



THE SCOTTISH OFFICE

Department of Health

**NHS
MEL(1996)48**

NHS Management Executive
St. Andrew's House
Edinburgh EH1 3DG
14 June 1996

Dear Colleague

CAPITAL MANAGEMENT

Summary

This letter introduces the following:

- the Scottish Capital Investment Manual;
- additional information on the approval and monitoring of capital schemes.

Action

Trusts, Boards and other health bodies should adopt, with immediate effect, the new procedures set out in the Annexes to this letter.

Yours sincerely

SIMON FEATHERSTONE
Director of Finance

Handwritten notes on a document: "Reference 96/896" and other illegible scribbles.

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**FOR
REFERENCE ONLY**

Addressees

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General Managers, Health Boards
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THE SCOTTISH CAPITAL INVESTMENT MANUAL (SCIM)

1. The Scottish Capital Investment Manual outlines good practice (which is to be treated as mandatory procedure for schemes above delegated limits) in the capital investment process.
2. MEL(1996)16 makes reference to the use of SCIM and the processes outlined in that letter should be followed in the light of SCIM's contents.
3. The Accounts Commission have been provided with copies of SCIM. Auditors will review the procedures which are in place for the preparation and submission of Business Cases and Criteria Submissions to the ME and may examine, selectively, individual schemes. The SCIM guidance outlines the 'ideal' for such a process and audit work will take place in the light of SCIM.
4. Launch seminars in support of the issue of SCIM are being arranged on a geographical basis. Further details will be forwarded to Trusts and Boards shortly.
5. Copies of SCIM have been sent under cover of this MEL to each recipient. Further copies of the Manual are available from HMSO at a purchase price of £85. Under separate cover, Trusts and Boards are being sent a copy of a Capital Investment procedures wallchart, prepared by the NHS Executive in England. Although some of the references vary from those in SCIM, it is considered nonetheless that the wallchart will prove useful in illustrating the procedural stages in the current process.
6. The SCIM supersedes the following extant guidance:
 - Fin GEN(1994)2 - Business Cases: Guidance on Preparation and Submission of Option Appraisals and Business Cases (superseded by the SCIM Business Case Guide and IM&T Guide).
 - MEL (1992) 18 - Capital Building Project Approvals and Monitoring.
 - The Health Building Procurement in Scotland series of publications, the most recent of which was the April 1991 edition of 'Procedures Subsequent to Approval in Principle'.

MONITORING

7. Chief Executives must ensure that the requirements described in the 'Management of Construction Projects' booklet are observed. In particular, attention is drawn to the MCP series of returns contained in the appendices. This replaces the PM series which ceases to apply following the withdrawal of MEL(1992)18. MCP

returns are required for all projects and schemes with a total cost exceeding £1.0 million in capital value (including VAT) using public funding. This threshold is set by HM Treasury and any changes to this figure will be intimated to the service via a MEL.

APPROVAL OF CAPITAL SCHEMES

1. MEL(1996)16 sets out a revised system of approval of capital schemes. This guidance provides further details of the approval process within the Management Executive.

2. The Capital Investment Panel is responsible for the co-ordination of all decisions relating to capital investment at the ME. It is chaired by the Director of Finance and serviced by the Trust and Purchaser Strategy Divisions. All submissions and communications regarding capital in general should be made to Sharon Fairweather (for Trusts) or John Aldridge (for Health Boards) as detailed in MEL(1996)16.

TREATMENT OF UNCOMMITTED CAPITAL

3. The available capital for the NHS in Scotland falls into 3 broad categories:

- a. Formula/block capital - a proportion (approximately 40%) of capital is allocated direct to Trusts at the beginning of each year. Approval of expenditure on individual schemes within the formula by the ME is not required.
- b. Committed capital - capital for schemes where a contract has been let or a Full Business Case or Criteria Submission has been approved by the ME are automatically confirmed with EFLs or allocated to Boards at the start of a year.
- c. Uncommitted capital - the balance is held in a 'pool' and is made available, failing the availability of private finance, on approval by the ME Capital Investment Panel of an FBC or Criteria Submission for an individual scheme.

4. The 'pool' is often oversubscribed in that the total value of schemes planned by Trusts and Boards generally exceeds resources available. However, the slippage during the year and the use of private finance means that it is difficult to predict the exact available resource during the year, and therefore the number of schemes that will not be able to go forward in that year.

5. A 'first come first served' approach is not satisfactory as it means that schemes coming forward later in the year which may be strategically vital may be delayed due to lack of available resources which has been used up by schemes of lower priority. An approach which properly assesses the strategic importance of schemes is therefore desirable.

6. To achieve this, schemes will be considered in the light of the following criteria:

- a. Match to national priorities (ie support developments in mental health, cancer, cardio-vascular disease, primary care/community healthcare);
- b. Degree to which the scheme is cash-releasing (one-off or ongoing revenue saving);
- c. Degree to which clinical effectiveness is enhanced;
- d. Degree to which scheme supports high patient throughput areas such as A&E, outpatients;
- e. The strategic importance given to the scheme by the Trust/Board and its local profile.

7. To access public funds, schemes must, of course, have demonstrated that private finance options are not feasible.

8. All schemes must also demonstrate that purchasers are aware of and fully support the strategic and price implications of each project.

SUBMISSION PROCESS

9. For all future submissions made, the following process will apply:

9.1 The submissions received by the ME will be considered by the CIP at each of their monthly meetings. However, funding will only be released, and final approval given, for schemes following 4 of these meetings, being those in April, July, September and December. Therefore, several submissions may be assessed at one time to allow prioritisation to take place. This prioritisation will be made using the criteria outlined at paragraph 6 of this Annex;

9.2 In certain circumstances, where there is an urgent strategic need for rapid progress with a scheme, the Panel may consider and approve a submission on a shorter timescale;

9.3 Trusts/Boards submitting Business Cases and Criteria Submissions will be notified of the date on which they will be considered and informed of the outcome within 5 working days of the CIP meeting;

9.4 It is vital that an Initial Agreement is approved before proceeding with an OBC or criteria submission. In addition to the purposes of the Initial Agreement outlined in the Business Case Guide of SCIM, it also provides:

- a vehicle for the sharing of good practice;
- information which can be used for CIP to give a view on the necessity to explore private finance;
- a basis for giving Trusts and Boards and indication of the availability of public capital.

9.5 An approved Initial Agreement will also enable Trusts and Boards to bid for to capital funding to cover fees for preparatory work and for support through the private finance process. A maximum of 1.5% of the total capital value of the scheme might normally be made available for this purpose over the project period.

9.6 Advertisements for private finance schemes should not be placed until an Outline Business Case has been approved by the Capital Investment Panel.

9.7 This new process will apply to all schemes which, on the date of issue of this MEL, had not yet received approval of an Initial Agreement.