

## NHS Foundation Trusts information guide

### Introduction

The creation of NHS Foundation Trusts is a key step in public sector reform – giving greater freedoms to NHS organisations. This is part of the wider programme of moving from an NHS controlled nationally towards an NHS where standards and inspection are national but delivery and accountability is local.

NHS Foundation Trusts will remain fully part of the NHS and will have a primary purpose of providing NHS services to NHS patients. They will be subject to NHS standards, NHS performance ratings and NHS systems of inspection. NHS Foundation Trusts will pioneer a new model of social ownership, giving local communities real opportunities to get involved in the stewardship of their local hospitals.

This information document is part of a first series of 8 short documents covering key aspects of NHS Foundation Trust policy and interrelated areas.

### Financial freedoms and income

NHS Foundation Trusts will have new opportunities to develop new, more innovative and entrepreneurial ways of managing and delivering services for NHS patients.

NHS Foundation Trusts will have various operational freedoms within a framework which will continue to ensure that the public experience healthcare according to NHS principles – *free care, based on need and not ability to pay*.

NHS Foundation Trusts will have significantly greater freedoms over the way they conduct

their finances. They will have the freedom to decide locally the capital investment needed in order to improve services and increase capacity. They will be able to borrow to support this investment as long as they can afford it, without needing to seek external approval. NHS Foundation Trusts will also be able to purchase new facilities and services using the Private Finance Initiative in the same way as NHS Trusts.

NHS Foundation Trusts will – unlike NHS Trusts at present – be able to generate, retain and reinvest financial surpluses for the benefit of the NHS patients.



In addition to making financial surpluses, NHS Foundation Trusts will be able to:

- Retain proceeds from asset sales such as land, and reinvest any proceeds;
- Raise capital in the public and/or private sectors; and
- Manage their organisations and their resources – free from central Government direction.

The financial surpluses generated by an NHS Foundation Trust must be reinvested for the benefit of NHS patients. Financial surpluses cannot be distributed as dividends to NHS Foundation Trust members or anyone else. They must be used to improve NHS services for NHS patients. NHS Foundation Trusts will be free to use any financial surpluses to:

- Invest in new assets, ventures and/or staff;
- Build up resources for future use;
- Build partnerships; and
- Pay down existing debt.

Most of an NHS Foundation Trust's income will come from agreements reached with local NHS Primary Care Trusts who buy health services for their patients. A national tariff system – a series of fixed prices for particular treatments – will allow NHS Primary Care

Trusts to buy hospital services that best meet the needs of their local populations without lengthy price negotiations. The tariff will apply across the NHS, so all hospitals will be treated fairly. Payment from NHS Primary Care Trusts will be on the basis of work that has been carried out.

An Independent Regulator for NHS Foundation Trusts will negotiate and provide each NHS Foundation Trust with a terms of authorisation – like a 'licence' to operate. This will set out conditions under which an NHS Foundation Trust will provide services.

The authorisation will cover such things as the amount of money an NHS Foundation Trust can borrow, protection of essential NHS clinical services and safeguards on assets such as buildings, land or equipment needed to provide those essential NHS services.

The authorisation will put a strict limit on the amount of private work an NHS Foundation Trust can carry out based on the amount it currently does. If an NHS Foundation Trust wishes to treat more private patients, it will need to treat more NHS patients *first*. Moreover profits must be used for improving the Trust's NHS work. This will ensure that NHS Foundation Trusts continue to focus on NHS work.



## Borrowing limits

In future, access to capital will be primarily driven by an NHS Foundation Trust's ability to repay any principal and interest arising from loan commitments.

To protect the public interest and the financial stability of individual NHS Foundation Trusts, each Trust will be allocated a prudential borrowing limit. This will limit the amount of money an NHS Foundation Trust can borrow. This limit will be set by the Independent Regulator following a published Prudential Borrowing Code set by him after consultation with stakeholders.

NHS Foundation Trusts will be able to provide security for borrowing primarily on the basis of their projected free cash flows. Protected assets – land, building and other assets used to provide essential 'protected' NHS services – cannot be used as security for borrowing. Non-protected assets such as car parks or retail premises will however be available for additional security.

NHS Foundation Trusts will also still be eligible for other forms of public capital where NHS Primary Care Trusts, Strategic Health Authorities and others deem this appropriate to support the local health economy. There will, however, be no right to such funding.

## Borrowing sources

NHS Foundation Trusts will be able to borrow money from either public or private lenders.

The Department of Health is setting up a new financing facility to support NHS Foundation Trust's ability to access public capital. This will be in addition to their ability to access private markets.

The financing facility will operate at 'arms length' from the Secretary of State for Health and will make loan decisions based on the ability of the NHS Foundation Trust to pay back the money, not on the basis of a policy judgement.

The financing facility will offer a preferential rate for lending to fund development to essential 'protected' NHS services – clinical services which the NHS Foundation Trust must provide. NHS Foundation Trusts will be free to borrow from private lenders or the financing facility for non-protected activity at the prevailing market interest.



### Further Information

This information document is part of a first series of 8 short documents covering key aspects of NHS Foundation Trust policy and interrelated areas.

Other titles in the same series are: System Reform in the NHS, Financial Reforms: Payment by Results, Accountability and Regulation, Members, Governors, Human Resources and Contracting.

A Guide to NHS Foundation Trusts and A Short Guide to NHS Foundation Trusts, published by the Department of Health, are available at [www.doh.gov.uk/nhsfoundationtrusts](http://www.doh.gov.uk/nhsfoundationtrusts)