

Meeting Title	Board of Directors		
Date	11/07/2019	Agenda item	Bo.7.19.52

2018/19 Capital Outturn and 2019/20 5 Year Forward View

Presented by	Matthew Horner – Director of Finance		
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Lead Director	Matthew Horner - Director of Finance		
Purpose of the paper	To Report the 2018/19 Capital Outturn and Finalise the 2019/20 Capital Budget		
Key control	To deliver our financial plan		
Action required	To Approve		
Previously discussed at/ informed by			
Previously approved at:	Committee/Group	Date	
	Finance and Performance Committee	26/06/19	
Key Options, Issues and Risks			
<p>This paper provides detail of the 2018/19 capital outturn and finalises the 2019/20 budget to include the effect of outturn variances. The paper will also discuss potential changes in the regulatory environment for capital expenditure and expectations for delivery of the 2019/20 capital programme.</p>			
Analysis			
<p>The 2018/19 capital outturn was £8.460m. against a revised budget of £11.407m (73% of budget).</p> <p>The five year capital budget from 2019/20 to 2023/24 is a total of £43.333m with an allocation of £15.6m in 2019/20 which includes £2.874m of capital rolled forward from the 2018/19 budget.</p> <p>The majority of funding will be allocated to reinvestment into our existing estate, IT and medical equipment. Prior to prioritisation a budget of £8.118m was unallocated across the 5 year programme including contingency.</p>			
Recommendation			
<p>The Board of Directors are asked to</p> <ul style="list-style-type: none">note the 2018/19 capital outturn;approve the proposed capital budget for 2019/20 to 2023/24;note the recovery plan process set out in section 5 andnote the risks set out in section 6.			

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Risk assessment						
Strategic Objective	Appetite (G)					
	Avoid	Minimal	Cautious	Open	Seek	Mature
To provide outstanding care for patients			g			
To deliver our financial plan and key performance targets			g			
To be in the top 20% of NHS employers					g	
To be a continually learning organisation				g		
To collaborate effectively with local and regional partners					g	
The level of risk against each objective should be indicated. Where more than one option is available the level of risk of each option against each element should be indicated by numbering each option and showing numbers in the boxes.	Low		Moderate	High	Significant	
	Risk (*)					
Explanation of variance from Board of Directors Agreed General risk appetite (G)						

Risk Implications (see section 4 for details)	Yes	No
Corporate Risk register and/or Board Assurance Framework Amendments		X
Quality implications		X
Resource implications		X
Legal/regulatory implications		X
Diversity and Inclusion implications		X

Regulation, Legislation and Compliance relevance
NHS Improvement: (Risk assessment framework, quality governance framework, code of governance , annual reporting manual)
Care Quality Commission Domain: (Safe, caring, effective, responsive, well led drop down)
Care Quality Commission Fundamental Standard:
Other (please state):

Relevance to other Board of Director's Committee:					
Workforce	Quality	Finance & Performance	Partnerships	Major Projects	Other (please state)
		Y		Y	

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1	PURPOSE/ AIM
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This paper provides detail of the 2018/19 capital outturn and finalises the 2019/20 budget including outturn variances. The paper also discusses potential changes in the regulatory environment for capital expenditure and expectations for delivery of the 2019/20 capital programme.

2	2018/19 Capital Outturn
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The Trust submitted an initial annual plan to NHSI for total expenditure of £17.0m. Subsequent to this initial budget several amendments were made leading to a final budget of £11.4m.

Table 1: 2018/19 Capital Budget Movements

Description	Funding Type	Amount £m
Opening Capital Budget 2018/19		17.025
Add: Decontamination Block Cladding	Public Dividend Capital	0.518
Add: Urgent Care Centre Scheme	Public Dividend Capital	0.760
Less: Capital Curtailment	Cash Reserves / Grant / Donation	(6.955)
Add: Pharmacy Define Licence	Public Dividend Capital	0.012
Add: Cancer Alliance Pentax Scopes	Public Dividend Capital	0.047
Closing Capital Budget 2018/19		11.407m

Table 1 sets out the in-year budget movements. The largest change was a reduction to the capital budget of £6.955m which was approved internally to safeguard the Trust's cash position. The decision to curtail the capital programme led to greater risk of infrastructure failure as a result of delaying re-investment into existing assets.

In total £1.337m of budget additions were made in 2018/19 as a result of Public Dividend Capital funding being issued to the Trust by the Department of Health.

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A summary of the capital outturn for 2018/19 is provided in Table 2. In total this shows the Trust has achieved capital expenditure of £8.460m, a shortfall of £2.947 against the revised capital budget. This is 50% of the original plan submitted to NHSI and 74% of the revised plan following capital curtailment.

All over and underspends have been managed within the capital programme.

Table 2: 2018/19 Capital Outturn

Description	Final Budget £m	Outturn £m	Variance £m	Slippage £m	Over / (Under) Spend £m
Medical Equipment	1.597	0.806	(0.791)	(0.791)	0.000
Information Technology	0.851	0.690	(0.161)	(0.231)	0.070
Estates	3.812	3.145	(0.667)	(0.715)	0.048
Capital Strategy	5.147	3.688	(1.459)	(1.339)	(0.120)
Donated Assets	0	0.133	0.133	0	0.133
Total	11.407	8.460	(2.947)	(3.076)	(0.131)

Significant variances in the capital programme outturn include:

Medical Equipment

- Radiology Replacement Programme £0.79m slippage

Information Technology

- Network Refresh £0.14m slippage
- PC Replacement £0.07m slippage
- Integrated Pathology Service IT £0.05m overspend

Estates

- Rolling Backlog £0.15m slippage
- Services Infrastructure £0.14m slippage
- Medical Records Storage £0.36m slippage
- Womens & Childrens Improvements £0.06m overspend
- Wayfinding Improvements £0.07m slippage

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Capital Strategy

- PACs 3 £0.45m slippage
- Command Centre £0.54m slippage
- Ward 22 Refurbishment £0.21m slippage
- Expansion of SAU £0.1m underspend
- Staff Facility £0.05m slippage

The detailed 2018/19 capital outturn in is included in Appendix 1 of this report.

3 Updated 2019/20 Capital Programme

In March 2019 Finance and Performance Committee (F&PC) approved a draft five year capital programme with a total value of £43.333m. Subsequent to this approval an additional £3m was added to the 2019/20 budget allocation to be funded from the Provider Sustainability Fund (PSF) bonus on the assumption the Trust would achieve its financial control total. Table 3 sets out the revised capital programme funding following this increase in allocation. This funding was allocated to the A&E Blue Zone and Maternity Theatre's schemes.

Table 3: 5 Year Capital Programme

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	Total £000
CAPEX	15,556	7,566	7,524	7,736	7,951	46,333
Funded by:						
Depreciation	10,165	10,368	10,576	10,788	11,003	52,684
Loans Repayments	(3,052)	(3,052)	(3,052)	(3,052)	(3,052)	(15,260)
Cash Reserves	5,361	-	-	-	-	5,577
Cash Reserves (PSF)	3,000	-	-	-	-	3,000
Public Dividend Capital	82	-	-	-	-	82
Grants & Donations	-	250	-	-	-	250

The capital programme presented to F&PC included a forecast of year end slippage to be rolled forward into the 2019/20 capital budget. The annual plan assumed slippage of £2.874m however additional slippage of £0.202m was incurred at year end outturn. In previous years this additional slippage would have led to an increase in the 2019/20 budget however as a result of the sector wide position discussed in section 4 this will not be possible. Due to the Trust being unable to increase the overall capital budget the £202k slippage shortfall will be taken from the Capital Plans Contingency budget.

The depreciation budgets included in the capital programme have been reduced from approx. £12.5m in previous years due to the Trust adopting a revised Modern Equivalent

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Asset Valuation (MEAV) and setting up a subsidiary for Estates and Facilities services. Both these changes have reduced the valuation of land and buildings and therefore the depreciation charges. Adoption of the MEAV has reduced the forecast costs to re-provide the Trusts land and buildings which is the basis of the valuation for clinic assets. Establishing a subsidiary for Estates and Facilities has allowed the Trust to revalue its assets excluding VAT.

The revised 5 year capital budget is included in Appendix 2 of this report.

4 Regulatory Update

On the 7th May 2019 the Trust's were informed by NHSI that the NHS as a whole had exceeded its capital threshold agreed with the Treasury. As such they asked all NHS organisations to review their capital plans for opportunities to reduce expenditure in 2019/20 setting a deadline of 15th May 2019 for resubmission.

The initial capital plan submission for 2019/20 was based on an extremely challenging budget setting process which included review by both the Executive Management Team (EMT) and F&PC. As part of this process the Trust decided to defer several priority capital schemes to 2010/21 including:

- Windows 10 Upgrade £300k;
- Virtual Desktop renewal £200k;
- Ophthalmology / ENT £1,500k; and
- Renal Self Care £750k.

The capital curtailment exercise in 208/19 led to £6.955m budget reduction. This presented a significant risk to the Trust and not all of these budgets have been reinstated in 2019/20. This puts specific pressure on the medical equipment replacement programme (£1m) and estates asset maintenance programmes (£0.64m).

The Trust's annual plan was set prior to confirmation of the PSF bonus to be received by the Trust for achieving its 2018/19 control total. An estimate of £3m was included in the plan. The actual bonus to the Trust was confirmed as £6.7m. Due to the restrictions on capital expenditure it is not possible to increase the 2019/20 capital programme for the additional funding.

Given the strict prioritisation process applied to during the 2019/20 budget setting process and the risks incurred following the 2018/19 capital curtailment the Trust has resubmitted its existing capital programme with a value of £15.556m in 2019/20.

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5 Capital Programme Delivery 2019/20

Given the sector wide pressures on capital expenditure the Trust can expect a greater degree of regulatory scrutiny on delivery of capital schemes in 2019/20. To ensure the Trust is able to deliver its capital programme in full a recovery plan will be required should either:

- Year to date spend be less than 85% of plan;
- The forecast outturn be less than 85% of plan.

A recovery plan will need to include a revised expenditure profile including full year forecast, proposals for budget re-profiling between years and proposals for budget reallocations to support the plan being delivered in year. Recovery plans will be agreed by Capital Committee before being submitted to F&PC for approval.

6 Risk Assessment

Due to funding constraints a number of capital bids were considered but not included in the capital programme. This means there are a range of associated risks that are not being addressed through delivery of the capital programme which will need to be monitored and management throughout the year. Should urgent investment be needed to manage these risks, applications can be made to the contingency reserve (£500k). Applications should be made to the Capital Committee who will approve the allocation from this reserve on a case by case basis.

7 RECOMMENDATIONS

The Board of Directors are asked to asked to

- note the 2018/19 capital outturn;
- approve the capital budget for 2019/20 to 2023/24;
- note the recovery plan process set out in section 5 and
- note the risks set out in section 6.

8 Appendices

Appendix 1 2018/19 Capital Outturn

Appendix 2 Capital Programme 2019/20 to 2023/24

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Appendix 1 2018/19 Capital Outturn

Scheme	Original 18/19 Budget £000	Revised 18/19 Budget £000	Outturn £000	(Slippage) / Budget Bfwd £000	Over / (Under) Spend £000
Medical Equipment					
Replacement Programme	800	597	654	0	57
Radiology Major Replacement Programme	1,250	1,000	152	(791)	(57)
New Scheme: Extra Med Equipment Replacement	500	0	0	0	0
Medical Equipment Total	2,550	1,597	806	(791)	0
Information Technology					
General Corporate System Development	0	0	(3)	0	(3)
Network Refresh	259	259	121	(138)	0
PC Replacement Programme	300	300	232	(69)	1
Server Refresh	80	80	103	0	23
Software refresh	200	200	176	(24)	0
Integrated Pathology Service IT	0	0	49	0	49
Telephony PBX	1,000	0	0	0	0
Define Benchmarking Licence	0	12	12	0	0
Informatics Total	1,839	851	690	(231)	70
Estates					
Rolling Backlog Programme	763	563	419	(145)	1
Services Infrastructure	630	430	286	(144)	0
PDC Funding Cladding Works	0	518	526	0	8
Medical Records Storage	360	360	1	(360)	1
Capitalised Salaries	220	220	200	0	(20)
Womens & Childrens Improvements	1,705	1,605	1,662	0	57
General Improvements to Corridors/Patient Areas	0	0	1	0	1
Wayfinding Improvements	516	116	50	(66)	0
Total Estates	4,194	3,812	3,145	(715)	48
Capital Strategy					
PACs Phase 3	500	500	46	(454)	0
Capital Plans Contingency - Emergency, Statutory, Regulatory Only	500	0	0	0	0
Renal Self Care	500	0	7	0	7
Additional Car Parking Spaces	123	123	76	(47)	0

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Scheme	Original 18/19 Budget £000	Revised 18/19 Budget £000	Outturn £000	(Slippage) / Budget Bfwd £000	Over / (Under) Spend £000
Foam Mattress Store	20	0	3	0	3
Intra Oral Digital Imaging	15	15	14	0	(1)
Contingency for Business Cases / Risk Management	602	0	0	0	0
Service Line Reporting Module	40	40	0	(40)	0
Command Centre GE	2,659	2,456	2,378	(78)	0
Command Centre - Estates Enabling Work	125	144	82	(62)	0
Command Centre - Informatics Enabling Work	708	689	291	(398)	0
Ophthalmology / ENT Expansion	1,500	0	0	0	0
Ward 22 Refurbishment	500	250	40	(210)	0
Expansion of SAU	100	100	0	0	(100)
Staff Facility	50	50	0	(50)	0
Maternity Theatre	500	0	0	0	0
Urgent Care Centre	0	760	731	0	(29)
Nucleus Forward Wait	0	20	21	0	1
Total Capital Strategy	8,442	5,147	3,688	(1,339)	(120)
Donated Assets					
Donated	0	0	133	0	133
Total Donated Assets	0	0	133	0	133
Total	17,025	11,407	8,460	(3,076)	(5,494)

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Appendix 2 Capital Programme 2019/20 to 2023/24

Scheme	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	Total £000
Equipment						
Medical Equipment Replacement	3,091	2,300	2,300	2,300	2,300	12,291
Pharmacy Fridge Monitoring	50	0	0	0	0	50
Total Equipment	3,141	2,300	2,300	2,300	2,300	12,341
IT / Informatics						
General Corporate System Development	100	100	100	100	100	500
Network Refresh	138	0	0	0	0	138
PC Replacement Programme & Windows 10 Upgrade	469	600	300	300	300	1,969
Server Refresh	80	80	80	80	80	400
Software refresh	224	200	200	200	200	1,024
Virtual Desktop	0	200	100	0	0	300
Total IT / Informatics	1,011	1,180	780	680	680	4,331
Estates						
Rolling Backlog Programme	1,145	1,000	1,000	1,000	1,000	5,145
Services Infrastructure	974	830	830	830	830	4,294
Capitalised Salaries	220	220	220	220	220	1,100
LED Lighting	82	0	0	0	0	82
Medical Records Storage	360	0	0	0	0	360
Additional Car Parking Spaces	47	0	0	0	0	47
Wayfinding Improvements	66	0	0	0	0	67
Total Estates	2,894	2,050	2,050	2,050	2,050	11,094
Capital Strategy						
PACs Phase 3	704	250	0	0	0	954
Service Line Reporting Module	40	0	0	0	0	40
Command Centre – GE	1,281	350	0	0	0	1,631
Command Centre - Informatics Enabling Works	398	0	0	0	0	398
Command Centre - Estates Enabling Works	62	0	0	0		62
e-Rostering	154	0	0	0	0	154
Telephony PBX	1,000	0	0	0	0	1,000
Ward 22 Refurbishment	910	0	0	0	0	910
A&E Blue Zone	1,800	0	0	0	0	1,800
Maternity Theatres	1,200	0	0	0	0	1,200
Staff Facility	50	0	0	0	0	50

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Scheme	2019/20	2020/21	2021/22	2022/23	2023/24	Total
	£000	£000	£000	£000	£000	£000
Ophthalmology/ENT	0	486	1,014	0	0	1,500
Renal Self Care	0	450	300	0	0	750
Unallocated Funding for Business Cases	411	0	580	2,206	2,421	5,618
Capital Plans Contingency	500	500	500	500	500	2,500
Total Capital Strategy	8,510	2,036	2,394	2,706	2,921	18,567
Total	15,556	7,566	7,524	7,736	7,951	46,333