



MEETING TITLE Board of Directors Meeting held in Public		MEETING DATE 26/07/2022	
TITLE of PAPER	2022/23 Capital Plan	PAPER REF	TB22.040
KEY PRIORITIES	Equip our people with the best tools, technology and environment to support excellent outcomes Generate resources to support patient care and the delivery of our long-term plans, by being as efficient as we can be and maximising opportunities for new funding		
PURPOSE OF THE PAPER	The purpose of the paper is to: i) Seek retrospective approval for the 22/23 Capital Plan ii) Inform the group of the changes to capital funds since the plan submission iii) Inform the group of the issues associated with delivery of the plan iv) Seek delegated approval to proceed with alternative projects v) Inform of potential risks and mitigations.		
For Approval	<input checked="" type="checkbox"/>	For Assurance	<input checked="" type="checkbox"/>
For Decision	<input checked="" type="checkbox"/>	Discussion/Information	<input checked="" type="checkbox"/>
AUTHOR / LEAD	Louise Engledow – Head of Financial Strategy, Planning & Costing	ACCOUNTABLE DIRECTOR	Kathryn Vause – Executive Director of Finance
DISCUSSED AT / INFORMED BY TEG 6 th April 2022 - subsequent verbal updates TEG 13 th July 2022			
PREVIOUSLY AGREED AT:	Committee/Group: Trust Executive Group		Date: 06/04/2022
RECOMMENDATION(S)	The Board is asked to: <ul style="list-style-type: none"> • Note the changes to capital funding • Note the uncertainty surrounding CDEL for IFRS16 Leases • Retrospectively approve the capital expenditure plan • Note the forecast underspend against the current capital plan if no mitigating actions are taken. • Delegate to TEG, the approval of schemes potentially required as per 11.5 above. • Note the risks/opportunities to delivery of the capital plan. 		
RISK ASSESSMENT		Yes	No
Corporate Risk Register and/or Board Assurance Framework amended <i>If 'Yes' – expand in Section 4. / attached paper</i>		<input type="checkbox"/>	<input checked="" type="checkbox"/>
Equality Impact Assessment <i>If 'Yes' – expand in Section 2. / attached paper</i>		<input type="checkbox"/>	<input checked="" type="checkbox"/>
Resource Implications (Financial, Workforce, other - specify) <i>If 'Yes' – expand in Section 2. / attached paper</i>		<input checked="" type="checkbox"/>	<input type="checkbox"/>
Legal implications/Regulatory requirements <i>If 'Yes' – expand in Section 2. / attached paper</i>		<input type="checkbox"/>	<input checked="" type="checkbox"/>
ASSURANCE/COMPLIANCE			
Care Quality Commission		Not Applicable	
Choose a DOMAIN(s)		Not Applicable	

2022/2023 CAPITAL PLAN

1. PURPOSE/AIM

- 1.1 The Capital Plan was approved at Trust Executive Group on the 6th April, ahead of the draft plan submission. At the time of submission there was uncertainty around the level of capital funds available.
- 1.2 Furthermore, after a 2-year delay, the NHS is now required to adhere to International Financial Reporting Standard (IFRS16: Leases), with effect from 01/04/2022.
- 1.2 The purpose of this paper is to:
 - i) Seek retrospective approval for the 22/23 Capital Plan
 - ii) Inform the group of the changes to capital funds since the plan submission
 - iii) Inform the group of the issues associated with delivery of the plan
 - iv) Seek delegated approval to proceed with alternative projects.
 - v) Inform of potential risks and mitigations.

2. BACKGROUND/CONTEXT

- 2.1 The Trust completes an annual capital plan alongside the revenue financial planning process in accordance with the national timetable and receives a capital allocation via WY ICS for capital expenditure.
- 2.2 Historically in the Trust, capital funds have been allocated to capital budget holders based upon the amount of depreciation that previous expenditure generates. For the 2022/23 planning round a revised process has been implemented which enables us to:
 - Allocate funds based on organisational priorities, not depreciation
 - Give strategic objectives equal consideration alongside operational programmes when committing capital funds
- 2.3 Key features of the process are:
 - Capital budget holders submit a plan based on need and complete a prioritisation scoring matrix for each scheme
 - Schemes are prioritised according to their total score
 - Capital plan working groups (aligned to gate panel membership) have been held to confirm and challenge and bring the proposed capital plan within the funding envelope
- 2.4 The revised process has been documented and approved by the Capital Planning Group.
- 2.5 Under the scheme of delegation, projects requiring Board approval have either already been to Board or will come to Board in due course as the schemes progress.

3. OWNED and RIGHT OF USE ASSETS (and IFRS16)

- 3.1 IFRS16 is the accounting standard that sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces international accounting standard IAS17 Leases. The objective is to ensure that information

pertaining to leases is presented in a manner that faithfully represents those transactions and provides a basis for users of the financial statements to assess the impact that lease arrangements have on the financial position, financial performance and cash flows of an organisation. The implementation of IFRS16 has previously been discussed at Finance & Investment Committee.

- 3.2 It requires organisations to recognise assets that are secured under lease arrangements as capital assets on the balance sheet, in a similar way as if they had been purchased outright.
- 3.3 Leased assets on the balance sheet are classified as *Right of Use (ROU) assets*, whilst assets purchased outright under conventional means are referred to as *Owned assets*.
- 3.4 Operating expenditure relating to leases; formerly recognised as lease expenditure, or rental expenditure in the case of leased property, is now charged through I&E as depreciation and interest.
- 3.5 Leased assets need to be capitalised at the inception of the lease, i.e. a new lease for a new asset that is being brought into use for the first time, or a renewal of an existing lease.
- 3.6 The Trust has purchased an additional module from Real Asset Management (RAM), our asset register provider, to record all leases and generate the appropriate accounting entries for input to the ledger.

4. FUNDING (OWNED ASSETS)

- 4.1 NHS Operational Capital – methodology review: The NHS Long Term Plan made a commitment to reform the capital regime. In 2020/21 we moved to a system-level operational capital envelope, designed to give systems greater control and the responsibility for prioritising local capital expenditure.
- 4.2 NHSE/I commissioned The Kings Fund to lead an independent review of capital allocation methodology. Some of the recommendations have been implemented for 2022/23.

A summary of recommendations and changes is presented at Appendix 1.

- 4.3 YAS have been allocated operational capital of £15.698m. This includes the re-provision of £1.5m of funds that the Trust offered back to the ICS (ICB) in the 21/22 planning round.
- 4.4 There have been a number of changes to the expected level of capital funds since the capital plan was submitted. These changes are summarised below in table 1.

Table 1: CAPITAL FUNDS AVAILABLE

Sources of funds:	£000s			
	At Capital		Confirmed	Reduction in
	Plan	Submission		
ICS allocation	£	15,698	£	15,698
Disposal Bentley AS	£	235	£	235
UEC Ambulance	£	1,800	£	1,500
Digital	£	852	£	119
Repayment Springhill loan	-£	334	-£	334
Subtotal	£	18,251	£	17,218
5% overplan (based on ICS allocation)	£	785	£	785
TOTAL CAPITAL FUNDS	£	19,036	£	18,003
			-£	1,033

4.5 UEC Ambulance Funding

4.5.1 Nationally, additional capital funds of £20m per year will be available throughout 22/23 to 24/25 to:

- Support the roll out of zero emissions fleet and associated infrastructure
- Purchase double crewed ambulances (DCA's) in line with the national specification

4.5.2 The Trust had assumed that c. £1.8m of funds would be available (following the usual national formula of 10% to YAS after a 10% top slice). However, allocations have been based upon the age profile of existing fleet, and as a result YAS have received only £1.5m. The Trust must match fund this.

4.6 Digital Funding

4.6.1 WY ICS had provisionally allocated £852k of NHS Digital Funds, for digital maturity/levelling up and cyber security, available for business-as-usual ICT capital expenditure. These funds have now been retained centrally.

4.6.2 In its place we have been offered capital (£1m) & revenue funds (of £1.5m) specifically to support the implementation of electronic Patient Record (ePR). This will be made available to us as requested over a period of 3 years, and we must demonstrate that we can match fund this over 5 years. The Trust has developed an expenditure plan and will drawdown £119k of this capital in 22/23.

4.7 These changes to confirmed capital allocations mean that the Trust will receive £1.033m less funds than anticipated at planning stage.

4.8 In addition to allocated funds, each Trust is permitted to over plan by 5% of the ICS allocation (£785k). This is to mitigate against slippage on capital projects. However, overspends at a national level will not be permitted and organisations must have a clear plan to bring capital expenditure back in line with allocated funds if necessary.

5. FUNDING (RIGHT OF USE ASSETS)

- 5.1 The value at which an asset is capitalised on the balance sheet equates broadly to the annual payments due under the lease, multiplied by the number of years the lease is taken for (adjusted by a discount factor).
- 5.2 Capital expenditure usually has to fall within a Capital Departmental Expenditure Limit (CDEL), which Trusts cannot breach. It is uncertain whether a CDEL limit will be applied to right of use assets in the same way that it applies to the purchase of owned assets.
- 5.3 The Trust has completed several financial returns since January 2022 which we believed would form the basis of a leased capital allocation. To date, we have not been notified of a capital allocation specifically for leased assets and it is unclear which return would be used if that were the case.
- 5.4 Uncertainty around this is now causing operational issues as we are unable to enter into any new lease arrangements without knowing if it would breach CDEL. e.g. to proceed with the new training facility at Burn Hall.
- 5.5 NHSE/I are unable to provide any further guidance on the issue at the present time but recognise the difficulties the uncertainty causes.

6. CAPITAL EXPENDITURE PLAN (OWNED ASSETS)

- 6.1 In April 2022, TEG approved a capital expenditure plan of £19.2m, which exceeded available funds by £154k, but likely could be recovered through slippage if necessary.
- 6.2 Subsequently, the ICS advised Trusts to submit plans based on capital need, and as a result a number of small schemes that had been considered lower priority were also included in the capital plan submission. The capital plan submitted to NHSE/I totalled £19.575m.
- 6.3 The detailed capital plan is shown at appendix 2.

7. CAPITAL EXPENDITURE PLAN (RIGHT OF USE ASSETS)

- 7.1 The Trust has a number of new leases for property and vehicles that will commence in 22/23, and other leases which will be renewed.
- 7.2 The capitalised value of these leases, or right of use assets, is £14.344m.
- 7.3 A full list of the leases and the ROU asset value is documented in appendix 3.

8. RECOMMENDATIONS

- 8.1 The Trust Board are asked to:
- Note the changes to capital funding
 - Note the uncertainty surrounding CDEL for IFRS16 Leases
 - Retrospectively approve the capital expenditure plan

9. PERFORMANCE AGAINST PLAN – CURRENT FORECAST EXPENDITURE (OWNED ASSETS)

9.1 Since the plan was set, a number of issues have arisen that significantly alter the forecast outturn against that original plan. Current forecast is £16.1m against a plan of £19.6m – an underspend of £3.5m.

9.2 However, funds have also reduced. The revised underspend against the confirmed allocation is £1.9m.

9.3 The position is summarised below in table 2.

Table 2: CAPITAL PLAN FORECAST UNDERSPEND

	Capital Funds	Forecast Outturn at month 2	Variance
	£000s		
FLEET	£ 7,921	£ 5,573	-£ 2,348
ESTATES	£ 1,425	£ 1,410	-£ 15
ICT	£ 2,908	£ 2,335	-£ 573
TRANSFORMATION	£ 7,321	£ 6,787	-£ 534
CAPITAL FUNDS IN SUBMITTED PLAN	£ 19,575	£ 16,105	-£ 3,470
CONFIRMED CAPITAL FUNDS	£ 18,003	£ 16,105	-£ 1,898

9.4 The underspend has arisen due to the following issues:

9.4.1 NARU vehicles

The plan included £2m of expenditure for the replacement of vehicles for the National Ambulance Response Unit (NARU), for which the Trust receives external (revenue) funding. We have now been informed that these vehicles will not be available until 23/24 due to long lead times associated with production. (Underspend of £1.92m).

9.4.2 Bariatric vehicles

The plan includes the purchase of a number of bariatric support vehicles; however, the specification of the vehicle (and ultimately the timing of the order) is subject to feedback from the Moving Patients Safely Group, which is not yet available. There is now a one-year lead time for these vehicles, so they cannot now be delivered in this financial year (resulting in an underspend of £480k).

9.4.3 After allowing for small price variances (increases) on other fleet projects, the total forecast underspend against fleet is £2.348m.

9.4.4 Agile working estate

The plan included £619k for the refit/refurbishment of additional estate associated with agile working. At plan submission, costings were based on the proposal for Zenith House. This option is no longer viable and therefore this money is available for alternative sites or other projects.

9.4.5 ICT

The Trust had expected to receive £852k of funding from NHS Digital, which covered the planned capital expenditure for ePR and other care record related programmes of work (YHCR and ambulance data set).

As described in section 4.6.2, this digital funding has been withdrawn and we have been offered ePR specific funding. The Trust has revised its plan to meet the new requirements of the digital fund. In addition, as the project develops and work moves into a new phase, it is now more appropriate to reclassify some previously capitalised staff costs as revenue costs. Total slippage against the ICT capital plan is £573k.

10. RECOMMENDATIONS

The Trust Board is asked to:

- 10.1 Note the forecast underspend against the current capital plan if no mitigating actions are taken.

11. MITIGATING ACTIONS/NEW EXPENDITURE PROPOSALS

- 11.1 The current capital plan is forecast to be £3.47m underspent. However, confirmed funds have also reduced. When reassessed against the confirmed capital allocation the underspend would be reduced to £1.9m (see 9.3 table 2).
- 11.2 This creates opportunity for further capital projects to be considered that were not identified when the original plan was set.

11.3 New estate – Chantry House

A potential opportunity has arisen to purchase a property, known as Chantry House, adjacent to the current headquarters at Springhill. Tentative enquiries have been made and valuations for this property are in the range of £1 - £2m.

11.4 111/IUC Aداstra system

The current contract with Advanced Health & Care for the Aداstra system in IUC ends in February 2023. A paper has recently been presented to TEG outlining the possible options for extension/renewal, with option 2 being the preferred option.

This would have an in-year capital cost of £353k, which is not accounted for in our current plan.

- 11.5 At planning stage, numerous other projects were deferred into 2023/24 in order to define a plan that was within the financial envelope. If swiftly approved, it is possible that some projects could be brought forward and delivered in this financial year, should action to mitigate slippage be required.

12. RECOMMENDATION

The Trust Board is asked to

- Delegate to TEG, the approval of schemes potentially required as per 11.5 above.

13. OPPORTUNITIES & RISKS

13.1 Slippage against large capital projects has been identified at an early stage which gives the Trust opportunity to mitigate the underspend. However, further risk to delivery remains:

Specific points to note:

13.1.1 Goole Refurbishment: £450k is set aside for the refurbishment of Goole Ambulance Station, however commencement of the proposed works is dependent upon signing a new lease for the property. At the time of writing this is not in place with the risk that the works cannot be completed in this financial year. This lease renewal is reflected in the capital plan for ROU assets.

13.1.2 A&E Support Vehicles: the plan currently includes £440k for the purchase of 9 A&E support vehicles. This can be managed flexibly, i.e. purchasing a lower number of vehicles or deferring the purchase to future years, without serious detriment to the service. However, a decision to proceed will need to be made within the next month for delivery to be guaranteed in this financial year.

13.2 Further slippage on other projects is likely to be due to supply chain issues and long lead times.

13.3 Projects that have not commenced/completed this year will need to be accommodated in next years' capital plan.

13.4 RIGHT OF USE ASSETS

13.4.1 Information on current leases is not robust; e.g. some lease information is out of date, we are using properties for which no formal arrangement is in place, and requirements for new leased assets are emerging. If a CDEL is imposed, we are at risk of breaching it or having to cease activities which contribute towards an effective service.

13.4.2 The impact of the new accounting treatment is not fully understood until NHSE/I confirm the funding arrangements. e.g. disposals and dilapidations.

13.4.3 We are uncertain if there are implications of under/overspending against plan.

13.5 Generally, previous 'lease versus buy' considerations may no longer offer the same benefits and flexibilities.

14. SUMMARY RECOMMENDATIONS

As outlined in section 8:

- Note the changes to capital funding
- Note the uncertainty surrounding CDEL for IFRS16 Leases
- Retrospectively approve the capital expenditure plan

As outlined in section 10:

- Note the forecast underspend against the capital plan if no mitigating actions are taken.

As outlined in section 12

- Delegate to TEG, the approval of schemes potentially required as per 11.5 above.

As outlined in section 12:

- Note the risks/opportunities to delivery of the capital plan.

APPENDIX 1: OPERATIONAL CAPITAL METHODOLOGY REVIEW

SUMMARY OF RECOMMENDATION		NHSE/I Improvement Response	
	Recommendation	Prior Years	Changes for 2022/23
Depreciation	Maintain £ for £ funding	£ for £ funding	£ for £ funding
	Use audited data	Trust own forecast	Last audited accounts (20/21)
Gross Asset Value (GAV)	Reduce weighting as GAV correlates strongly with depreciation	19% weighting	13% weighting
Backlog Maintenance	Increase the weight attributed to backlog	9% weighting	13% weighting
	Improve confidence in backlog data		
Prior Year Surpluses	Positive incentives are provided by including in formula		Prior year surpluses on a 5-year rolling basis
	But distant historic surpluses should not inform current envelopes		
Cross-system providers (ambulance, MH, Community & Specialised)	Continue with one to one system mapping		Guidance has been strengthened
	Clearer guidance to systems & providers on collaborative, co-ordinated working		
Scope of capital envelopes	Scope should be broadened to give ICS greater responsibility and flexibility		For 22/23 - 24/25 system envelopes include primary care BAU capital Diagnostics, digital and elective recover capital has been set out alongside operational capital
	Allocations of national programmes should be included alongside operational envelopes to give greater transparency and certainty		
Multi-year certainty	Implement a 3-year capital settlement		Issued 3-year operational capital envelopes

APPENDIX 2: CAPITAL PLAN (OWNED ASSETS) AND CURRENT FORECAST OUTTURN

CAPITAL EXPENDITURE PLAN AND FORECAST OUTTURN

		TEG Approved Plan	Capital Plan Submission (ICS amendments)	Forecast Outturn (Month 2)	Variance
Capital Budget	Description of Scheme	£000s	£000s		
FLEET	2 x MTAs	£ 130	£ 130	£ 130	£ -
	4 x Health and Wellbeing Vans	£ 280	£ 280	£ 280	£ -
	Chassis Purchase & Conversion	£ 2,048	£ 2,048	£ 2,056	£ 8
	DCA Chassis Purchases x 64 (Delayed Chassis)	£ 1,905	£ 1,905	£ 1,949	£ 44
	7 x Driver Training Vehicle Chassis & Conversion	£ 498	£ 498	£ 498	£ -
	Bariatric Support Vans Replacement	£ 480	£ 480	£ -	£ -480
	Fleet Workshop Equipment	£ 55	£ 55	£ 55	£ -
	HART NARU Refresh Programme	£ 1,770	£ 1,770	£ 80	£ -1,690
	NARU Mass Casualty Vehicle (MCA) x 2	£ 230	£ 230	£ -	£ -230
	9 x A&E Support Vehicles	£ -	£ 440	£ 440	£ -
	Paliative Care Vehicle	£ 85	£ 85	£ 85	£ -
	FLEET TOTAL	£ 7,481	£ 7,921	£ 5,573	£ -2,348
ESTATES	Bradford Continued Refurbishment (Phases 3, 4 & 5)	£ 750	£ 750	£ 750	£ -
	Fire Precaution Works - Springhill	£ 150	£ 150	£ 150	£ -
	Goole Refurbishment	£ 450	£ 450	£ 450	£ -
	Replacement Emergency Standby Generator	£ 75	£ 75	£ 60	£ -15
	ESTATES TOTAL	£ 1,425	£ 1,425	£ 1,410	£ -15
ICT	111 Development & GP OOH	£ 114	£ 114	£ 114	£ -
	21/22 Slippage	£ 220	£ 220	£ 163	£ -57
	BC Phone System	£ 70	£ 70	£ 100	£ 30
	ESMCP/CRS/MVDS	£ 750	£ 750	£ 625	£ -125
	EOC Development	£ 150	£ 150	£ 110	£ -40
	ePR Development	£ 85	£ 85	£ 119	£ 34
	Getac	£ 50	£ 50	£ 50	£ -
	ICT Refresh - balance after mitigating action	£ 417	£ 417	£ 420	£ 3
	ICT Server Refresh	£ 160	£ 160	£ 160	£ -
	PTS	£ 37	£ 37	£ 27	£ -10
	ICT Network switches	£ 200	£ 200	£ 197	£ -3
	WiFi Replacement	£ 250	£ 250	£ 250	£ -
	MDT**	£ 55	£ -	£ -	£ -
	YHCR	£ 305	£ 305	£ -	£ 305
	Ambulance Dataset	£ 100	£ 100	£ -	£ 100
	ICT TOTAL	£ 2,963	£ 2,908	£ 2,335	£ -573
TRANSFORMATION	Agile working new estate	£ 619	£ 619	£ -	£ -619
	Asset Management System	£ 109	£ 109	£ 94	£ -15
	EOC Fairfields	£ 307	£ 307	£ 307	£ -
	EOC Fairfields	£ 2,428	£ 2,428	£ 2,428	£ -
	Logistics Hub	£ 1,176	£ 1,176	£ 1,176	£ -
	Scarborough	£ 1,732	£ 1,732	£ 1,732	£ -
	Hull land	£ 950	£ 950	£ 1,050	£ 100
	TRANSFORMATION TOTAL	£ 7,321	£ 7,321	£ 6,787	£ -534
TOTAL CAPITAL EXPENDITURE PLAN*		£ 19,190	£ 19,575	£ 16,105	£ -3,470

* The plan presented to TEG included repayment of the Springhill loan at £334k - £19.524m. Planning convention shows this as a deduction against capital funds rather than an expenditure item.

** Item later removed as duplicated elsewhere in plan.

**APPENDIX 3:
CAPITAL PLAN - RIGHT OF USE ASSETS**

Description of Scheme	Lease Term (years)	Average Annual lease payment	Capitalised Asset Value (ROU asset)
Skodas	3	£317	£1,002
Skodas	4	£262	£1,095
Skodas	5	£236	£1,219
BMWs	5	£361	£1,871
Logistics Hub, Telford Road	20	£132	£2,707
Goole	10	£50	£535
Zenith House	5	£116	£637
Temporary EOC	3	£61	£203
Private landlord leases pending agreement	5	£118	£649
PTS	5	£764	£3,854
Training rooms (Burn Hall)	3	£142	£472
Scarborough car park	3	£30	£100
TOTAL		£2,589	£14,344