



National Health Service in Scotland
Management Executive

St. Andrew's House
Edinburgh EH1 3DG

Dear Colleague

PRIVATE FINANCE

Summary

1. NHS MEL(1993)26 introduced the Government's Private Finance Initiative to the Health Service. This letter supplies General Managers of Health Boards and NHS Trust Chief Executives with further guidance on the use of Private Finance. The guidance is in 5 parts:

- Part A:** HM Treasury Guidance on Leasing
- Part B:** HM Treasury Guidance on Joint Ventures
- Part C:** HM Treasury Guidance on Competition
- Part D:** Guidance on Appraisal of Private Finance Schemes Providing Services to the NHS in Scotland
- Part E:** Delegated Levels of Authority and Sampling for Private Finance Schemes involving a capital component

Action

2. The private finance initiative offers an important opportunity to the NHS to take advantage of the additional resources represented by private sector finance as well as the potential benefits of risk sharing and private sector management expertise in the provision of health care services.

3. However the initiative goes rather further even than this. As Lord Fraser stressed at the Private Finance in the NHS conference in October, it represents a fundamental change in the way we should be thinking about funding the public sector services. Accordingly, in assessing capital approvals in the future we will expect health bodies to demonstrate that they have considered seriously private finance solutions. I would expect health bodies to adopt the same requirements within their delegated limits.

4. Health bodies are asked to note the guidance on Leasing, Joint Ventures and Competition.

May 1994

Addressees

For action:

General Managers,
Health Boards

General Manager,
Common Services Agency

General Manager,
State Hospital

Chief Executives,
NHS Trusts

For information:

Director of Finance:

Health Boards; CSA;
State Hospital;
NHS Trusts

To be copied to:

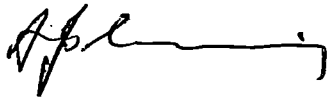
Unit General Managers
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5. All schemes involving the use of private finance must be subject to option appraisal irrespective of the limit of delegation a body may have.
6. To help maintain good standards in option appraisal and to see as wide a range as possible of the type of scheme being considered, sampling of approved options will be done by the Management Executive and HM Treasury. Details of this are set out in Part E to this letter.
7. The Government is very keen to promote the success of Scottish Office projects under the Private Finance Initiative. I would be grateful for early warning of any contracts about to be signed. Please contact Mr K Hamilton at the Management Executive in the first instance (room no. 254, St Andrew's House, telephone 031-244-2175).
8. Please also find enclosed a copy of "Breaking New Ground" issued by HM Treasury in November 1993 and which contains background information on the Private Finance Initiative, and examples of the use of private finance in the public sector.
9. If you require any further information or assistance please contact Mr D J Palmer on 031-244-3561 or Mr K Hamilton on 031-244-2175.



ALEC CUMMING
Acting Director of Finance

PART A

GUIDANCE ON LEASING

Overview

"Private Finance: Guidance for Departments" issued with NHS MEL (1993)26 dealt with leasing of assets. Where the great majority of risk stays with the private sector, the capital value of a leased asset will not count against a health body's allocation or EFL. The attached guidance sets out the criteria for assessing the transfer of risk. For assets with a fair value under £1 million, these will not count against provision totals if they meet the SSAP21 definition as an operating lease.

For assets between £1 million and £10 million, it is assumed that there is sufficient risk transfer when the present value of the minimum lease payment does not exceed 70% of the fair value of the assets. In other cases (and all leases of assets with a fair value over £10 million) a detailed assessment of risk transfer will be required.

Before any lease is entered into it must be shown to offer best value for money in comparison with purchase. Normally appraisals should include alternative lease options to ensure best value for money is obtained. Option appraisals should use discounted cash flow calculations using the current interest rates charged by the National Loans Fund for the period equivalent to the life of the lease, plus 2 per cent. Details of current rates can be obtained from the Management Executive.

The Guidance also includes sections on value for money, taxation criterion and the Public Supply Contract Regulations 1990.

LEASING
Guidance for Departments

May 1993

- Scope** This guidance is provided for Government departments (including executive agencies) and non-departmental public bodies (NDPBs). It also applies to the NHS. It is intended to apply similar principles in the case of nationalised industries. The guidance does not apply to leases of property or to any form of leasing in connection with roads. It should be read in conjunction with the main interim guidance on private finance issued on 9 December 1992. The position of local authorities with regard to leasing is unchanged.
- General**
2. The conditions applying to leases by the public sector (apart from local authorities) have been changed as part of the private finance initiative announced in the 1992 Autumn Statement. The initiative seeks in a number of ways to enable the public and private sectors to work more closely together, while avoiding creative accounting. In terms of inputs to the services which the public sector delivers, the purpose is to benefit from private sector management where this improves value for money. This purpose is the same as that of the initiatives on contracting out and market testing.
 3. There is little attraction to the Government in leasing if it represents simply deferred purchase - it will usually be cheaper to finance the purchase directly. But many leases bring with them elements of service, with a proportion of risk falling on and being managed by the lessor.
 4. This guidance concerns methods of assessing costs, risk and return and of judging whether the balance represents value for money compared with outright purchase. It also considers the question of when sufficient risk transfer has taken place to avoid the need for an offset against spending provision based on the capital value of the asset. The approach adopted is to give priority to outcomes rather than rules.
- x Value for money.**
5. The financing cost of leasing will invariably be less favourable than the cost of borrowing directly by the Government. The benefits of leasing in terms of the net transfer of risk to the private sector and of asset management need to exceed this additional financing cost for leasing to be best value for money. Comparisons should be made with alternative leasing offers as well as with purchase.
 6. The cost of a leasing offer in present value terms should be calculated by discounting cash flows using the interest rate currently charged by the National Loans Fund (NLF) for the period equivalent to the life of the lease, plus 2 per cent.

NLF rates are already circulated to departments and will be made available to the leasing industry.¹

Treatment in relation to spending provision

7. Tax benefits for lessors are costs to the Exchequer and need to be counted if they are material. However, in accordance with the interim guidance issued in December 1992, they can be ignored if the expected life of the asset is less than 8 years.

8. As a result of the Autumn Statement, the capital value of a leased asset will not be counted against spending provision where the great majority of the risk stays with the private sector. Previously, an assurance that capital values would not be counted against spending provision was only available for leases satisfying a short-term need and for property.

9. It is important in the case of leases involving assets with a high capital value to make a detailed risk analysis. If the great majority of the risk can be said to lie with the lessor, there will be no offset against spending provision.

10. For leases involving assets with a value of less than £10 million, a simpler procedure has been devised. The Treasury will regard the test of risk transfer as satisfied if the present value of minimum lease payments amounts to less than 70 per cent of the fair value of assets (or groups of assets forming part of the same transaction) if their fair value is below £10 million². Even if the 70 per cent criterion is not met, it is open to departments and NDPBs to show by means of a detailed risk analysis that "the great majority of the risk" nonetheless lies with the private sector.

11. In the case of leases involving assets with a fair value of less than £1 million, it will be sufficient for the lease to count as an operating lease under the relevant accounting standard.

13. Where an offset is made against spending provision, this will be the fair value of the asset, abated by the lease payments in the same year relating to the asset.

14. A fuller treatment of value for money is given in Annex A. The nature of risk transfer, and the different kinds of risk which may be involved, are considered in Annex B.

Tax clauses

15. Leases commonly include clauses which allow the lessor to increase charges

¹ NLF rates will be notified on a regular basis to the Finance and Leasing Association. Queries should be put to the Treasury on GTN (or 071) 270 5527.

² "Fair value" and "minimum lease payments" should be interpreted as in the Statement of Standard Accounting Practice (SSAP) 21 "Accounting for Leases and Hire Purchase Contracts".

SSAP 21 defines fair value as "the price at which an asset could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset". For Government departments only grants payable to the lessor will be relevant. If the fair value is not determinable, an estimate should be used.

Minimum lease payments, in relation to a lessee, are defined as "the minimum payments over the remaining part of the lease term (excluding charges for services)" and "any residual amounts guaranteed by him or by a party related to him". Charges for services are those, such as maintenance, which would otherwise be borne by the user. They could be the subject of a separate agreement or included in a composite lease payment. Departments should be satisfied that the amount so excluded from the present value calculation is not overstated.

For the purposes of meeting the 70 per cent criterion, the interest rate to be used should be the NLF rate plus 2 per cent (see paragraph 6).

when taxation changes would otherwise reduce the return on the investment. The clauses do not always operate in the opposite direction. Departments should bear these clauses in mind when contemplating a leasing arrangement and examine the mechanism for putting them into effect, and the likely impact on lease payments. They should consider negotiating either the deletion of such a clause if that would represent better value for money, or a clause which operates in both directions.

**Public Supply
Contract
Regulations, 1991**

16. These regulations, which implement EC and GATT rules on public procurement, relate both to purchase and to "the hire of goods by a contracting authority (both where the contracting authority becomes the owner of the goods after the end of the period of hire and where it does not)". Departments will be aware of the coverage of the regulations and of the thresholds above which contracts must generally be awarded by competition on the basis of non-discretionary specifications, but further information can be obtained from Public Sector Purchasing Division in the Treasury (telephone: GTN (or 071) 270 4314)

**Revisions to this
guidance**

17. The present guidance will be kept under review in the light of experience and against the background of risk criteria in the private finance initiative as a whole. It will also be revised in the light of other developments, including any revision which is made to the accounting standard on leasing.

Further guidance

18. Departments may find it useful to refer to the following publications for further guidance:

- Statement of Standard Accounting Practice (SSAP)21 "Accounting for Leases and Hire Purchase Contracts", available from Accountancy Books, PO Box 620, Central Milton Keynes, MK9 2JX (tel 0908 668833 extension 3227 or 3228).

- Public Supply Contracts Regulations 1991 (SI 1991/2679), available from HMSO (ISBN 0-11-015932-2, £5.20).

- "Economic Appraisal in Central Government - A Technical Guide for Government Departments" (the "Green Book"), available from HMSO (ISBN 0-11-560034-5 £7.50).

- CUP Guidances No 24 a-d "Vehicles" and No 37 "Managing Car Fleets", available from the Treasury Publishing Unit (tel: GTN (or 071) 270 4558).

19. A general guidance note on risk management is being prepared by the Treasury. Copies will be available from the Treasury Publishing Unit.

20. CCTA will be issuing more detailed guidance to departments on the leasing of computer equipment. Copies will be available from the CCTA Publications Unit.

Acknowledgement *Extracts from SSAP 21 are reproduced by kind permission of the Institute of Chartered Accountants in England and Wales, which holds the copyright.*

ANNEX A

VALUE FOR MONEY

Leasing is simply one way of obtaining the assets needed to meet desired objectives. It needs to be clear in all cases what those objectives are, and all the options which are relevant in the light of them, should be properly considered. Unless purchase is clearly inappropriate, the cost of leasing should be compared with the cost of purchase, and a view taken on whether the extra cost of risk transfer represents value for money.

2. The main risks associated with the use of an asset should be identified. They will include those described in Annex B. Different leasing options may sometimes lead to greater or less risk transfer, and negotiations may be involved. In practice it is often very difficult to quantify risks, which are themselves often uncertain. Nevertheless, every effort should be made to do so. If a range of likely values can be established, sensitivity analysis can be used to see whether the choice between options is affected.
3. The lessee will invariably have to pay for transferring risks to the private sector. However, the lessor may be in a better position than the lessee to deal with some of those risks if, for example, he has access to economies of scale, expertise or second-hand markets, which the lessee does not have. A lease which transfers risk to the lessor will represent value for money if the benefits of risk transfer and asset management outweigh that extra cost. The judgement formed on this point will need to be fully explained when the appraisal is written up.
4. It is important to compare options on a common basis taking account of differences between them in the extent of risk transferred. For example, if in the leasing option liability for repair costs is transferred to the lessor but in the purchase option it remains with the owner, the expected repair costs should be estimated and included as part of the costs of purchase. (The expected repair costs are the average cost of a repair multiplied by the probability in terms of expected number of occurrences that a liability will arise.) Wherever possible, the comparisons should include the cost of dealing with aspects of asset management, such as maintenance, in a separate contract alongside purchase. It should be borne in mind that the purchase of an insurance, whether by this means or through leasing, must be justified by an appraisal which demonstrates better value for money (see paragraph 27.3.1 of Government Accounting).
5. Value for money should be established by comparing the net present value (or net present cost) of estimated annual flows over an appraisal period equivalent to the lease term.¹ The discounting rate should be the rate in nominal terms charged by the National Loans Fund (NLF) for the period equivalent to the life of the lease, plus 2 per cent. The NLF rate reflects the rate at which the Government can borrow. The 2 per cent supplement corrects for the difference between the cost of public and private sector supplies. It mainly reflects the effect of tax in that a private sector lessor pays tax on project returns.
6. Further guidance on appraisal is given in "Economic Appraisal in Central Government - A Technical Guide for Government Departments" (in particular in Annex F, which covers leasing), in guidances issued by CUP, and in departments' own guidance documents.
7. Departments should consult their economic advisers on technical issues affecting the calculation of net present values, including inflation assumptions affecting costs, which (for consistency with the discount rate defined in nominal terms) should all be in nominal, not real, terms.

¹ "Lease term" should be defined as in SSAP 21 as "the period for which the lessee has contracted to lease the asset and any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, which option it is reasonably certain at the inception of the lease that the lessee will exercise".

ANNEX B

RISK TRANSFER

This Annex describes the main types of risk which are relevant in considering whether the great majority of risk lies with the private sector. They should also be taken into account in the value for money appraisal (see Annex A). Risk should be thought of as the chance of loss, or liability which may arise, where the actual liability will not be known in advance. This will include financial losses and those relating to loss of utility of an asset.

2. The risks are those which would be in place if an asset was owned. By way of example, the amount of the residual value risk in respect of vehicles will be the estimate, at the time of asset acquisition, of the residual value when the vehicles are sold less a minimum value below which the residual value is unlikely to fall; the amount of repair risk, where applicable, will relate to abnormal costs over and above average.
3. Individual types of risk will differ in their incidence. Some, such as the loss of use of an asset, will obtain throughout the intended period of use of an asset. However, the risk relating to residual value, where a market exists for re-sale or re-leasing, arises immediately after the intended period of use. The overall incidence of risk will vary from asset to asset, and between different intended periods of use for the same asset. It may also vary between departments, since the need for an asset over the intended period of use could be more certain in some cases than others.
4. In recognition of the likely effect of the risk relating to residual value on the overall incidence of risk, it is considered, in the absence of relevant data, that ensuring that the minimum value of lease payments does not exceed 70 per cent of the fair value of the asset is broadly consistent with the test of transferring the great majority of risk. This provides an appropriate simplified approach to determining risk transfer in respect of assets with a fair value of between £1 million and £10 million.
5. Even if the 70 per cent criterion is not met, it is open to departments and NDPBs to show by means of a detailed risk analysis that the great majority of the risks will lie with the private sector. For assets with a fair value in excess of £10 million such an analysis will be needed in all cases. Paragraphs 7-13 describe the risks to take into consideration.
6. In addition to these risks, there will be obligations on the user, such as third party liability, and the repair costs described in paragraph 12 below. These obligations are normally common to both leasing and purchase options and should be disregarded when assessing risk transfer.

Residual value and obsolescence

7. These two risks are linked. For example, vehicles have a well developed second-hand market and are not prone to rapid obsolescence. As a result, residual values (i.e. the value of vehicles at the end of their period of use) are relatively high, but can be difficult to estimate at the inception of the lease. As the lease period for a vehicle is typically significantly less than its economic life, this risk is generally transferred to the lessor.
8. For state of the art assets where technology is changing rapidly, obsolescence may be a key risk for users. Where the capital value is substantially recovered by the lessor in the lease payments, that lease will probably not transfer the great majority of risks to the lessor. Where the lessor has no second-hand market in which to re-lease or sell the assets, it is more likely that he will aim to recover his investment from the lease payments. Indeed, such a lease will either be a finance lease under SSAP 21 or close to it.
9. The option to trade up to a more up-to-date asset may be provided for in leasing agreements. It does not necessarily follow that this amounts to a transfer of risk. If, say, in the case of assets subject to rapid technological change, a trading up option can only be exercised after the point when the lessor

will have recovered his capital investment from lease payments there will be no risk transfer. Alternatively, with computer equipment, a leasing arrangement may provide the option of exchanging leased equipment for something better before the end of the lease period. However, this may be compensated by extending the hire commitment, at the original hire charge, for equipment not exchanged. If by this means the lessor will recover his capital investment in the original equipment, there will be no transfer of risk. If there is no second-hand-market available to the lessor there is no financial incentive for him to do other than recover his investment. Where there is a second-hand market, say, leasing refurbished equipment, there could be a risk transfer if the user would not have equal access to that market if he owned the asset.

Loss of use of asset while out of action

10. What is at risk is the loss of the value to the department which the asset would otherwise have provided. The significance of this risk will vary. The greatest risk will be where the asset is used on high priority time-critical purposes, such as making payments, and there is limited scope for back-up available from other similar assets. Where the purpose is not so time-critical, such as research (where a couple of days' loss of use may not be significantly detrimental), or where there are several similar assets, as with a fleet of vehicles, the risk may be minimal for a short period.

Repairs

11. These may be covered by the lease charges or by a separate maintenance agreement. Where a maintenance agreement would be available for a purchased asset, and if the department would, for value for money or operational reasons, enter that agreement if the asset was purchased, it could not be said that a lease would bring about a transfer of risk. Where a potential lessee has several similar assets, as with a vehicle fleet the risk of unusually high repair costs should reduce as there is a greater chance of costs conforming overall with an average.

12. Repair costs due to misuse or wilful neglect by the lessee, and damage, other than normal wear and tear, to leased assets (unless due to the lessor's actions) are normally the responsibility of the lessee (see paragraph 6 above).

Asset no longer needed or suitable

13. This could arise, say, where the activity on which the asset is used is no longer needed, or where the volume of use is less than planned. The probability of this arising will differ between users. This risk is not normally transferred to the lessor. Premature termination of the lease will usually incur a penalty related to committed lease payments; if an asset, if owned, could be sold in a ready market before the end of the intended period of use (eg a vehicle), leasing could involve an additional risk.

PART B

GUIDANCE ON JOINT VENTURES

Overview

The Guidance includes sections on:

- * types of joint venture;
- * appraisal;
- * the competitive process; and
- * technical points which may arise.

The guidance is intended as preliminary and will be developed in the light of experience and it is therefore not possible to cover all issues which may arise. In cases of uncertainty, the Management Executive should be consulted.

Throughout the Guidance reference is made to the "Green Book". This is reference to "Economic Appraisal in Central Government: A Technical guide for Government Departments", HMSO 1991.

JOINT VENTURES
Guidance for Departments

16 March 1993

The private finance initiative, announced in the Autumn Statement, is intended to enable the public and private sectors to work more closely together, while avoiding creative accounting. The new willingness to explore opportunities includes the active encouragement of joint ventures. This paper provides guidance for departments and NDPBs on the appraisal of joint ventures, including the handling of public sector contributions.

2. It represents preliminary guidance that will be developed in the light of experience. Joint ventures come in all shapes and sizes involving often complex financial arrangements. It is not possible in this guidance to cover all the issues which may arise, and in cases of uncertainty Departmental Finance Divisions or the Treasury should be consulted.

Types of joint venture

3. A general definition of a joint venture might be a project where both the public and the private sectors contribute to the project and they both share in the returns to the project. In many cases the "returns" for which the public sector is willing to make a contribution will be wider social benefits that cannot be captured in financial returns, such as the decongestion benefits associated with certain transport projects.

4. The Autumn Statement initiative is particularly intended to cover projects with wider social benefits. In these cases a public sector contribution to a joint venture enables a department to get the most out of its expenditure provision. The requirements for such projects include:

- control of the joint ventures rests with the private sector;
- private sector partners are selected by competition;
- the Government makes a contribution, on which a ceiling is set. After taking this contribution into account, costs are recouped from users or customers;
- the allocation of risk (and reward) between the contracting partners is clearly defined and agreed, with private sector returns genuinely subject to risk.

5. In other types of joint venture the "returns" may be service benefits to the public sector (for example in the case of a shared facility). Less frequently, they may be direct financial returns. The present guidance covers all types of joint venture, including those with shared benefits or direct financial returns. The guidance on selling Government services into wider markets limits the extent to which public sector bodies should engage in joint venture projects with direct financial returns.

6. A joint venture can comprise
- a single corporate entity in which the Government has a non-controlling equity stake;
 - an arrangement involving separate organisations, including public sector bodies, which act jointly or severally;
 - a project which is taken forward by the private sector with the Government contributing grants, loans, existing assets or ancillary or associated works (or a combination of those).
7. The present guidance does not cover cases where the private sector is willing to donate assets to or sponsor activity by the public sector, and the public sector remains in effective control.
8. In national accounting terms, joint ventures which are corporate entities will be classified to either the private or public sectors, according to where effective control rests (see para 20(i)). Public sector contributions to joint ventures which are classified to the private sector will count against departmental provision. The whole of expenditure by bodies in the public sector will affect the level of the PSBR and will be subject to the normal public expenditure disciplines. Joint ventures involving public and private sector bodies acting jointly or severally can raise complex issues of classification or control and Departmental Finance Divisions and the Treasury may need to be consulted.

The appraisal of joint ventures

9. In all cases there must be a prior appraisal of the expenditure by the public sector in terms of value for money. The appraisal should also consider whether the project is technically feasible, whether private sector participation is financially viable after taking the Government's contribution into account, and whether the project delivers wider social benefits (or service benefits, or direct financial returns) that justify the Government's contribution.
10. The objectives of the appraisal will be
- (a) to establish the likely financial costs and revenue plus any wider costs and benefits;
 - (b) to identify the size of public sector contribution (in terms of money and risk sharing) that is likely to be needed to make the project financially attractive to the private sector. The subsequent competition will help set a ceiling on the Government's contribution;
 - (c) to establish whether this Government contribution is justified in terms of the wider benefits (and costs) of the project, or direct service benefits to the public sector or direct financial returns, and in the light of the benefits that can be obtained from other uses of the money;
 - (d) to consider the risks associated with the project and how these might be allocated between the public and private sectors;
 - (e) to establish the institutional framework for the joint venture and the degree of control to be exercised by the respective joint venture partners.
11. The appraisal should be undertaken in line with normal Green Book* principles, and any relevant departmental guidance. Generally the appraisal of joint ventures where control rests with the private sector will be along similar lines to the appraisal of grants to private sector bodies, which is covered in Annex E of the Green Book. Joint ventures should be appraised against the alternative option of 100 per cent public sector funding (see Annex F of the Green Book) whenever effective control rests with the public sector.

* Economic Appraisal in Central Government: a Technical Guide for Government Departments, HMSO, 1991

12. Particular attention should be paid to establishing clear departmental objectives, appraising a wide range of options for both the form of the project and the level of public sector participation, and undertaking sensitivity analysis of possible risks. Analysis of the project should include consideration of mechanisms to ensure that the service or wider social benefits for which a contribution is made are delivered, and of what arrangements are appropriate in the event that the project fails. Where the decision to proceed has to be agreed with the Treasury, contact should be made at an early stage with the appropriate expenditure division, which will involve specialist colleagues as appropriate.

13. The Government is anxious to encourage private sector companies to come forward with proposals for joint ventures for infrastructure developments. Where a project which is part of a departmental programme becomes the subject of a proposed joint venture, the appraisal can take account of existing work and focus on the prospective sharing of risk.

14. Nationalised industries can already undertake joint ventures on the basis of financial costs and revenues. They may participate in joint ventures that involve wider benefits but in that case the Government will take the lead as "purchaser" in appraising the project and in determining the size of the public sector contribution. In the case of local authority projects with a central government element, the Government will act in a similar way.

15. In certain cases, the private sector may be able to make use of the temporary European Investment Bank (EIB) facility for infrastructure projects being established following the Edinburgh European Council, notably for Trans-European Networks. It will be for the EIB to decide whether to lend in a particular case. Private sector companies wishing to pursue the possibility should approach the EIB direct (though they may wish to tell the relevant Government department as well).

The competitive process

16. Where a special competition for a particular project is envisaged, the appraisal will be prepared in advance, and assumptions will need to be made about the likely form of private sector participation, and the price at which the private sector is likely to do business. Appropriate financial advice will need to be obtained, and early discussions with the private sector may be helpful. If the private sector is proposing the joint venture, the appraisal will help to refine and develop the proposal, and assist negotiations with the proposers and other potential partners. In these cases, arrangements may need to be made for the transfer of preparatory work for a consideration, in the event that the original proposer is unsuccessful in the competition, as envisaged in paragraph 13 of the main interim guidance*. Further thought is being given to the issues involved.

17. Depending on circumstances, it may be appropriate to hold a single competition or a sequence of competitions covering different stages of the development of the project. For example, while it is possible to carry out design and development in the public sector and then put the project to competition, there may be attractions in involving the private sector at an earlier stage as a holder of equity. If a competition is then held before construction begins, the private sector partner at the design stage can be compensated by the sale of its equity if it is unsuccessful at the later stage.

18. Preliminary discussions should be held with prospective bidders (paragraph 21 of the main interim guidance). Reference should also be made to previous experience with any relevant established programme or similar projects. This will provide some information on likely financial returns and will enable the broad allocation of risk to be settled in advance of the competition. The appraisal will need to be updated at various stages to confirm that the conclusions remain valid. Monitoring of the project and evaluation of the outcome will be required to provide feedback on whether expectations were fulfilled, and any lessons for future joint ventures.

19. In cases where the proposal comes forward under an established programme, such as city grant, competition often takes the form of openness to private sector bids for available funds. These bids are

*Private Finance, Guidance for Departments, December 1992, available from Treasury Press Office, tel: 071-270 5328

generally appraised one by one, against rules of thumb for what is good value for money and a worthwhile sharing of risk in that programme.

Technical points

20. The technical issues that may arise include the following. The Treasury should be consulted if any points of difficulty arise.

(i) effective control of an incorporated joint venture

The treatment of an incorporated joint venture in the national accounts will be determined by the effective balance of control. A body controlled by the public sector will itself be treated as in the public sector with the normal implications for public expenditure control and scoring. A majority of board members appointed by the public sector or a majority of voting shares held by public sector bodies would normally indicate public sector control. But effective public sector control could also be achieved by other means, for example, control over pricing, other partners not operating in concert, or control via conditions placed on funding. In cases of doubt the Treasury (GEP3 division) should be consulted.

(ii) financial assessment of the project

The aim is to obtain an initial assessment of the likely net present value of the financial returns to the project that a private sector participant would require. Information on this might be obtained from possible participants in preliminary discussions in advance of the competition. The likely outcome is a range of figures, depending on assumptions about revenues, costs and private sector discount rates. This range should be used to set the public sector contribution at a realistic level.

(iii) size of the public sector contribution

The appropriate size of the public sector contribution should be closely examined in the appraisal and clearly justified in terms of objectives and expected benefits. The Government's aim, in making a contribution, is to provide the appropriate size of public sector contribution that ensures that the project has a reasonable chance of success. In practice this means that the public sector contribution has to be at a level that makes the project attractive to the private sector in terms of the level of returns it is likely to expect.

(iv) definition of the public sector contribution

This should include all contributions from all public sector bodies willing to participate in the project, including (for example) local authorities. It should include contributions from these bodies drawn from European Community sources, such as the European Regional Development Fund (ERDF). But it would not include finance from European sources provided direct to the UK private sector, as is often the case with loans from the EIB. The Government's contribution can take a number of forms e.g. grants, loans, equity, transfer of assets, ancillary or associated works or some combination of these.

(v) transfers of assets

Sometimes joint ventures are proposed where the public sector owns an asset (often land) which may form part of its contribution to the joint venture if transferred at less than market value. Unless the transfer of assets in this way is covered by legislation, certain procedures regarding propriety will need to be observed (see Government Accounting, chapter 32).

(vi) the assessment of wider benefits

Every attempt should be made to quantify and value the wider benefits but inevitably it will be difficult to do this in some cases e.g. environmental effects. Where quantification is not possible, all significant wider benefits should be clearly listed.

(vii) analysis of risk

The aim is to undertake a thorough and careful appraisal of likely risks and their costs to the public sector (guidance on the appraisal of risk is to be found in Annex C of the Green Book). This will enable a clearly defined allocation of risk between public and private sector partners, which achieves the objective of effective risk transfer, to be settled in advance of the competition. All types of risk should be considered e.g. construction risk, revenue risk (including possible project failure) and risk of obsolescence, and the likely costs quantified as far as possible. In some cases there may be a trade-off between size of public sector contribution and level of risk (within broad parameters established previously), and competing bids from potential private sector partners may involve different combinations of risk and proposed contribution.

(viii) contingent liabilities and guarantees

A key objective is that the private sector should genuinely assume a major part of the risk. This means that wide-ranging guarantees or other contingent liabilities should be avoided, for example, agreements to buy back assets at the end of a franchise period at pre-set prices, or excessively long franchise periods (if the assets are long-lived, periodic competitions should be held to renew the franchise). It is the underlying reality of an arrangement that matters, not how it is dressed up. Thus reversion to the public sector, possibly with arrangements to buy back assets at fixed prices, could equate to finance leasing and so fall outside the scope of the initiative (with implications for departmental provision). The cost of any liabilities that are proposed should be carefully appraised, and included in the appropriate estimate of net present value.

(ix) Discount rates

Detailed guidance on discount rates is provided in Annexes E and G of the Green Book. In the case of joint ventures

- an assessment of the minimum commercial return (or private sector discount rate) is required, in order to calculate the net present value of the private sector financial returns and so assess the viability of the project. Initially this will be an estimate of a figure (or range of figures) that the competition is likely to produce. Rules of thumb from established programmes are often useful guides;
- the cost-effectiveness of alternative options for the public sector contribution (for example, comparing a minority equity stake with a grant) should be appraised using a discount rate in real terms of 6 per cent (reflecting time preference and the cost to the taxpayer, see paragraph 20 of Annex E to the Green Book);
- for comparison with the estimated size of the minimum public sector contribution, the present value of the wider social benefits (or the direct service benefits) should be calculated using either 6 per cent or 8 per cent depending on the context (see Annex G to the Green Book).

PART C

GUIDANCE ON COMPETITION

Overview

The Guidance is aimed at simplifying and relaxing the rules of competition where private finance is involved and includes sections on:

- * role of competition
- * instituting competition
- * conduct of competitions
- * contributions to tender costs
- * post-tender activity.

One of the critical points implied in the guidance is the necessity to quicken the timescale of competitive tendering and the Key Points on the first page are important to note in this context especially,

- * the need to specify clearly what is required
- * to limit the number of bidders to 3 or 4
- * to proceed, where possible, with the project in a defined timescale.

COMPETITION AND THE PRIVATE FINANCE INITIATIVE

Guidance for Departments

March 1994

Scope

These guidelines are intended for use by Government departments in taking forward projects under the private finance initiative. Departments will wish to consider how far they can be applied in private finance projects in other areas for which they are responsible. The guidelines take account of comments made on the consultation note issued by the Treasury in September 1993. The Private Finance Panel set up by the Chancellor of the Exchequer to promote the flow of private finance projects has contributed to the formulation of the guidelines and has endorsed them. The Panel proposes to keep the application of the guidelines under review.

Role of competition

2. Competition must keep its central place in public procurement. Its form, however, will vary according to the value and complexity of individual cases. There is already provision in "Government Accounting" for departments to let tenders without competition in exceptional circumstances. In the context of the private finance initiative the advantages in terms of stimulating innovation may in exceptional cases justify alternatives to competitive tendering.

3. The cases in which departments may wish to consider proceeding direct to negotiation with a single promoter, where EC rules allow, include the following:

- (a) where a private sector promoter identifies an entirely new project;
- (b) where a private sector promoter comes forward with a project in response to an invitation from a public sector body based on the delivery of outputs which are not specifically defined but which come within broad functions, policies or initiatives; or

- (c) where a private sector promoter proposes to proceed with a project already identified by the public sector in a way which has a genuinely innovative element.

4. Departments may wish to call upon an independent panel to advise them on whether the circumstances of a particular case justify them in not using competitive tendering.

5. In each of the above cases departments will wish to take similar steps to those applying to prequalification for competitive tender to establish the financial, commercial and technical capacity of promoters and their general professional expertise. Departments will need to keep competitive tendering in reserve in case negotiations fail.

6. In dealing with the private sector on a particular project, departments should make it clear at the earliest possible moment whether they believe they need to invite competitive tenders and whether EC rules apply.

7. In cases where they do not seek competitive tenders, departments will need to consider appropriate means of safeguarding public funds by way of limiting contributions to joint ventures and levels of spending on services. These means could include independent checking of cost estimates, monitoring of actual expenditure and possible later adjustment of sums paid. These arrangements will be additional to safeguards needed to ensure that capital investment supported by public sector payments is actually undertaken.

Instituting competition

8. Departments inviting competitive tenders for a particular project should:

- (a) offer a clear specification based on final outputs which leaves promoters the opportunity to offer ideas. In some cases the public sector may decide to issue an invitation based on the delivery of outputs defined by broad functions, policies or activities (as in paragraph 3 (b) above);

- (b) limit the requirement for submissions for prequalification to those that are essential for judging the financial, commercial and technical capacity of bidders to undertake a project and their general professional expertise;

- (c) state clearly which risks they are prepared to accept or negotiate on. The extent to which the private sector is willing to take on such risks may be a factor in a competition; and

(d) establish a level playing field, laying down clearly how solutions will be evaluated and including few variable factors in the award criteria.

9. A competition should wherever possible be held at an early stage in the development of a project and cover all the subsequent stages. In recognition of the risks this involves of abortive work, departments should be prepared to consider compensation if the project cannot proceed for reasons outside the control of the bidders.

10. A department initiating a competition should wherever possible proceed within a definite timescale provided satisfactory bids are received.

Conduct of competitions

11. The number of bidders selected to tender should normally be limited to three or four.

12. Departments should ensure that the outcome is a clear statement of the rights, obligations and responsibilities of each of the parties. The aim should be to develop structures which offer promoters opportunity and reward commensurate with the risks they will undertake.

13. Commercial confidentiality should be protected at all times, before, during and after the competitive process.

14. Departments should ensure that they have appropriate professional resources to undertake the negotiation of contracts.

Contributions to tender costs

15. Departments may wish in particular private finance cases to consider announcing in advance arrangements for contributing to the costs incurred by a restricted number of prequalified bidders in assembling a bid. Departments will need to satisfy themselves that contributions are justified in a particular case by the complexity involved and the prospect of significantly improving the quality of the competition.

16. Contributions need not be dependent on the recipient allowing others to use relevant intellectual property. Appropriate limits should be set in each case on the amount of contribution each tenderer can receive.

Post-tender activity.

17. Departments should not expect to combine parts of one bid with parts of another. Where in exceptional circumstances they believe this is desirable, they should ensure any necessary agreement is obtained from the unsuccessful bidder concerned and arrange for appropriate compensation to be paid.

18. Clarification of bids and, if appropriate, post-tender negotiations should be conducted fairly so as not to distort competition.

19. Appropriate debriefing should be provided promptly, on request, to companies who are unsuccessful in a competitive process.

Responses to consultation note

20. A summary of responses to the consultation note is attached. A fuller version is available on request to the Treasury's Private Finance Unit on 071-270 4837 or 071-270 5527.

HM Treasury

March 1994

COMPETITION AND THE PRIVATE FINANCE INITIATIVE

Summary of Responses to the Consultation Note

What are the key parameters of a workable competitive process?

Nearly all respondents endorsed the principles set out in the consultation note. The need for clear output specifications and evaluation criteria was often highlighted. Many respondents added that only a limited number of tenderers - usually no more than three or four - should be included on shortlists. Other points frequently made were that the public sector should commit itself to proceed with a project within a set timetable when it held a competition, that the Government should state clearly the risks it was prepared to retain on a particular project, that procedures should be operated flexibly and that unsuccessful participants in competition should be properly debriefed.

2. Some respondents - but not all - wanted competition to be held early in the life of a project so as to maximise the opportunity for innovation. Those who took this view expected that selection would be based on qualitative criteria and that negotiation would follow, possibly with a second bidder kept in reserve. Some respondents questioned whether participants would be willing to engage in pre-competitive discussions.
3. There were mixed views on whether non-compliant bids should be allowed. Some of those who believed they should be suggested that bidders should have to submit compliant bids as well.

What scope exists for unsuccessful bidders to agree terms with successful bidders for access to their intellectual property?

4. Few respondents thought there was much scope for this to happen. A number pointed to difficulties in defining intellectual property.
5. Most respondents wanted any arrangements to be left to the market. There was opposition to the Government "cherry-picking" among bids.
6. Several respondents, however, did see a role for Government. They suggested that the Government might, following a competition, require ideas from different bids to be brought together or itself make arrangements for purchasing them.

Would the partial reimbursement of tendering costs in certain cases help to encourage competition?

7. Most respondents thought that it would, but some questioned the suggested 50 per cent limit in the consultation note. There was little support for the proposal that intellectual property should be given up in return.

8. Comments which were made frequently covered the following points: an adequate flow of projects would remove the need for reimbursement; costs could be reduced by having work needed by all tenderers done in common; large tender lists increased the need for reimbursement; doubts about whether the public sector would proceed with a project had the same effect; and reimbursement could be confined to complex cases.

9. A number of respondents, particularly in the public sector, thought that reimbursement would have a minimal or even a negative impact. Some respondents (including some in the private sector) believed that it could lead to bids of poor quality.

In what circumstances should purchasers use design-only contracts?

10. While some respondents opposed design-only contracts in principle, most saw them as justified to deal with such situations as uncertainty over the scope of highly complex projects or to demonstrate feasibility. There was also a suggestion that design-only contracts might help if the private sector initiated a project which had to go to competition. Several respondents, mainly consultants, went further and saw value more generally in handling design separately. There were several suggestions for paying more than one promoter to take design work forward in parallel.

11. Some critics of design-only contracts pointed to problems in requiring a contractor to implement another's design, including questions of liability.

Would the relaxation of competition in certain cases help to encourage innovation?

12. Contractors mostly agreed. But there was opposition from the majority of the financial respondents, some consultants and some in the public sector. Their grounds included the difficulty of establishing value for money without competition and the risk of losing the support of financial institutions for the projects involved. A number of respondents noted that EC rules would require competition in some cases.

13. Some respondents, both contractors and financiers, saw scope for negotiating the terms of a contract with a single promoter who was selected in a "qualitative" competition. Departments might be helped in negotiating such contracts by a "Private Finance Agency". There were also suggestions that where a private sector company initiated a project it should be allowed to register it. The promoter might then have a time-limited right to develop it, or a right to compensation if a competition was held.

14. Nearly all respondents saw problems with the provisions in the consultation note for contracts awarded without competition to be publicised and for competitors to have at least 90 days to offer alternatives. Rivals, including the less innovative, would be able to take the work by undercutting, and proprietary ideas would be exposed. This led most respondents to consider the provisions unworkable. One respondent suggested that auditors should instead have 30 days to challenge a purchaser's value for money analysis.

How should remuneration of contractors for the use of their intellectual property be structured? What scope exists for basing remuneration on the value rather than the cost of ideas? Can this approach be reconciled with the Accounting Officer's need to base payments on ascertainable factors?

15. Most respondents, especially contractors, preferred lump sums. Many preferred remuneration to be based on value but recognised the difficulties of assessment. Some suggested ways of basing payments on incremental savings. Equity participation was widely rejected, with comments suggesting it would be unsatisfactory for both parties and unlikely to be workable.

Would independent panels of experts assist this process?

16. There was little enthusiasm for panels. Many respondents thought them likely to be bureaucratic and time-consuming. Most construction companies opposed them and nearly half the consultants doubted their usefulness. Some respondents, however, thought they might have a role in certain cases.

GUIDANCE ON THE APPRAISAL OF PRIVATE FINANCE SCHEMES PROVIDING SERVICES TO THE NHS

Introduction

1. Private Finance schemes offer opportunities to the health service to take advantage of private sector efficiencies in providing services and, subject to certain criteria, offer the further advantage of access to additional resources. For many years the public sector has contracted with the private sector for the provision of a wide range of services. The Private Finance Initiative represents a change in emphasis recognising that there should be no impediment to extending the involvement of the Private Sector to cover areas previously regarded as the preserve of the public sector where this is sensible from an economic and practical point of view.

2. Following the initial announcement of the Private Finance Initiative the Treasury have issued guidance on a number of areas in the following documents:

- Guidance on Private Finance, published by HM Treasury on 9 December 1992 and circulated with MEL(1993)26
- Joint Ventures: Guidance for Departments, published by HM Treasury on 16 March 1993 and circulated with MEL(1994)22
- Private Finance: Leasing Guidance, published by HM Treasury on 26 May 1993. Although primarily about leases, this covers aspects of appraisal, especially risk assessment, which also apply to other Private Finance schemes. Circulated with MEL(1994)22
- Private Finance - Competition Guidance published by HM Treasury on 1 March 1994 and circulated with MEL(1994)22.

3. This guidance, which should be read in conjunction with these documents, is intended to assist in the application of Private Finance objectives in the area of contracting with the private sector for the provision of services. In particular it is concerned with services which may require to use significant capital assets for their delivery. Historically such services have been provided to the health service by operation of their owned capital plant.

4. It should be noted that the guidance in this note is preliminary and will be developed in the light of experience.

Criteria for the Choice of Private Finance Schemes

5. The choice of which projects might be most suitable for private sector involvement will depend inter-alia on:-

- the size of the project: larger projects are more likely to be of interest to the private sector, although the involvement of the private sector is encouraged in projects of all sizes.

- the objectives of the project: it is more likely that need in principle can be established where there are statutory obligations to be met.
- the market circumstances of the project: as discussed below, Private Finance schemes should involve risk transfer such that the private sector bears as large a part of the risk as is appropriate. This does not mean that all risk has to transfer to the private sector. The general principle is that risk should lie with the body best able to manage that risk. Projects in areas where there is scope for alternative purchasers for the service and/or which do not represent the only supply of the service in the local area would represent promising Private Finance schemes from the point of view of potential for risk transfer, although any project might be selected if it is felt that value for money might eventually be justified.

The Role of the Private Sector

6. There are a number of reasons why health bodies might wish to involve the private sector in projects. Apart from the obvious attraction of drawing on an additional source of funds, the introduction of private sector management skills and the sharing of risks with the private sector should lead generally to better value for money through shorter construction times, better control of project costs, and reduced operating and maintenance costs. A cooperative approach may also lead to economies of scale through other non-NHS use of a facility.

7. The characteristics of the market are also important and potential service providers will wish to consider the wider market for the services in question. It is likely that risk transfer will be more easily facilitated in a case where there are alternative purchasers of the service, because there is likely to be a re-sale market for the asset at the end of the contract period. Conversely, there may be circumstances where the health body may now, or in the future, have a choice of private sector service providers in a particular area. Again it is likely that the cost to the health bodies will be reduced when there is competition in supply between providers. These considerations are important criteria in determining the potential role of the private sector and in the appraisal of a particular proposal, in particular the question of risk transfer. In the absence of suitable market conditions value for money will be harder to establish but it may still be possible and no scheme need be ruled out for detailed appraisal.

8. Health bodies will wish to invite a range of private sector bidders to provide the service. A clear specification of the requirements, performance standards, etc is required as this will enable the invitation to tender and subsequently a binding contract to be drawn up. Procurement procedures, similar to those used for competitive tendering will be appropriate and, where applicable, EC procurement procedures should be followed. (See Private Finance - Competition Guidance issued by HM Treasury.)

9. Control of the assets involved will remain with the private sector provider. Close attention will therefore have to be given to appropriate contractual terms, which on the one hand ensure that risk is properly placed with the private sector and on the other that the health body's position is protected in the event of contractual difficulties.

Public Sector Options

10. It is necessary to consider whether the need can be realistically met by health body capital expenditure within an acceptable timescale. If these conditions are satisfied the appraisal must clearly identify the cost of public sector means of meeting the specified objectives. The public sector comparator should not be modified in the light of private sector proposals; ie there should be no "cherry picking" of innovative ideas from private sector submissions or tenders in order to reduce the costs of the public sector scheme.

Option Appraisal and the Transfer of Risk

11. In considering options the appraisal should compare private sector bids with the cost of public sector provision, unless public sector provision is not realistic on a similar timescale. The choice of option should be based on a full and proper assessment of the costs and benefits of each.

12. The option appraisal would include a full consideration of all the costs, running costs as well as capital, of each, employing a Discounted Cash Flow methodology using a nominal rate equivalent to a 6% real rate of return. (Though it may be appropriate simply to use a 6% real discount rate where the cash flows are expressed in real terms). As explained in the leasing guidance, a different rate applies for leasing. In leasing cases, the nominal rate should be used to discount both for the cash flows in leasing and the cash flows (including where relevant maintenance costs and resale value) associated with purchase. Where appropriate, qualitative, but preferably quantitative, assessment of the benefits of the options should be used. The assessment should be based on the health body's best estimates of items such as capital and operating costs, usage and demand etc. However it is essential that the health body's own provision option or options give full and serious consideration to the risks attaching to the particular project, most probably in the form of sensitivity analysis. Health Bodies should ensure that the criteria on which any particular option is chosen are set out explicitly.

13. Broadly speaking, the extent of risk transfer to the private sector is a key factor and it should be properly appraised. The relevant criterion is that contracts should be on a commercial basis and not involve dependence on the public sector as a purchaser for the lifetime of the facility or the public sector underwriting supply to other customers. The initial contract should not be for the full design life of any assets required for the provision of the service although this requirement may be relaxed where the service provider accepts a significant usage risk. The full value of assets should not be recoupable by the private sector company within the period of the initial contract. In providing for risk transfer the health body will wish to ensure that payments made for services provided under the contract are dependent on the satisfactory delivery of the service according to the requirements set out in the contract. The private sector might also accept the risk of usage varying around a predetermined level. Payment would be made for service provided, for example in the clinical waste context this might be by weight of material to be disposed of or another such appropriate parameter. Any minimum "guaranteed payment", which it is accepted may be necessary, should be related to a predetermined level below that which the authority expects to require for most of the contract period. More wide ranging guarantees or indemnities to the operator in relation to the level of service provided should be avoided.

14. The Treasury guidance note on leasing also provides a note on the issue of the evaluation of risk. A typology of different types of risk is

- demand risk - risk that arises as a result of uncertainty as to the extent to which the services provided by the project will be required in the future;
- operating risk - which arises as a result of the cost of running the equipment, including the need to meet predetermined environmental standards, not being known;
- construction cost risk - which results if construction and set up costs are not known in advance;
- obsolescence risk - this relates particularly to situations where technology is changing rapidly and as a result the asset is out of date before the end of the contract period;
- resale risk (on completion of a contract shorter than the asset life) - this relates to doubt about the resale value or alternative use of the asset at the end of the contract period;
- regulatory risk - which relates to the possibility of the Government changing the regulatory regime during the contract period eg in relation to clinical waste, introducing more stringent environmental controls.

15. Some risks are best borne by the private sector. In general the party most able to influence the events which create risk is the one who should bear that risk. For example if the private sector is the operator of a plant, then they should be liable to the risk of operating failure. All the above, with the possible exception of regulatory risk and certain aspects of demand risk, could predominantly be borne by the private sector.

16. The private sector will charge a premium for taking on risk, as noted above. The substance of the value for money test of private finance schemes is whether this is a fair and reasonable charge. Where such risk premium is assessed as being at an additional cost to the risk being carried by the public sector, the additional cost should be justified in terms of the expected efficiency gains.

17. Guidance on the issue of tax concessions and the appropriate discount rate methodology for the comparison of private sector alternatives is provided in the Treasury "Green Book" on economic appraisal .

* "Economic Appraisal in Central Government: A Technical Guide for Government Departments" HM Treasury 1991 HMSO.

Further Advice

18. More detailed guidance on option appraisal procedures, including private finance options, is provided in the guidance note on option appraisal which the Management Executive will shortly issue. Further advice on appraisal methodology can be obtained from Alasdair Munro (Room 254B, St Andrew's House, Tel: 031-244 2534).

National Health Service in Scotland
Management Executive
April 1994

PART E

DELEGATED LEVELS OF AUTHORITY AND SAMPLING FOR PRIVATE FINANCE SCHEMES INVOLVING A CAPITAL COMPONENT.

The Management Executive have been given authority to approve schemes, involving Private Finance, which include a capital component of up to £10 million. This will be subject to prior approval of a sample of project above £4 million and to subsequent review of a sample of projects below this limit by HM Treasury.

No delegated limit is being given to Health Boards, as most now have no or limited responsibility for capital projects. Those Health Boards with responsibility for Directly Managed Units or capital projects related to their own function should contact the Management Executive to seek early advice on whether or not ME approval is required for proposals to proceed.

For NHS Trusts in Scotland, the limit which can be delegated is now between £250,000 and an upper limit of £1 million. The determination of individual limits of delegation is dependant on 3 main elements. These are:-

- * the body's ability to demonstrate good standards of option appraisal;
- * the business turnover of the body;
- * the number and size of projects being considered.

Increases in delegated limits are as follows:

Delegated Limit	NHS Trust
Projects up to £1 million	Aberdeen Royal Hospitals NHS Trust Dundee Teaching Hospitals NHS Trust Glasgow Royal Infirmary NHS Trust Grampian Healthcare NHS Trust Greater Glasgow Community & Mental Health Services NHS Trust Royal Infirmary of Edinburgh NHS Trust Southern General NHS Trust West Glasgow Hospitals University NHS Trust
Projects up to £600,000	Angus NHS Trust Ayrshire and Arran Community NHS Trust Dumfries & Galloway Acute & Maternity Hospitals NHS Trust Dundee Healthcare NHS Trust East & Midlothian NHS Trust Edinburgh Healthcare NHS Trust Faikirk & District Royal Infirmary NHS Trust Fife Healthcare NHS Trust Hairmyres & Stonehouse Hospitals NHS Trust

Projects up to £600,000
(cont.)

Highland Communities NHS Trust
Kirkcaldy Acute Hospitals NHS Trust
Inverclyde Royal Hospital NHS Trust
Law Hospital NHS Trust
Monklands and Bellshill NHS Trust
North Ayrshire and Arran NHS
Trust
Perth & Kinross Healthcare NHS
Trust
Queen Margaret Hospital NHS Trust
Raigmore Hospital NHS Trust
Renfrewshire Healthcare NHS Trust
Royal Alexandra Hospital NHS Trust
South Ayr Hospitals NHS Trust
Stobhill NHS Trust
Stirling Royal Infirmary NHS Trust
Victoria Infirmary NHS Trust
West Lothian NHS Trust
Western General Hospitals,
Edinburgh NHS Trust
Yorkhill Hospitals NHS Trust

The current limit of delegation of £250,000 remains in force for all other NHS Trusts.

Any further increases to authorised levels of delegation will be notified to the respective NHS Trust direct.

Approval of schemes outwith a body's delegated limit will be by the Management Executive and perhaps by HM Treasury. All such schemes should be sent to the Management Executive in the first instance who will, where necessary, refer on to HM Treasury.

The approval of innovative or novel schemes remains the authority of HM Treasury and all schemes of this nature should be referred to the Management Executive in the first instance.

Summary of Action

Capital Value of Project

Action

≤£250,000

NHS Trust to maintain good standards of option appraisal and option appraise each project.

>£250,000 and ≤delegated limit

Retrospective sampling of NHS Trust approved options by the ME.

>delegated limit and £1 million

All projects to be approved by the ME.

>£1 million and £4 million

All projects to be approved by the ME. List of approved projects compiled by ME on bi-annual basis for retrospective sampling by HM Treasury.

>£4 million and £10 million

All projects to be approved by the ME. HM Treasury to sample 50% of all projects for approval. Reduction of the sampling rate to be linked to good standards of option appraisal.

>£10 million

All projects require ME and HM Treasury approval.