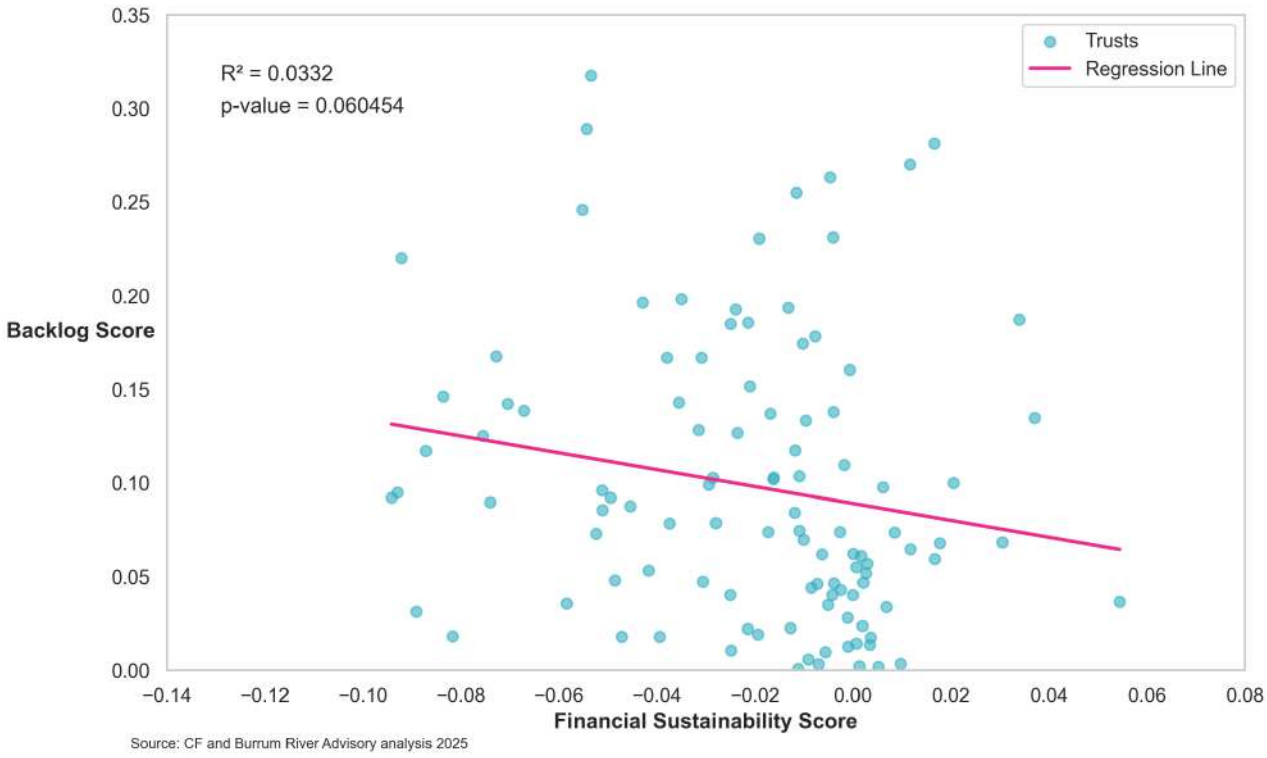
There appears to be a slight negative relationship (slope of -0.1703), suggesting that Trusts with better financial performance might have slightly lower maintenance backlogs. As noted on the chart, the P-value is 0.27 which does not indicate statistical significance, while the R-squared is 0.0068 which tells us that financial sustainability score explains less than 1% of the variation in backlog scores.

However, it should be noted that land, buildings and business rates make up only 3.7% of NHS provider costs according to tariff calculations (MFF guide) and estates generally are likely well below 20% of a Trust's costs, while other factors in very complex NHS organisations are always likely to impact financial outcomes more significantly – so there are reasons to expect the R-squared not to be particularly high.

Because we suspected that the cost of PFI could be explaining the lack of a significant correlation, we conducted a second analysis which excluded both the outliers and any Trusts recorded in the ERIC data as having a PFI contract.

This left a population of 107 Trusts and gave the following results:

Regression analysis results: Backlog score vs. Financial sustainability score (PFI and outliers excluded)

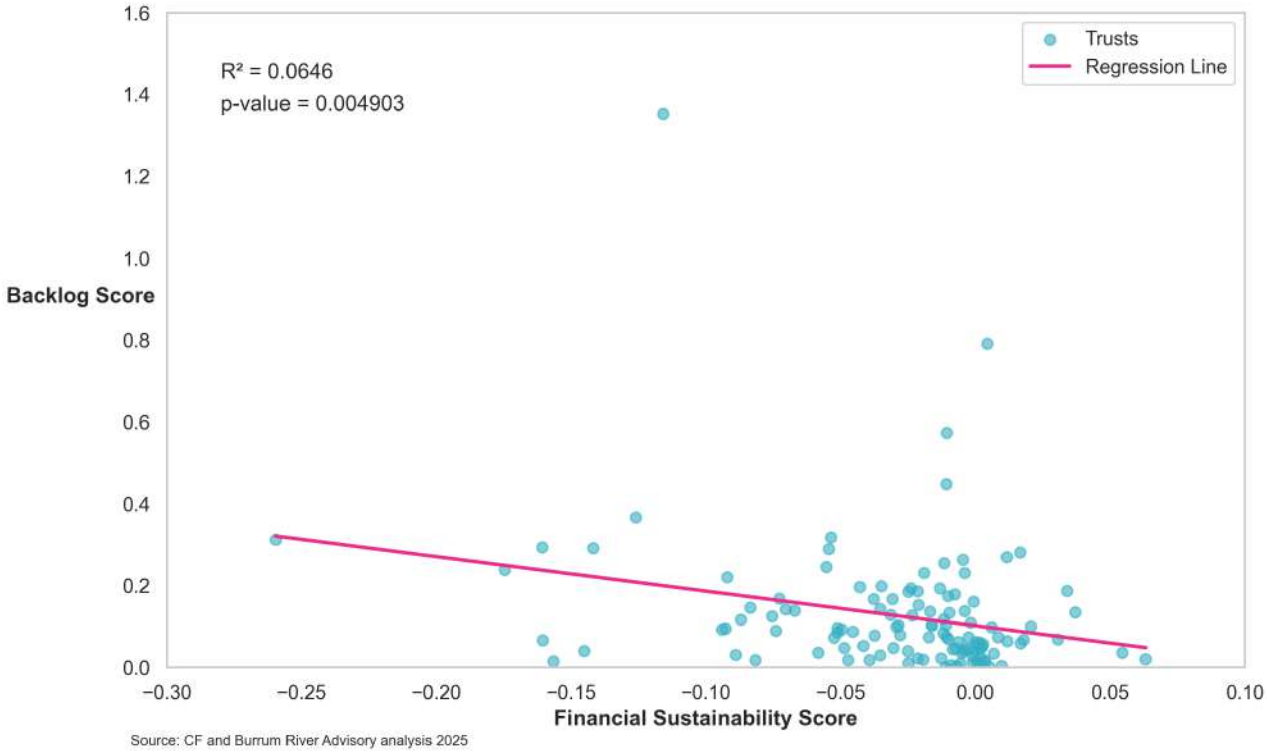


Source: CF/Burrum analysis of Trust Accounts Consolidation, ERIC data and NCCI 2023/24 for 107 Trusts, 20 Trusts removed as outliers for either backlog or FS scores, 6 Trusts excluded because they were dissolved or recently merged, 80 Trusts excluded as having PFI projects. Note that these exclusions may overlap.

We found a stronger negative relationship in this analysis (slope of -0.4505), suggesting that Trusts with better financial performance tend to have lower maintenance backlogs. However, the relationship is still quite weak. The R-squared value of 0.0332 tells us that financial sustainability score explains only about 3.3% of the variation in backlog scores. The p-value is approaching significance at 0.060 but doesn't quite meet conventional criteria.

Interestingly, the only statistically significant result available to us was if we included the outliers and excluded PFI, in which case there was a statistically significant correlation between high backlog figures and poor financial performance. We have not, however, highlighted this as this could simply be a result of data-mining.

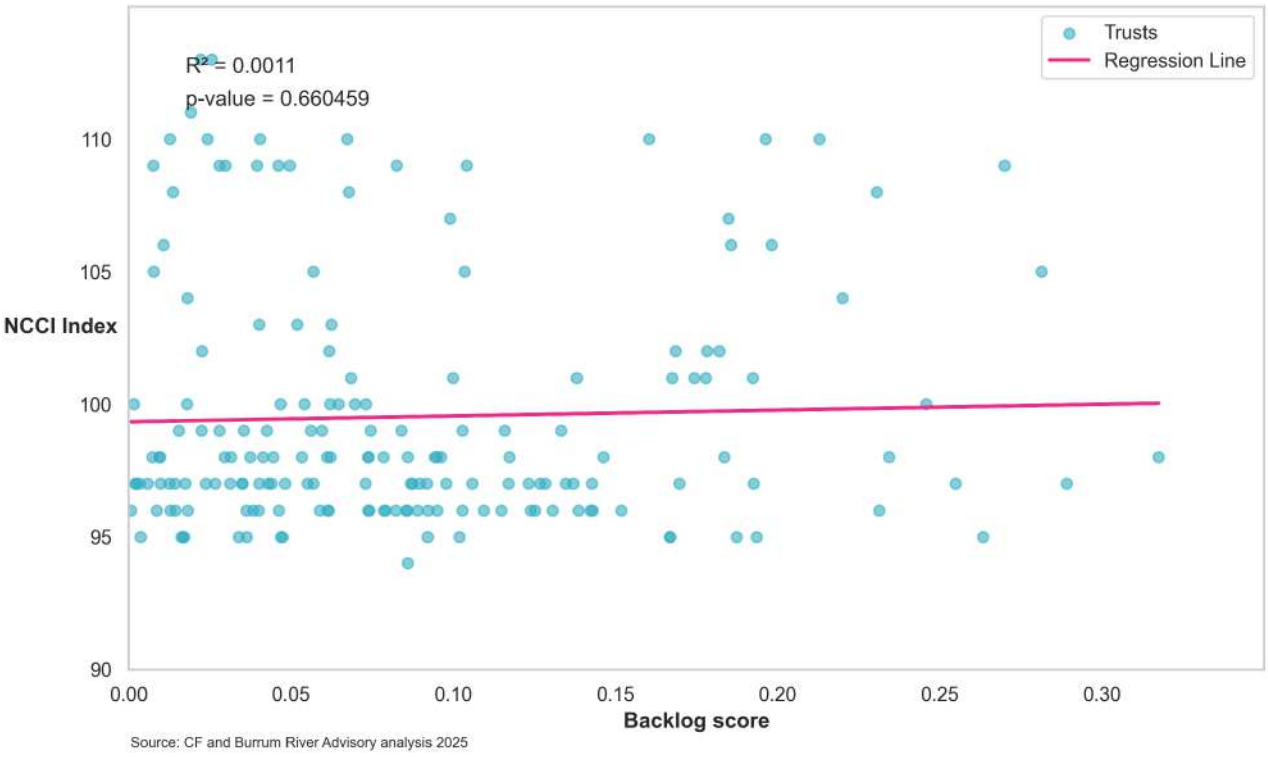
Regression analysis results: Backlog score vs. Financial sustainability score (Outliers included and PFI excluded)



*Source: CF/Burrum analysis of Trust Accounts Consolidation, ERIC data and NCCI 2023/24 for 121 Trusts, Outliers **included** whether for backlog or FS scores, 6 Trusts excluded because they were dissolved or recently merged, 80 Trusts excluded as having PFI projects. Note that these exclusions may overlap.*

There is a clear negative relationship (slope of -0.8445), meaning that Trusts with better financial sustainability scores tend to have lower maintenance backlogs. This relationship is statistically significant with a p-value of 0.0049, which is well below the standard threshold of 0.05. However, despite being statistically significant, the relationship is still relatively weak. The R-squared value of 0.0646 tells us that financial performance explains only about 6.5% of the variation in backlog scores.

Regression analysis results: NCCI Index vs. Backlog score



Source: CF analysis of Trust Accounts Consolidation, ERIC data and NCCI 2023/24, 16 Trusts removed as outliers for backlog, missing data for 12 Trusts.

We accessed National Cost Collection Index (NCCI) data from 2023/24 and linked it with 178 Trusts (that had complete data who were not outliers) and ran a linear regression model to determine if the NCCI and backlog scores were correlated across Trusts. The key finding in this analysis is that there is no statistically significant correlation between these two metrics (R-squared = 0.0011, p-value = 0.660459), indicating that NCCI and backlog scores vary independently of each other. This suggests that the relative cost differences between NHS providers (as measured by NCCI) and their maintenance backlog scores are not significantly correlated.

References

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2. NHS Confederation – Capital efficiency: how to reform healthcare capital spending https://www.nhsconfed.org/publications/capital-efficiency#:~:text=The%20NHS%20capital%20regime%20is,productivity%20and%20support%20economic%20growth.
3. NHSE Capital guidance 2025/26