



THE SCOTTISH OFFICE

National Health Service in Scotland
Management Executive

NHS
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St. Andrew's House
Edinburgh EH1 3DG
13 February 1996

Dear Colleague

APPROVAL OF CAPITAL SCHEMES

Summary

This letter introduces a revised process for the approval of capital investment for NHS Trusts and Boards from April 1996 onwards. It introduces simplified submissions for approval and revises delegated limits. Clarification is also given on the treatment of privately financed schemes within the overall process. The revised approval process aims to reduce bureaucracy, extend Trust and Board freedoms and speed up the process of bringing schemes to fruition.

Action

Trusts and Boards should follow the procedures outlined in the attached document when seeking approval for capital expenditure with effect from 1 April 1996.

All submissions should be forwarded in the first instance to Sharon Fairweather, Head of Business Strategy Division, St Andrew's House, for schemes in Trusts, and to John Aldridge, Head of Purchasing Strategy Division, Room 266, St. Andrew's House for Health Board schemes.

Yours sincerely

SIMON FEATHERSTONE
Director of Finance

Addressees

For action:

Chief Executives, NHS Trusts
General Managers, Health Boards
General Manager, Common Services Agency
General Manager, Health Education Board for Scotland
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REVISED PROCESS AS FROM APRIL 1996

1. Background

1.1 The ME's role in managing capital is one of ensuring value for money, particularly in schemes drawing on the public purse. The process also seeks to validate the strategic thinking that lies behind the scheme, as presented in a business case for capital funding and aims to protect the accounting officer's responsibility for stewardship of capital through ensuring compliance with current rules, particularly those set in place by the Treasury.

1.2 The revised system outlined here aims to:

- widen Trust and Board freedoms and reduce bureaucracy;
- establish a lender-borrower relationship between the ME and Trusts and Boards that truly explores the business need for investment at a strategic level;
- clarify the place of private finance in the overall process.

1.3 So that proposals for these schemes are presented as effectively as possible, the process described in the Scottish Capital Investment Manual (SCIM) will be adopted as mandatory for schemes above delegated limits and as a standard of best practice for schemes below limits.

2. The New Process

2.1 The approval process will categorise schemes in Trusts into 3 bands:

- schemes of low value, generally falling into Trust formula allocations;
- schemes below £4 million bidding for approval;
- schemes above £4 million bidding for approval.

2.2 For Board schemes, 2 bands will apply, these being for projects under and over £0.5 million.

Schemes in the formula allocation

2.3 Schemes of a low value will, in general and if they are to be publicly financed, be covered by a Trust's formula allocation. Schemes in this category will not require any approval by ME, although details of

schemes are provided in financial proformas and monthly financial monitoring returns, and would be expected to follow best practice as outlined in SCIM, including exploration of PFI options.

2.4 Normally, publicly funded schemes of a value below £2 million in total should be funded via the formula. However, if capital expenditure on a scheme exceeds £0.5 million in any one year, funding from the EFL pool may still be possible. This should prevent single schemes consuming the majority of a Trust's formula allocation.

2.5 Further work will be undertaken to explore the possibility of allocating an equivalent sum to the formula to purchasers as revenue. This would then be passed to providers in prices via the contract mechanism.

2.6 For Boards, schemes below £0.5 million would be funded from their own capital allocations, normally without having to make any submissions to the ME. For novel or contentious schemes, a submission may be requested.

Schemes bidding for approval

2.7 Trust schemes not already committed or which are not to be funded from the formula will be bidding for approval by the ME. For all such schemes, an Initial Agreement document as outlined in the SCIM should be submitted. A decision will be taken at this point which will have one of three outcomes:

- the proposal will be rejected if it fails to demonstrate support for the Trust's or Board's own strategic objectives;
- the proposal will be accepted, but it will be made clear that the exchequer funding will not be available at that time. The Trust or Board submitting the document may still take the scheme forward, but on the basis that private finance only will be sought;
- the proposal will be accepted and taken forward with options for either public or private finance still open, but there will still be no guarantee that public funding will be made available.

2.8 Trusts should ideally submit their Initial Agreement documents as supporting papers to Financial Proformas passed to the ME in November. This will allow the ME and the Trust to plan more effectively. However, new Initial Agreements will be accepted at other times throughout the year.

Schemes below £4 million

2.9 For schemes in this category (except IM&T schemes, see 2.15), a new, simplified process will be introduced, geared to demonstrating that the investment has been planned in a strategic context. Following approval of the Initial Agreement, a brief submission should be prepared and forwarded to the ME that outlines evidence of how the scheme measures up against a set of key criteria. The submission (the Criteria Submission) would replace the Outline and Full Business Case submission for approval stages of the current process.

2.10 The Submission should be signed off by the Trust Chief Executive or Board General Manager and Chairman and would be an auditable document. A sample of Submissions would be taken annually and the evidence presented checked to ensure compliance with guidance. The Trust or Health Board will be responsible for guaranteeing that each criterion had been met and produce evidence of this where necessary.

2.11 Annex 1 provides a proforma of the contents of the Submission.

2.12 The Submission may be forwarded to the ME at any time during the year.

Schemes above £4 million

2.13 For NHS Trusts, only schemes with a value of above £4 million (and above £1 million for IM&T schemes and above £0.5 million for Boards) will require approval via submission of Outline and Full Business Cases.

2.14 Powers would be retained, as now, to set a lower delegated limit for an individual Trust (or Board) if it was considered to be at risk in terms of, for example, its competitive or financial position or its management strength.

Information Management and Technology Schemes

2.15 Treasury approval is required for all IM&T schemes above a capital value of £1 million. Therefore, an Initial Agreement, Outline and Full Business case must be submitted to the ME for all schemes above this value. Guidance on business cases for IM&T schemes is provided in the SCIM.

3. The Approval Process

3.1 All submissions should be sent to the Head of Business Strategy Division for schemes in Trusts and to the Head of the Purchasing

Strategy Division for Board schemes. Each submission will be circulated for comment within the ME and particular emphasis will be placed on the strategic need for investment.

3.2 The ME will continue to commit to providing a response to any submissions made within 15 working days. This response will be in the form of either approval or rejection, or a request for resubmission with a statement of areas to be addressed in order to bring the submission to an approvable state.

3.3 Final approval at each stage will be given by a newly constituted Capital Investment Panel, consisting of the ME Directors of NHS Trusts, Purchasing and Finance. The Panel will meet monthly to reduce delay in giving approval and will only consider submissions that are in final form and have incorporated responses to any comments passed to the Trust or Board by the ME. If the scheduling of meetings means that the 15 day target cannot be met, the Trust or Board will be informed.

3.4 The Panel will also take a view on the suitability of a scheme with regard to public or private finance. The norm will be that all schemes must explore private finance. For certain schemes, successes may have already been achieved on the PFI route elsewhere in similar projects and in these cases, the ME will proactively support the Trust in taking the schemes forward in this way. In certain circumstances, PFI may not be appropriate and the Trust or Board will be advised at an early stage when a public finance only path may be followed (either at Initial Agreement approval stage where the scheme is below £4 million, or at Outline Business Case approval stage if over this limit). As PFI develops, it will become clearer which types of scheme fall into which category. For the time being, however, most schemes will at least have to explore PFI options and the ME will assist in this process.

3.5 Advice on Private Finance issues should be obtained from the NHS Private Finance Unit at the ME Finance Directorate.

4. General Points

4.1 External auditors will be provided with the SCIM guidance and will no doubt wish to assess business cases prepared by Trusts and Boards whether under or over the limit to encourage best practice. The ME may also decide to sample Business Cases for particular schemes. It should also be borne in mind that major investment processes would normally be a matter for Audit Committees and that the Accounts Commission will be studying the work of these Committees in this regard.

4.2 Current private finance scheme delegated limits are £0.25, £0.6 and £1.0 million. These limits are abolished with immediate effect, the limits

outlined in this document being effective for all schemes irrespective of funding method.

4.3 It is important that the ME has access to a database on all Private Finance schemes in operation in the NHS in Scotland. Therefore, even where a PFI scheme is of a value below delegated limits, Trusts and Boards are required to forward a Criteria Submission detailing the scheme to the ME for information purposes only.

CRITERIA SUBMISSION CONTENTS

The Criteria Submission should contain the following information:

1. The title of the scheme as it will appear in monitoring returns.
2. A brief narrative describing the preferred option, adding any relevant details not included in the option description in the Initial Agreement.
3. A cost profile of the preferred option, showing capital expenditure over the project period, where publicly funded.
4. A summary clearly demonstrating the impact of the scheme on contract prices for main purchasers.

The Submission should also contain specific statements that confirm that:

- a) the development fits with the strategic aims of the Trust,
- b) an appraisal of a full range of options has been considered and evaluated following the guidance in SCIM, considering costs, benefits and risks,
- c) a business case has been approved by the Trust Board;
- d) purchaser support for the project and any resulting impact on prices has been obtained;
- e) private finance has been adequately explored - if a private finance route is not to be followed, then the reasons why should be outlined;
- f) a plan for implementing and evaluating the project has been drawn up.

The Submission should be signed off by the Trust Chief Executive/Board General Manager and Chairman.