THE SCOTTISH OFFICE

National Health Service in Scotland
Management Executive

St. Andrew's House
Edinburgh EH1 3DG

NHS
MEL(1993)17

Dear Colleague

CAPITAL PLANS, ALLOCATIONS AND RELATED MONITORING

5 March 1993

Addressees

For action: General Managers, Health Boards

General Manager, State Hospital

Chief Executives NHS Trusts

For information: General Manager, Common Services Agency

To be copied to Unit General Managers for action

Enquires to:

Mrs M H Beattie
Strategic Planning and Performance Review Division
NHS Management Executive
Room 274
St Andrew's House
EDINBURGH EH1 3DE

Tel: 031-244 2396
Fax: 031-244 2051

Summary

1. This circular informs Boards, Trusts and the State Hospital about the capital planning, allocation and monitoring systems. It also provides the timetable and the forms to be used this year. Changes from 1992-93 are comparatively minor.

Action

2. Boards and Trusts are required to submit capital plans twice a year. The spring plans are used to assist Ministers to reach decisions on resources (the Public Expenditure Survey). The autumn plans form the basis of the allocations to Boards and the State Hospital, and Trusts' External Financing Limits. The Management Executive also requires monitoring information on Boards' and Trusts' progress with their capital plans, in returns to be submitted 4 times a year.

3. This letter should be copied to Unit General Managers for action as requested.

Priorities for Capital Expenditure

4. Ministers have indicated the following priorities for capital expenditure funded by the hospital building programme:-

4.1 Major acute services rationalisation particularly in Lothian, Glasgow and Lanarkshire.

4.2 Other acute services rationalisation and revenue saving projects.

4.3 Developments which will reduce the size of the long-stay institutions, where it is unlikely that the private sector would be an appropriate provider.

4.4 Expenditure on the existing estate which is directed primarily at achieving compliance with statutory standards, achieves revenue savings or improves quality.

4.5 Equipment replacement programmes.

4.6 Other developments which implement Boards' strategies where these have been agreed with the Management Executive

Projects which do not come within these categories are unlikely to receive capital funding. The Government's policy is to encourage the use of unconventional finance where appropriate; a separate circular will be issued shortly. In making allocations we shall take into account the extent to which Boards and Trusts have made sensible use of unconventional finance.

Capital Planning System

5. By 30 April Boards, Trusts and the State Hospital should provide the Management Executive with the following information on the attached Forms CAPAL A, C1 and C2. The information requested in 5.1-5.4 should cover only projects costing over £1m (total cost).

5.1 Form CAPAL A1. A list of projects on which it is expected that expenditure will be legally committed by the end of March 1994. You will be aware that 100% of provisional allocations can now be legally committed, but not beyond these figures without the Management Executive's prior approval.

5.2 Form CAPAL A2. A list of projects on which Boards etc expect to have received or given Approval To Build (ATB) from the Management Executive by 31 March 1994 but which will not be legally committed by then.

5.3 Form CAPAL A3. Additional proposals for revenue saving projects.

5.4 Form CAPAL A4. A list of further projects that Boards and Trusts wish to see funded. The reasons why these are regarded as essential should be explained on Form CAPAL A5.

5.5 Form CAPAL A6. Figures for the amounts which Boards and Trusts think they will require for:-

a. Projects costing between £1m and £0.1m.
b. Projects costing less than £100,000.
c. Equipment replacement.
d. Existing Estate projects costing between £1m and £0.1m.
e. Existing Estate projects costing less than £100,000.

Explanations of these figures should be given on CAPAL A6. In the case of equipment Boards and Trusts should indicate what use they have made of the new asset register.

6. Forms CAPAL C1 and CAPAL C2 ask Boards and Trusts to list disposals of land and property, showing the estimated receipts from each disposal expected in 1993-94 and in each of the following 4 years. Notes on the completion of these forms are at Annex C.

7. For 5.1 to 5.4, Boards and Trusts will be expected to provide for each project costing over £1m an indication of its total cost and an

estimate of expenditure in each of the following 3 years (ie 1994-95, 1995-96 and 1996-97). For 5.1 and 5.2, where projects are not actually legally committed or Post ATB respectively at the time of submission, Boards and Trusts should indicate what processes still have to be completed and the expected timing of these. Boards and Trusts should also indicate what client group the project will cater for (eg acute, mentally handicapped etc); in cases of mixed client groups broad percentages should be included. It would also be helpful if Boards and Trusts could indicate where projects will have a particular impact - the areas we are interested in are revenue saving, day surgery, acute services rationalisation, community care, improvement of quality, improvements in physical condition (PC) (formerly called backlog maintenance), energy efficiency (EI), compliance with statutory requirements (SR).

8. Existing Estate projects costing more than £1m should be included on Forms CAPAL A1 to A5 on the same basis as building projects. Global figures for projects below this level should be included on Form CAPAL A6. Explanations for this expenditure should refer to risks of litigation, the amounts of revenue savings to be achieved, or defined improvements in quality. For this category of expenditure Boards and Trusts should also complete Form CAPAL A7.

9. Boards and Trusts should include in their capital plans bids for capital provision for nationally contracted services, and identify these by the suffix NS. These bids should be consistent with national purchasing intentions and will be subject to review by the Management Executive Purchasing Team.

10. Any appropriate IS/IT elements of capital plans for new builds etc should continue to be included in the CAPAL forms but the more specific IS/IT investment plans will be sought separately. These plans will be requested at the same time as your normal capital expenditure programmes are submitted to the Management Executive although a separate set of forms will be provided for this purpose. On this occasion you are <u>not</u> required to submit such plans by 30 April 1993 although they may well be asked for in future at this time of the year. The full 3 year plans will be required for 30 September 1993 and we will write to you about them in due course. The detailed plan for the first of the 3 year period (ie 1994-95) provided at that time will be considered as you bid against the Computer Development Capital Fund (CDCF) for that year. The monitoring of expenditure of any CDCF allocations will continue as in the past through the normal monthly returns made to ME7 and the end year summaries of expenditure required by ME8.

<u>Allocations</u>

11. Boards, Trusts and the State Hospital should provide by the end of September an updated capital plan, on which allocations will be based. Boards and Trusts should use Forms CAPAL A1-A7 for this purpose but should provide details of projects (including existing estate) down to £100,000 total cost. You should explain any significant variations from the proposals submitted in April. New projects costing more than £1 million and with expenditure in 1994-95 or considerable increases in costs will be accepted only in exceptional circumstances. Boards and Trusts will be required to provide updated information on disposals on Forms CAPAL C1 and C2.

12. Trusts and potential Trusts should ensure that their CAPAL forms are consistent with their business plans. They should include with their September plans an endorsement from the purchasing Board(s) that the planned investment is consistent with their purchasing intentions. The principal purchasing Board should, in endorsing the plan, indicate to which projects they would attach the highest priority in the immediate future in the achievement of their strategic objectives. They should also confirm that they are aware of and accept the revenue consequences of each endorsed project. We may wish to discuss with Boards the contribution which selected projects will make to the achievement of the Board's strategic objectives. If there are any elements of the plan which are not so endorsed, Trusts and potential Trusts should indicate why they consider the capital investment to be required.

Monitoring

13. For the purposes of monitoring progress with capital plans, Boards and Trusts should provide the Management Executive with a completed Form CAPAL B by 30 April and 15 December showing their planned expenditure on projects costing £100,000 or more (total cost) in 1993-94. Plans submitted in September on the CAPAL A forms will also be used for monitoring purposes. Please ensure that figures for projects which end in 1993-94 are included. Boards, Trusts and the State Hospital are reminded that while CAPAL B returns monitor progress with the capital programme, it is equally important that project monitoring forms PM 1 to PM 4 and PM(Minor) are sent promptly to the Management Executive. Information from these forms, in conjunction with that from CAPAL forms, is used to inform the capital allocation process. The capital project monitoring forms are described in NHS MEL(1992)18 issued on 21 May 1992.

14. To provide firm information on what Boards and Trusts have spent their allocations on they should submit Form CAPAL B by 30 June detailing down to £100,000 the projects on which capital expenditure had been incurred in 1992-93.

15. Boards are required to tell the Management Executive by 31 March 1993 how much of their provisional allocations for 1993-94 and 1994-95 have been legally committed.

16. Boards' allocations for 1993/94 included specific sums earmarked for clinical waste incineration. Monitoring of expenditure on these projects will be covered, as with projects over £1m, by the monitoring return CAPAL B.

General

17. Over the spring and summer the territorial ME contacts listed below will meet representatives of each Trust and those Boards which retain DMUs to discuss their capital plans. We shall wish in particular to inform ourselves on the contribution which each project can make to the Board's strategic objectives and to the national priorities for capital expenditure. We shall also wish to inform ourselves about the need and priorities for expenditure on the existing estate. Boards are welcome to be represented, if they wish, at the meeting with any Trust for which they are a major purchaser.

18. A summary timetable is attached. Definitions are given in Annex A. Capital Plans should reflect the new definition of capital expenditure given in Annex B.

19. We hope that it will be possible for capital planning and monitoring information to be transmitted to the Management Executive through the Management Information System (MIS) in the relatively near future.

20. In this circular references to Boards should be taken to include the State Hospital.

21. Plans should be sent to the address at the head of this Circular, addressed to the following people:-

Boards, Trusts & Prospective Trusts in the Following Areas.	**ME Contact**
Argyll & Clyde Lanarkshire Ayrshire & Arran Dumfries & Galloway	Mr T W Lodge (031-244-2276)
Greater Glasgow State Hospital	Mr C Naldrett (031-244-2530)
Lothian Borders Forth Valley	Mr O Kelly (031-244-2401)
Fife Tayside	Mrs D Evans (031-244-2402)
Grampian Highland Orkney Shetland Western Isles	Mrs M Beattie (031-244-2396)

22. Other Enquiry Points:-

General Enquiries	Mrs M Beattie (031-244-2396)
Disposals	Mr B Callaghan (031-244-2425)
New Definition of Capital	Mr P Colville (031-244-2175)
IS/IT Expenditure	Mr D Cowie (031-244-2366)
Nationally contracted Services	Ms M Grant (031-244-3580)

Yours sincerely

William Moyes

WILLIAM MOYES

CAPITAL PLANS, ALLOCATIONS AND RELATED MONITORING TIMETABLE - 1993-94

Date	Paragraph	Event	CAPAL Form(s)
31 Mar 1993	15	Boards and Trusts to submit statements of legal commitments for 1993-94 and 1994-95 to Management Executive.	-
30 April 1993	5	Boards and Trusts to submit Capital Plans for 1993-94 to 1996-97 to Management Executive.	A1-A7
30 April 1993	13	Boards and Trusts to submit 1st monitoring return for 1993-94 expenditure to Management Executive.	B
30 June 1993	14	Boards and Trusts to submit expenditure return for 1992-93 to Management Executive.	B
30 Sept 1993	11	Boards and Trusts to submit full Capital Plans for 1993-94 to 1996-97 to Management Executive. Figures supplied in the CAPAL A Forms will also be used for monitoring purposes.	A1-7 and C
30 Sept 1993	10	Boards and Trusts to submit IS/IT Capital Expenditure Plans for 1994-95 to 1996-97.	
15 Dec 1993	13	Boards and Trusts to submit 3rd monitoring return for 1993-94 to Management Executive.	B

ANNEX A

CAPITAL PLANS, ALLOCATIONS AND RELATED MONITORING

Definitions

1. 'Total cost' means works cost, professional fees, equipment and, where applicable, allowances for fluctuations and VAT. Estimates of capital expenditure should be in cash terms rather than on an income/ expenditure basis.

For projects not yet legally committed or not expected to be legally committed (see paragraph 2 below) no allowance should be made for inflation. Estimates should be of total cost but at the level of pricing prevailing when the plan is submitted.

2. 'Legally committed expenditure' means expenditure on projects for which a building contract has actually been let or expenditure on design fees where consultant firms have been formally instructed. In the latter case, where the building contract has not yet been let, the fee expenditure is legally committed, but the remainder is not.

3. 'Existing estate' comprises those assets of the NHS estate that physically exist and in which a Trust/Unit considers it appropriate to invest capital to secure compliance with statutory requirements, improvements in physical condition, improvements in energy efficiency; and the replacement of major elements of a building which have reached the end of their useful life (eg engineering plants).

MANAGEMENT EXECUTIVE
March 1993

ANNEX B

DEFINITION OF CAPITAL EXPENDITURE

Capital expenditure comprises expenditure, in excess of £5,000 on the following:

1. Acquisition of land and premises, lump sum payment for related rights (including capitalised rents), and payments made under the Land Compensation Act 1973 and associated fees.

2. Individual works schemes (ie buildings, external works, elements of buildings including engineering services and plant) for the initial provision, demolition, extension, improvement, adaptation (including upgrading), renewal or replacement.

3. Expenditure on improvements to the NHS Estate as specified in 2. above which is appropriate to the Special Allocation.

4. Pay and related expenses of directly or indirectly employed persons who are directly engaged on expenditure attributable to the acquisition of specific fixed assets or capital schemes eg Project Managers/Clerks of Works etc but not including staff employed to administer the capital expenditure programme of the Board. These latter costs should be charged to revenue.

5. Individual items of equipment as defined for the purposes of the capital charging system. The term equipment covers all categories, eg medical, dental, computer, printing or other equipment (technical or non-technical) not associated with works schemes referred to in 2. above).
This also includes all vehicles.

All expenditure as defined in points 1. - 5. above which results in improvement to original specifications and standards, should be capitalised and subject to capital charges irrespective of the source of funds.

For expenditure on buildings, the total expenditure should be compared to the de minimis limit rather than the expenditure on individual sub-elements of the building. Thus expenditure of £6,000 should be capitalised even if it is split evenly between internal walls (element 2G) and internal doors (element 2H).

NOTES

a. Where necessary, at the end of a large project it may be appropriate to request the District Valuer to estimate the proportion of cost to be capitalised and the consequent adjustment to remaining lives. (A large project might have a cost over say £0.5m or £1m).

b. Staff costs which fall within the definition at 4. above should be treated as part of the costs of the particular capital schemes involved (with apportionment where appropriate).

c. The following types of expenditure should be treated as revenue in nature:

i) Repairs and maintenance to capital assets in order to maintain effective working order

ii) Backlog maintenance insofar as the expenditure is incurred to reinstate assets as opposed to improving assets above their original specification

iii) Moving walls, doors, etc where there is no significant increase in the floor area or specifications

All expenditure in i) to iii) above should be treated as revenue irrespective of the source of funds.

d. Where an item of equipment has reached the end of its life it is disposed of and a replacement asset purchased.

It therefore follows that where a specific sub-element of a building reaches the end of its life and is replaced, the old asset should be treated in the accounts as being disposed of (probably for nil proceeds) with the recent expenditure being capitalised and given a full remaining life.

This is most likely to be appropriate for engineering plant items such as:

Electrical wiring and installations
Lifts and other mechanical items
Boilers and heat sources

This could also apply to equipment where the remaining life has been reduced or eliminated for Health and Safety reasons, eg, Legionella. Any loss on disposal of a building element would be charged to Capital Reserve and would therefore not affect contract prices.

CAPITALISATION OF INITIAL REVENUE EQUIPMENT COSTS

With the increase in the de minimis value of assets from £1,000 to £5,000, a new hospital would face an exceptional write off in its first year of trading as it would be unable to capitalise a large number of low value items of expenditure. Costs included in contracts and ECR tariffs would not reflect the true and recurring cost of delivering the service.

Previous guidance meant that items below the de minimis value were treated as stock rather than being capitalised. Given the increase in the de minimis value, and the need for NHS Trusts to earn a return on their net assets, including stock, it is appropriate to capitalise such expenditure as a "collective" asset. Health Boards and NHS Trusts therefore have the option to capitalise initial revenue equipment costs with a standard life of 10 years, or to write it off immediately.

ANNEX C

NOTE ON COMPLETION OF FORMS CAPAL C1 AND CAPAL C2

General

1. The information requested on CAPAL C1 and CAPAL C2 is required to assist the Department in monitoring receipts from land and property disposals. Careful preparation of forecasts of receipts from land and property disposals is vital to the arrangements for the handling of proceeds from the sale of land and property.

2. It is particularly important that estimated receipts for 1993-94 are forecast as accurately as possible and that these estimates are achieved so that the planned level of expenditure can be supported.

Form CAPAL C1

3. In forecasting receipts from land and property disposals, Boards and Trusts should make due allowance for the time required to put land and property on the market and complete the necessary procedural steps (eg obtaining planning consents, completing legal agreements) before the receipt is received. This is particularly important for 1993/94 where guidance from Central Legal Office, planning authorities etc should be obtained where necessary and if time allows.

4. Receipts estimates should be based on recent valuations. If necessary, up-to-date valuations should be obtained from the District Valuer.

Form CAPAL C2

5. Receipts forecasts for houses should make allowance for discounts to sitting tenants which should be estimated as accurately as possible.

MEL(1993)17

HEALTH BOARD/TRUST

CAPITAL PLANS 1993 LEGALLY COMMITTED OR EXPECTED TO BE LEGALLY COMMITTED CAPAL A1

A. PROJECTS COSTING OVER £1M (APRIL)/OVER £0.1M (SEPTEMBER) £000s

Project	Remaining procedures and timing	Client Group	Impact	Total Cost	Estimated Expenditure 1993/94	1994/95	1995/96	1996/97
See Paragraph 5.1 of NHS Circular MEL(1993)17				Totals				

J1300138.013

HEALTH BOARD/TRUST

CAPITAL PLANS 1993 ATB GIVEN/RECEIVED OR EXPECTED TO BE GIVEN/RECEIVED CAPAL A2

A. PROJECTS COSTING OVER £1M (APRIL)/OVER £0.1M (SEPTEMBER) £000s

Project	Remaining procedures and timing	Client Group	Impact	Total Cost	Estimated Expenditure			
					1993/94	1994/95	1995/96	1996/97
See Paragraph 5.2 of NHS Circular MEL(1993)17			Totals					

J1300138.013

HEALTH BOARD/TRUST

CAPITAL PLANS 1993 REVENUE SAVING SCHEMES - IF NOT ALREADY ON FORMS CAPAL A1 AND A2 CAPAL A3

A. PROJECTS COSTING OVER £1M (APRIL)/£0.1M (SEPTEMBER) £000s

Project	Net Annual Revenue Savings	Client Group	Impact	Total Cost	Estimated Expenditure			
					1993/94	1994/95	1995/96	1996/97
See Paragraph 5.3 of NHS Circular MEL(1993)17			Totals					

HEALTH BOARD/TRUST

CAPITAL PLANS 1993 FURTHER PROJECTS (SEE ALSO FORM CAPAL A5) CAPAL A4

A. PROJECTS COSTING OVER £1M (APRIL)/OVER £0.1M (SEPTEMBER) £000s

Project	Client Group	Impact	Total Cost	Estimated Expenditure			
				1993/94	1994/95	1995/96	1996/97
See Paragraph 5.4 of NHS Circular MEL(1993)17			Totals				

HEALTH BOARD/TRUST

CAPITAL PLANS 1993 FURTHER PROJECTS - JUSTIFICATION CAPAL A5

A. PROJECTS COSTING OVER £1M (APRIL) £000s

See Paragraph 5.4 of
NHS Circular MEL(1993)17

J1300138.013

HEALTH BOARD/TRUST

CAPITAL PLANS 1993 AMOUNTS AND EXPLANATIONS OF GLOBAL FIGURES CAPAL A6

---

a. PROJECTS COSTING BETWEEN £1m and £0.1m (April Return only)

---

b. PROJECTS COSTING LESS THAN £0.1m

---

c. AMOUNT FOR EQUIPMENT REPLACEMENT

HEALTH BOARD/TRUST

CAPITAL PLANS 1993 AMOUNTS AND EXPLANATIONS OF GLOBAL FIGURES CAPAL A6(Cont'd)

---

d. EXISTING ESTATE BETWEEN £1m and £0.1m (April Only)

---

e. EXISTING ESTATE COSTING LESS THAN £0.1m

See Paragraph 5.5 of NHS Circular MEL(1993)17

CAPAL A7

£000s

Name of Hospital	Planned Expendiutre in 1994-95 on		
	EE	SR	PC
1.			
2.			
3.			
4.			
etc			
TOTAL			

* See paragraph 8 of NHS Circular MEL(1993)17

M1300624.023

HEALTH BOARD/TRUST CAPAL B

CAPITAL PLAN MONITORING

INCURRED/PLANNED* CAPITAL EXPENDITURE ON PROJECTS OF TOTAL COST MORE THAN £100,000

Project	Expenditure £000s

* delete as appropriate - April/Dec
Returns should give planned expenditure in 1993-4
June return should give expenditure incurred in 1992-93

Total

See paragraphs 13 to 16 of NHS Circular MEL(1993)17

J1300338.013

HEALTH BOARD/TRUST
CAPITAL PLANS 1994/95 G: RECEIPTS FROM DISPOSALS

1 ESTIMATED RECEIPTS FROM DISPOSALS OF LAND AND PROPERTY (OTHER THAN HOUSES) £000s

Disposals and Location	Hectares	Year 0 Actual to date	Estimated Cash Receipts			
			1993/94	1994/95	1995/96	1996/97

See Paragraphs 6 and 11 on Allocations
of NHS Circular MEL(1993)17 TOTALS

HEALTH BOARD/TRUST
CAPITAL PLANS 1994/95 G: RECEIPTS FROM DISPOSALS

2 ESTIMATED RECEIPTS FROM DISPOSALS OF HOUSES

£000s

Disposals and Location	Units (Houses)	Year 0 Actual to date	Estimated Cash Receipts			
			1993/94	1994/95	1995/96	1996/97

See Paragraphs 6 and 11 on Allocations
of NHS Circular MEL(1993)17 TOTALS