THE MACFARLANE TRUST

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10 February 2017

Ailsa Wight
Deputy Director
Emergency Preparedness and Health Protection Policy Directorate
Department of Health
Richmond House
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Dear Ailsa

MFT reserves and annual allocation

At the annual review meeting which Jan Barlow and I attended with you on 16 January 2017, you advised us that MFT would continue to be operational going into 2017/18 and that we would most likely be given allocations on a quarterly basis because of the uncertainty about the procurement timetable. You also advised us that you were minded to reduce MFT's allocation for 2017/18 as a way of forcing MFT to use up its reserves.

The MFT board met on 30 January 2017 and discussed these issues, and I am now writing on behalf of the board to set out the position regarding MFT's remaining reserves and the implications of any further cuts to our allocation.

With regard to our reserves, those which can be converted into cash are those which are held in the investment portfolio. At the meeting on 16 January, we reviewed the accounts for 2015/16, which showed the investment portfolio as at 31 March 2016 standing at £1,602,117. During the course of the current financial year, this has reduced to £1,230,380 as a result of needing to draw down cash to supplement the annual allocation from the Department of Health. Depending on the level of spend in the final quarter of 2016/17, the portfolio may reduce further if additional drawdowns are required.

As you will be aware from annual review meetings in recent years, since 2013 MFT has had an explicit planned policy of winding down its reserves. In line with Charity Commission requirements, MFT has a publicly recorded reserves policy which states that it ultimately aims to retain £750,000 as a general reserve, representing 3-6 months of expenditure.

In 2013/14 MFT ran a special grants programme, in addition to its usual grants programme, and disbursed over £810,000 on health and mobility-related adaptations and improvements to beneficiaries' homes. In addition to this, as the allocation from DH has for a number of years not been sufficient to maintain existing levels of support to beneficiaries, the board has agreed to supplement the annual allocation with several hundred thousand pounds per annum from the reserves, which has also had the effect of reducing the level of reserves year on year. In 2013/14 the net reduction in reserves was £1,170,353, in 2014/15 £417,065, and in 2015/16 £601,428, a total of £2,188,846 over three years. There will be a further reduction in 2016/17 as

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a result of the board's continued policy of supplementing the annual allocation in order to maintain support to beneficiaries.

MFT has repeatedly written to DH requesting additional funding – which has not been forthcoming – and advising that it could not continue to supplement the annual allocations from reserves indefinitely. In a letter Jan Barlow wrote to Kypros Menicou on behalf of the MFT board on 15 January 2016, it was made clear that MFT would be able to continue to make up the shortfall for a further year, ie 2016/17, but that if no further funding were forthcoming thereafter, we would need to reduce the level of support we could provide to beneficiaries from 2017/18 onwards.

Depending on the cash position at the end of the financial year, and whether further drawdowns from the investment portfolio are required, with a status quo allocation for 2017/18, MFT may just be in a position to maintain existing levels of support to beneficiaries and not contravene its existing stated reserves policy for a further year. However, this would be dependent upon confirmation at the start of 2017/18 that the annual allocation, or its quarterly pro rata equivalent, was in line with previous years.

If the first quarterly allocation is less than pro rata to the current annual allocation (allowing for the fact that we will no longer be providing support to beneficiaries allocated to the Scottish scheme from 1 April 2017), the board will need to consider cutting the level of support to beneficiaries. This will be deeply unpopular, and add to the existing level of opposition to the Government's reforms.

As we have discussed, our current aim is to maintain existing support levels while running down our reserves in the context of the plan to establish a new single scheme administrator and wind the Trust up. In this context, we are determined to ensure there is no "cliff edge" where available funding is dramatically reduced. This objective has inevitably been complicated by the fact that the timetable for change has been delayed repeatedly. In light of the information you have shared with us, the board considers that it would not be prudent to be forced into a position of using up all its reserves in the immediate future, when the period of time it will continue to operate is so poorly defined. Any monies remaining at such time as MFT is forced to wind up will be disbursed in line with the legal requirements set out in the Trust Deed.

We would therefore strongly urge you to maintain existing levels of funding for the coming year, pending a final decision on the future of a single scheme administrator.

I look forward to hearing from you.

With best wishes.

Yours sincerely

GRO-C

PP Alasdair Murray
Chair