Camden Clinical Commissioning Group | Islington Clinical Commissioning Group | Camden and Islington NHS Foundation Trust

Transforming mental health services in Camden and Islington:
Proposals for change to the Camden and Islington NHS Foundation Trust Estate

Finance case

1.1 Introduction

The purpose of the financial case is to set out the impact of the preferred option on the CCGs and Trust's financial performance and position and to show the impact of the key financial risks. This is important as it demonstrates the options being considered for consultation are sustainable financially.

1.1.1 CCG impact

Contracts are in place between Islington and Camden CCGs and C&I until March 2019. The CCG resource settlement runs through until 31 March 2021. Beyond 2020/21 growth assumptions are not available. The assumption is that activity growth will be between 0.7% and 1.7% across the two main CCGs between now and 2025/6. This is an average of +1.1% per annum compound annual growth rate across the period.

CCG growth rates are as below:

	FY 16/17	FY 17/18	FY 18/19	FY 19/20	FY 20/21
	%age uplift	**%age uplift**	**%age uplift**	**%age uplift**	**%age uplift**
Camden	1.4	0.2	0.1	0	1.5
Islington	2.2	2.7	2.7	2.7	3.7

Camden's average growth over the three remaining years is +0.5% per annum and Islington's is +3.0% per annum, or an average of +1.7% across the two CCGs. The Trust's growth assumption is based on a range of 0.7% to 1.7% per annum; which is less than CCGs growth assumptions. It is recognised that commissioners will fund different providers of mental health services at different rates of growth within their allocations, subject to overall compliance with the mental health investment standard.

Both of the CCGs have reviewed the activity and financial modelling undertaken by the Trust. The CCGs are assured that the underlying assumptions behind the activity and income are consistent with their own projections, and the wider STP expectations. Specifically, the Chief Financial Officer for both Camden CCG and Islington CCG corroborated the financial information presented below with the Director of Finance for the Trust. Most of the commentary in the section below therefore focuses on the impact on the affordability of the proposals to the Trust as a provider – the Trust will see substantive impacts on its cost base, balance sheet and cash flows as a result of the proposals in this document.

1.1.2 Provider impact

The impacts of the proposals impact almost exclusively on the Trust in terms of providers and therefore the system affordability of the proposals can be shown by setting out the position for the Trust. This section sets out what those impacts are from a financial perspective and that the preferred option is affordable for the Trust.

For the purposes of this analysis, affordability is defined as:

- ensuring that the Trust has the cash required to complete the estates programme;
- having sufficient cash to cover the Trust's working capital requirement throughout the ten-year period (assumed to be two months of operating costs, circa £20.0m);
- the Trust being forecast to have a sustainable positive net surplus position by the end of the period considered; and
- the Financial Sustainability Risk Rating (FSRR) will be at least 3 in all years when appropriate adjustments are made for the impact of bridge financing.

This section of the business case:

- Shows the financial forecast of the investment case, with an analysis of the incremental impact against the baseline (do minimum) case;
- Shows that the preferred option is affordable in the base case.

1.2 Basis of preparation

The projections in this section have been prepared on the following basis:

- The Trust has completed NHSI's 10-year Long Term Financial Model (LTFM). In line with the approach agreed with NHSI, 2016/17 was the outturn year used based on the forecast outturn at month 11 that had been submitted to NHSI. Separate models were populated for the baseline and the preferred option and a comparison of the outputs was used to assess the incremental impact.
- The assumptions for the baseline case (do minimum) were based on a revised version of the Trust's annual operating plan over the ten-year LTFM period.
- The costs of the investment and associated operating and financing costs were obtained from the Trust's facilities building cost model.

1.3 Financial projections

A series of assumptions have been used to forecast the Trust's Income & Expenditure (I&E), Balance Sheet and Cash Flow statements. These are set out in Appendix [18].

The figures presented in the financial case may differ from those presented in the economic case due to discounting. The financial case figures are all nominal and not discounted, whereas the economic case figures are discounted.

1.3.1 Income and expenditure

The Figure below sets out the Trust's projected income and expenditure under the investment case. This covers the period of construction (from 2018/19 to 2021/22) and the following three years of steady state operations.

The incremental impact of the investment over the baseline is shown further below (the full baseline income and expenditure is set out in Appendix [19]). A bridge is also included, which shows the incremental impact of the investment on the first full year of operation (2022/23).

Figure [9.1]: Projected income and expenditure for the investment case

£m	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	Outturn	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
Income										
Clinical income	108.4	108.0	109.4	110.2	111.7	112.8	113.9	115.0	116.1	117.2
Research & training	19.2	19.1	19.3	19.3	19.3	19.3	19.3	19.3	19.3	19.3
Other income	9.0	9.0	8.8	8.0	8.0	8.0	8.0	8.0	8.0	8.0
Total income	**136.6**	**136.1**	**137.5**	**137.5**	**139.0**	**140.0**	**141.1**	**142.2**	**143.4**	**144.5**
Operating costs										
Pay	(97.0)	(97.0)	(98.1)	(99.6)	(101.2)	(101.8)	(103.4)	(105.3)	(107.3)	(109.4)
Non-pay	(29.0)	(27.6)	(27.4)	(27.1)	(26.0)	(23.1)	(22.4)	(21.7)	(21.3)	(20.8)
Total operating expenses	**(126.1)**	**(124.6)**	**(125.4)**	**(126.7)**	**(127.3)**	**(124.9)**	**(125.8)**	**(127.0)**	**(128.6)**	**(130.2)**
EBITDA	**10.5**	**11.5**	**12.1**	**10.8**	**11.7**	**15.2**	**15.4**	**15.2**	**14.8**	**14.3**
Impairment	-	-	-	-	-	(8.2)	-	-	-	-
Depreciation & amortisation	(4.7)	(5.2)	(5.4)	(5.4)	(5.4)	(6.4)	(7.9)	(7.9)	(7.9)	(7.9)
Financing	0.1	0.0	0.0	0.1	(3.5)	(3.5)	(3.2)	(2.8)	(2.4)	(2.0)
PDC	(4.3)	(4.3)	(4.7)	(4.8)	(2.9)	(4.2)	(3.9)	(3.5)	(3.1)	(2.2)
Surplus/(deficit)	**1.7**	**2.0**	**2.0**	**0.7**	**(0.1)**	**(7.1)**	**0.4**	**1.0**	**1.4**	**2.2**

The projected investment case income and expenditure shows that:

- Income growth is driven principally by the underlying growth in contractual income from clinical services (from the CCGs), with inflation accounting for 33% of the increase. This growth is partially offset by the assumed loss of £0.8m Sustainability and Transformation Fund (STF) funding from 2019/2020.
- Pay costs are forecast to remain at £97.0m in 2017/18, due to the underlying growth being matched by the Trust's CIP programme (3.2% of pay costs in that year). In subsequent years pay CIPs are projected at between 1.2% and 1.5%, thereby only partially offsetting the underlying pay cost growth. The investment is projected to reduce substantive and agency staff costs by £1.6m from 2021/22. Any increases above this amount in line with recent government announcements are assumed to be funded and it is therefore assumed would not have an impact on affordability. This will be modelled at FBC stage, but the assumptions are set out in appendix 17.
- Non-pay costs are projected to fall from £29.0m in 2016/17 to £27.6m in 2017/18 due to recurrent CIP savings of £2.2m in other expenses (8.4% of other expenses). The CIP target for other expenses is £0.8m per year thereafter. The investment is projected to generate savings in other expenses of £3.5m in 2021/22, increasing to £4.4m in 2025/26).
- An impairment of £8.2m is projected upon completion of the building works in 2021/22. This is the result of the requirement to change the valuation method of the new building from a cost basis to depreciated replacement cost upon its completion.
- As shown above the Trust remains in surplus throughout the projection period except for two years:

- 2020/21: the £ (0.1) m deficit is projected due to the increased finance costs incurred during construction, with the benefits not being realised until the building is completed in the following year.
- 2021/22: the £ (7.1) m deficit is projected due to the one-off impairment charge described above.

NHS
Camden
Clinical Commissioning Group

NHS
Islington
Clinical Commissioning Group

Figure [9.2]: Incremental impact of the investment on income and expenditure

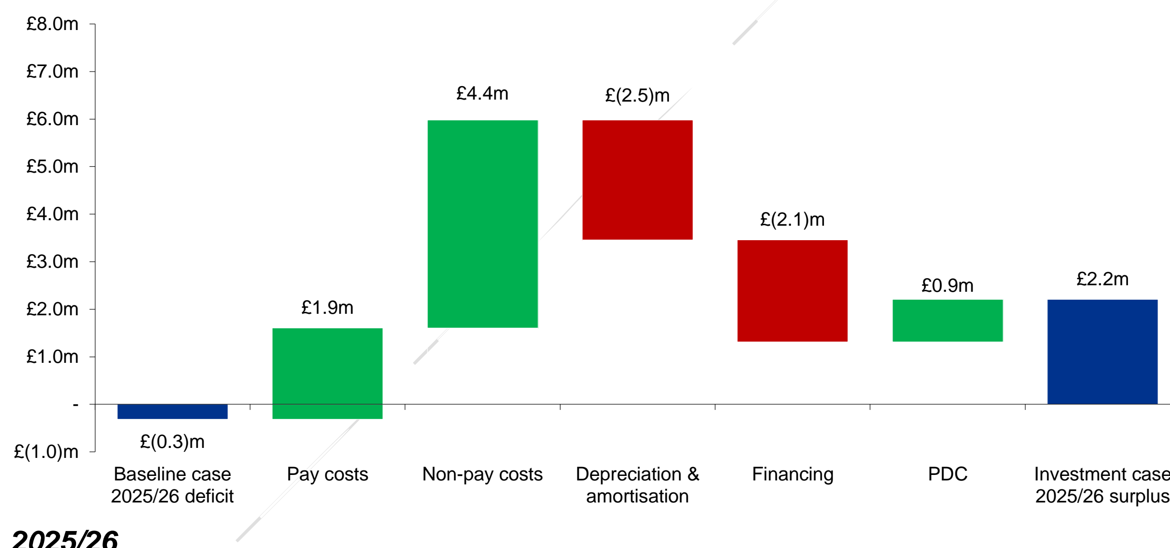
£m	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	Outturn	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
Income										
Protected revenue	-	-	-	-	-	-	-	-	-	-
Research & training	-	-	-	-	-	0.0	0.0	0.0	0.0	0.0
Other	-	-	-	-	0.0	0.0	0.0	0.0	0.0	0.0
Total income	**-**	**-**	**-**	**-**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Operating costs										
Pay	-	-	-	-	0.3	1.5	1.9	1.9	1.9	1.9
Non-pay	-	-	-	-	0.8	3.5	3.8	4.2	4.3	4.4
Total operating expenses	**-**	**-**	**-**	**-**	**1.1**	**5.0**	**5.7**	**6.1**	**6.2**	**6.3**
Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA)	**-**	**-**	**-**	**-**	**1.1**	**5.0**	**5.7**	**6.1**	**6.2**	**6.3**

Impairment	-	-	-	-	-	(8.2)	-	-	-	-
Depreciation & amortisation	-	-	-	-	-	(1.0)	(2.5)	(2.5)	(2.5)	(2.5)
Financing	-	(0.0)	(0.0)	(0.1)	(3.7)	(3.6)	(3.3)	(2.9)	(2.6)	(2.1)
Public Dividend Capital (PDC)	-	(0.3)	(0.6)	(1.3)	0.5	(0.9)	(0.7)	(0.4)	-	0.9
Surplus/(deficit)	**-**	**(0.3)**	**(0.6)**	**(1.4)**	**(2.0)**	**(8.7)**	**(0.8)**	**0.3**	**1.1**	**2.5**

The incremental impact of the investment on income and expenditure described above shows:

- The investment is projected to generate a marginal increase in income (£30,000 per year) from research and development and other income.
- Pay and non-pay cost reductions are described above.
- The investment is projected to increase EBITDA by £6.3m (recurrently) by the end of the projection period.
- The impairment relates to the revaluation of the new building, as described above.
- Depreciation on the new building is projected to start from 2021/22, as the building is brought into use.
- The investment is projected to cause an increase in financing costs throughout the construction and operating phases. This relates to the cost of financing the bridging loan described above in Figure [9.2]. This is a short term loan that could be substantially repaid within five years but to be prudent the Trust has modelled as having a ten-year term.
- The net impact of the investment is a deficit through construction from 2017/18 and into the first year of full operation (2022/23). As loan repayments reduce the financing cost, the investment is projected to yield a surplus from 2023/24.

Figure [9.3]: Net deficit/surplus bridge between the baseline and investment cases at



2025/26

The £ (0.3) m net deficit forecast in 2025/26 for the baseline case is significantly improved in the investment case to a £2.2m net surplus. As noted above, the additional financing cost is expected to fall to nil from 2026/27, further improving the investment case position over the baseline case.

1.3.2 Statement of financial position

The investment case statement of financial position is set out below, along with the incremental impact assessed against the baseline case (the statement of financial position for the full baseline case is included in Appendix [20]).

Figure [9.4]: Projected statement of financial position for the investment case

£m	2016/17 Outturn	2017/18 Forecast	2018/19 Forecast	2019/20 Forecast	2020/21 Forecast	2021/22 Forecast	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast
Property, plant and equipment	122.1	137.7	139.6	142.4	213.0	231.1	208.6	185.7	162.8	125.8
Trade receivables	12.7	12.7	12.8	12.6	12.5	12.6	12.7	12.8	12.9	13.0
Other current assets	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Cash and cash equivalents	44.0	24.9	23.7	21.8	76.1	37.5	47.7	58.9	70.5	97.0
Total assets	**180.2**	**176.7**	**177.5**	**178.2**	**302.9**	**282.6**	**270.4**	**258.8**	**247.6**	**237.3**
Trade payables	(6.8)	(6.9)	(6.9)	(7.0)	(6.8)	(6.1)	(6.0)	(5.9)	(5.8)	(5.7)
Loans: current	-	-	-	-	(12.5)	(12.5)	(12.5)	(12.5)	(12.5)	(12.5)
Other current liabilities	(18.1)	(12.4)	(11.2)	(11.2)	(11.2)	(11.2)	(11.2)	(11.2)	(11.2)	(11.2)
Loans: non-current	-	-	-	-	(112.5)	(100.0)	(87.5)	(75.0)	(62.5)	(50.0)
Other non-current liabilities	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Total liabilities	**(24.9)**	**(19.4)**	**(18.2)**	**(18.2)**	**(143.0)**	**(129.9)**	**(117.2)**	**(104.6)**	**(92.0)**	**(79.4)**
Net assets	**155.3**	**157.3**	**159.3**	**160.0**	**159.9**	**152.7**	**153.1**	**154.2**	**155.6**	**157.8**
PDC	60.3	60.3	60.3	60.3	60.3	60.3	60.3	60.3	60.3	60.3
Retained earnings	42.8	44.8	46.8	47.4	47.3	40.2	40.6	41.6	43.0	45.3
Revaluation reserve	52.2	52.2	52.2	52.2	52.2	52.2	52.2	52.2	52.2	52.2
Total equity	**155.3**	**157.3**	**159.3**	**160.0**	**159.9**	**152.7**	**153.1**	**154.2**	**155.6**	**157.8**

The investment case projected statement of financial position shows:

- The property, plant and equipment balance is projected to increase significantly in the construction phase from 2017/18 to 2021/22. An impairment of the new building of £8.2m is projected in 2021/21 as set out in the assumptions above. The sale of the St Pancras site is projected to be phased between 2022/23 and 2025/26, reducing the property, plant and equipment balance significantly in each of these years.
- The trade receivables balance is projected to remain fairly constant, as no significant changes in trade receivables days are assumed.
- Cash is projected to remain above the Trust's requirement of £20.0m, which is sufficient to meet its working capital requirements. Cash is discussed further in the following section.
- The fall in the trade payables balance of around £1.1m between 2017/18 and 2025/26 is driven by the reduction in other expenses which form part of CIP savings. There are no significant changes in trade payables days assumed over this period.
- A loan of £125.0m is projected to be drawn down in 2020/21 (current element: £12.5m, non-current element: £115.5m). As noted in the assumptions table, £125.0m is the amount required for the Trust to maintain a minimum cash balance of £20m, required for working capital. As shown below the Trust's cash balance presents an opportunity to optimise these loan arrangements to improve the net surplus position and this will be considered further throughout the Trust's business case process as part of the commercial dialogue with the Independent Trust Financing Facility (ITFF). The £125.0 value is based on a prudent approach to the timing of payments to the Trust for the St Pancras site. It will be revised downward if payments could be made available earlier.
- The capital receipt from the redevelopment of the SPH site is expected to be greater than this. In the Trust's OBC, a red book valuation has been undertaken as per NHSI

and HMT guidance which presents a prudent value. Therefore, the risk of not achieving a level of capital receipt to cover the costs of the redevelopment is low.

£m	2016/17 Outturn	2017/18 Forecast	2018/19 Forecast	2019/20 Forecast	2020/21 Forecast	2021/22 Forecast	2022/23 Forecast	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast
Property, plant and equipment	-	15.4	17.9	34.9	106.8	126.3	105.1	83.5	61.9	26.2
Cash and cash equivalents	-	(15.6)	(18.8)	(37.2)	13.7	(27.5)	(19.7)	(10.4)	(0.2)	25.5
Total assets	**-**	**(0.3)**	**(0.9)**	**(2.2)**	**120.6**	**98.7**	**85.4**	**73.0**	**61.7**	**51.7**
Trade payables	-	-	-	-	0.2	0.8	0.9	0.9	1.0	1.0
Loans: current	-	-	-	-	(12.5)	(12.5)	(12.5)	(12.5)	(12.5)	(12.5)
Loans: non-current	-	-	-	-	(112.5)	(100.0)	(87.5)	(75.0)	(62.5)	(50.0)
Total liabilities	**-**	**-**	**-**	**-**	**(124.8)**	**(111.7)**	**(99.1)**	**(86.6)**	**(74.0)**	**(61.5)**
Net assets	**-**	**(0.3)**	**(0.9)**	**(2.2)**	**(4.3)**	**(13.0)**	**(13.8)**	**(13.5)**	**(12.4)**	**(9.8)**
Retained earnings	-	(0.3)	(0.9)	(2.2)	(4.3)	(13.0)	(13.8)	(13.5)	(12.4)	(9.8)
Total equity	**-**	**(0.3)**	**(0.9)**	**(2.2)**	**(4.3)**	**(13.0)**	**(13.8)**	**(13.5)**	**(12.4)**	**(9.8)**

Figure [9.5]: Incremental impact on the projected statement of financial position

The incremental impact of the investment on the statement of financial position shows the following:

- The property, plant and equipment balance increases during the construction phase, subsequently falling as the St Pancras site is sold.
- The negative impact on the cash balance is managed through the projected loan draw down, so that the Trust maintains sufficient cash for its working capital requirement.
- The trade payables balance is projected to decrease by £1.0m as a result of the CIPs enabled by the investment that reduce other expenses.
- Loans are drawn down and repaid.
- Retained earnings is lower in the investment case, principally due to the additional financing costs (£21.1m), additional depreciation (£11.1m) and impairment of the new building (£8.2m), which is partially offset by the improved underlying cost base (£30.6m).

1.3.3 Cash flows

Figure [9.6] below sets out the sources and uses of funding for the proposal on the Trust for the scheme. It can be seen that the funding is provided through a source of land value from SPH, Tottenham Mews and Trust reserves.

[Figure 9.6]: Source and uses of funds excluding external financing

Sources of funds		Uses of funds	
SPH Land value	95.4	Land receipt for Trust space	5.0
Tottenham Mews	12.0	Land purchase	14.5
Hanley Road	1.0	New inpatient facility	59.0
Trust reserves	32.0	Community hubs	40.6

		SPH hub	16.4
		Fees	4.9
Total	**140.4**	**Total**	**140.4**

Figure [9.7] below shows the cash flow statements for the investment case. The incremental impact of the investment against the baseline case is shown on the following figure and the full baseline cash flow statement is included in Appendix [21].

£m	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	Outturn	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
Surplus from operations	**10.5**	**11.5**	**12.1**	**10.8**	**11.7**	**15.2**	**15.4**	**15.2**	**14.8**	**14.3**
Movement in working capital										
(Inc)/dec in NHS trade receivables	(1.3)	(0.0)	(0.0)	0.1	0.2	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
(Inc)/dec in non-NHS trade receivables	1.2	-	-	0.0	(0.0)	(0.0)	-	-	-	-
(Inc)/dec in other receivables	0.3	-	-	-	-	-	-	-	-	-
(Inc)/dec in prepayments	(0.2)	-	-	-	-	-	-	-	-	-
Inc/(dec) in deferred income	0.2	-	-	-	-	-	-	-	-	-
Inc/(dec) in provisions	(0.3)	-	-	-	-	-	-	-	-	-
Inc/(dec) in trade payables	0.0	0.1	(0.0)	0.1	(0.2)	(0.6)	(0.1)	(0.1)	(0.1)	(0.1)
Inc/(dec) in other payables	(2.1)	-	-	-	-	-	-	-	-	-
Inc/(dec) in accruals	2.7	(5.7)	(1.2)	-	-	-	-	-	-	-
Net cash inflow/(outflow) from operating activities	**11.1**	**5.9**	**10.8**	**11.0**	**11.6**	**14.4**	**15.1**	**15.0**	**14.6**	**14.1**
Capital expenditure	(4.2)	(20.7)	(7.3)	(21.2)	(76.0)	(32.7)	(4.5)	(4.1)	(4.1)	(4.1)
Proceeds on disposal of PPE	-	-	-	13.0	-	-	19.1	19.1	19.1	33.2
Net cash inflow/(outflow) from investing activities	**(4.2)**	**(20.7)**	**(7.3)**	**(8.2)**	**(76.0)**	**(32.7)**	**14.6**	**15.0**	**15.0**	**29.1**
Dividends paid	(4.1)	(4.3)	(4.7)	(4.8)	(2.9)	(4.2)	(3.9)	(3.5)	(3.1)	(2.2)
Net interest (paid)/received	0.1	0.0	0.0	0.1	(3.5)	(3.5)	(3.2)	(2.8)	(2.4)	(2.0)
Drawdown/(repayment) of loans	-	-	-	-	125.0	(12.5)	(12.5)	(12.5)	(12.5)	(12.5)
Net cash inflow/(outflow) from financing activities	**(4.0)**	**(4.3)**	**(4.6)**	**(4.8)**	**118.6**	**(20.2)**	**(19.6)**	**(18.8)**	**(18.0)**	**(16.6)**
Net cash inflow/(outflow)	**2.9**	**(19.1)**	**(1.2)**	**(1.9)**	**54.3**	**(38.6)**	**10.2**	**11.2**	**11.6**	**26.6**
Opening cash balance	41.2	44.0	24.9	23.7	21.8	76.1	37.5	47.7	58.9	70.5
Closing cash balance	**44.0**	**24.9**	**23.7**	**21.8**	**76.1**	**37.5**	**47.7**	**58.9**	**70.5**	**97.1**

Figure [9.7]: Projected cash flow statement for the investment case

The cash flow statements show the following:

- Surplus from operations corresponds to the EBITDA shown in Figure [9.1].
- Working capital movements are as described below. These show minimal projected movements in the working capital requirement, apart from accruals.
- Capital expenditure includes the capital investment, as well as ongoing maintenance capped at between £2.3m and £2.7m per year.
- Proceeds on the disposal of Property Plant and Equipment (PPE) includes the sale of Tottenham Mews (£12.0m) and Hanley Road (£1.0m) in 2019/20 and receipts relating to

the sale of St Pancras of £19.1m each year from 2022/23 to 2024/25 and a final receipt of £33.2m in 2025/26.

- The increase in interest costs relate to the financing of the bridge loan, which is due to be fully repaid by the end of 2025/26.
- The projections show a minimum cash balance of £21.8m in 2019/20, which is sufficient to cover its working capital position.

£m	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	Outturn	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
Surplus from operations	**-**	**-**	**-**	**-**	**1.1**	**5.0**	**5.7**	**6.1**	**6.2**	**6.3**
Movement in working capital										
(Inc)/dec in non-NHS trade receivables	-	-	-	-	(0.0)	(0.0)	-	-	-	-
Inc/(dec) in trade payables	-	-	-	-	(0.2)	(0.6)	(0.1)	(0.1)	(0.0)	(0.0)
Net cash inflow/(outflow) from operating activities	**-**	**-**	**-**	**-**	**1.0**	**4.4**	**5.7**	**6.0**	**6.2**	**6.3**
Capital expenditure	-	(15.4)	(2.5)	(17.1)	(71.9)	(28.6)	(0.4)	-	-	-
Proceeds on disposal of PPE	-	-	-	-	-	-	19.1	19.1	19.1	33.2
Net cash inflow/(outflow) from investing activities	**-**	**(15.4)**	**(2.5)**	**(17.1)**	**(71.9)**	**(28.6)**	**18.7**	**19.1**	**19.1**	**33.2**
Dividends paid	-	(0.3)	(0.6)	(1.3)	0.5	(0.9)	(0.7)	(0.4)	-	0.9
Net interest (paid)/received	-	(0.0)	(0.0)	(0.1)	(3.7)	(3.6)	(3.3)	(2.9)	(2.6)	(2.1)
Drawdown/(repayment) of loans	-	-	-	-	125.0	(12.5)	(12.5)	(12.5)	(12.5)	(12.5)
Net cash inflow/(outflow) from financing activities	**-**	**(0.3)**	**(0.6)**	**(1.4)**	**121.8**	**(17.1)**	**(16.5)**	**(15.8)**	**(15.1)**	**(13.8)**
Net cash inflow/(outflow)	**-**	**(15.6)**	**(3.1)**	**(18.4)**	**50.9**	**(41.3)**	**7.8**	**9.3**	**10.2**	**25.7**
Opening cash balance	-	-	(15.6)	(18.8)	(37.2)	13.7	(27.5)	(19.7)	(10.4)	(0.2)
Closing cash balance	**-**	**(15.6)**	**(18.8)**	**(37.2)**	**13.7**	**(27.5)**	**(19.7)**	**(10.4)**	**(0.2)**	**25.5**

Figure [9.8]: Incremental impact of the investment on the cash flow statement

The incremental impact of the investment on the Trust's cash flows over the baseline shows:

- An improvement in surplus from operations, resulting from the CIPs that are enabled by the investment.
- A slight decrease in trade payables, driven by the reduction in other expenses CIPs.
- Capital expenditure relating to the investment.
- Proceeds from the sale of the St Pancras site. Note that the sale of Tottenham Mews and Hanley Road in 2019/20 are assumed in both baseline and investment cases and therefore does not form part of the incremental impact.
- The £125.0 million bridging loan (assumed to be ITFF) is projected to be drawn down in 2020/21 and repaid at £12.5m per year over 10 years by 2031.
- The net impact on cash of the investment is projected to be a cash outflow in each year of the projections except 2020/21, due to the loan receipt, and in 2025/26, when the final payment for the St Pancras site is assumed to be received.
- There is no assumed income statement impact from the disposals at this stage. The Trust will formally review this treatment at FBC stage once the development partner is identified as in the commercial case. This will not impact on affordability insofar as it

does not impact on cash and would be treated as an exceptional item if a gain were recognised.

The principal factors of the investment that impact the cash balance at 2025/26 are illustrated in Figure [9.9] below.

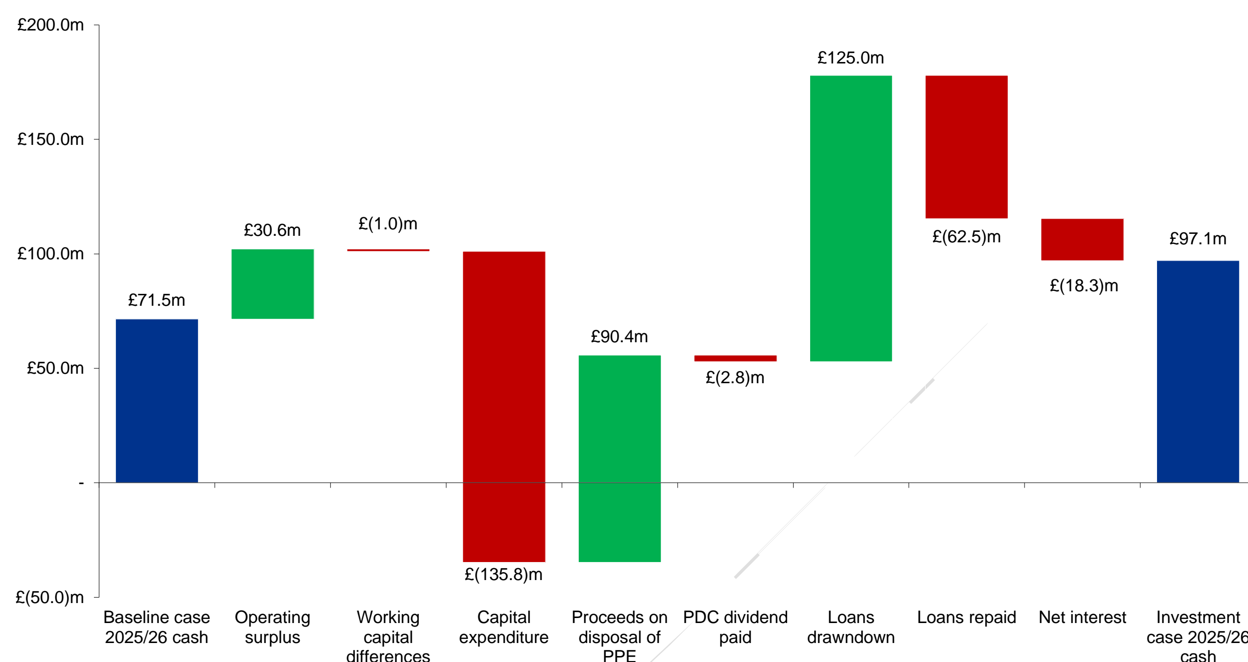


Figure [9.9]: 2025/26 cash bridge from the baseline to the investment case

The main differences in cash between the baseline and investment cases arise from the following cumulative impacts:

- Operating surplus: £30.6m, of which £21.0m relates to other expenses, £9.4m relates to reduced pay costs and £0.2m relates to additional income.
- Capital expenditure of £131.0m is set out in the capital bridge above.
- The drawdown of a £125.0m loan to bridge the temporary cash shortfall[1].
- Loans repaid of £62.5m.
- Net interest paid increases by £21.1m, relating to the bridging loan described above.

1.4 Impact on financial sustainability risk rating (FSRR)

The financial sustainability risk rating (FSRR) is NHSI's view of the level of financial risk a Trust is exposed to and is a therefore key metric to consider for this transaction. Ratings go from 1 to 4, where 1 is the highest risk and 4 is the lowest risk.

[1] The Trust have assumed a £125m facility is available at ITFF rates. There is a risk that this funding will not be available at the time it is needed or altogether which could delay the project timescales.

The FSRR scores for the investment and baseline cases are set out in Appendix [22]. The FSRR calculation performed by the LTFM yield a capital service cover risk rating of 1 for the investment case, as the bridge loan repayments are included in the debt service total

1.5 Sensitivities

The Trust has run a number of sensitivities to understand the impact of different risks on the project:

1. **Construction programme delay by one year**: This has an initial I&E and cash benefit, but worsens the position by 2025/26 as the benefits are also delayed.
2. **Development/capital cost increase by 10%:** This has a limited impact on the net surplus (decreasing it by £0.8m by 2025/26) but it reduces the forecast cash balance by £15.3m by 2025/26.
3. **Land value at Whittington 50% higher:** This has a limited I&E impact (decreasing it by £0.5m by 2025/26), but reduces forecast cash by £10.0m by 2025/26.
4. **Land value at SPH 10% lower:** This has a limited I&E impact (decreasing it by £0.4m by 2025/26), but reduces forecast cash by £11.6m by 2025/26.
5. **Benefits delivered at 50% below plan:** This reduces the recurrent net surplus by £3.8m £2.3m and cash by £16.6m at 2025/26.
6. **Benefits delivered at 30% below plan:** This reduces the recurrent net surplus by £2.3m and cash by £10.0m at 2025/26.
7. **Recurrent CIP 30% lower than plan**: This reduces the recurrent net surplus by £5.7m and cash by £21.3m at 2025/26.
8. **Pay costs 5% higher than plan:** This reduces the recurrent net surplus by £6.7m and cash by £40.2m at 2025/26. As this sensitivity is also considered in the baseline case analysis, it has no impact on the incremental impact of the transaction.
9. **Pay costs 2.5% higher than plan:** This reduces the recurrent net surplus by £3.4m and cash by £20.2m at 2025/26. As this sensitivity is also considered in the baseline case analysis, it has no impact on the incremental impact of the transaction.

The sensitivities set each have minimal or no impact on the forecast FSRR score when considered individually. A combined downside case will be considered in the Trust's FBC along with the impact on the FSRR, including the impact of delays in land receipts.

1.6 Conclusions

The projections show that the Trust will have sufficient cash to implement the investment, while maintaining sufficient headroom for the working capital requirement. The adjusted FSRR scores also imply an acceptable level of financial risk.

The projections require that a bridge loan of £125.0m is made available by the ITFF from 2020/21. The Trust will need to secure a commitment on this loan or to make alternative funding arrangements in order to proceed with the investment.

There is no financial impact on any other parties, including both of the CCGs due to the block-payment contract provided to the Trust for the delivery of mental health services.