



SCOTTISH EXECUTIVE

Health Department
Directorate of Performance Management and Finance

NHS
HDL(2003)32

Dear Colleague

BUDGETING FOR PROPERTY TRANSACTIONS: EFFECT ON REVENUE AND CAPITAL RESOURCE LIMITS

Introduction

1. As of 2002-03 NHS Boards and Trusts are required to comply with HM Treasury's Resource Accounting Manual. The Resource Accounting treatment of property transactions will affect the amount charged against the Revenue Resource Limit (RRL) and Capital Resource Limit (CRL) of NHS Boards and Trusts.
2. This letter provides guidance on the budgeting treatment of property transactions and their impact on the RRL and CRL of NHS Boards and Trusts. It should be noted that the resource accounting treatment itself is no different from the previous treatment but the effect on funding should be considered in relation to the CRL and RRL.

Summary

3. The Health Department must manage the funding of property transactions for NHS Scotland. Adjustment may be required to the RRL and CRL of NHS Boards in respect of the effect of property transactions within their board area for each financial year. Such adjustments should ensure that there is sufficient Revenue and Capital Resource cover for the financial effect of property transactions.
4. NHS Boards will be required to submit 3-year estimates of property transactions in September and March of each year. These estimates will be used by the Department to manage the funding of property transactions and make necessary adjustments to the RRL and CRL for each NHS Board.
5. Further details on the guidance relating to property transactions are provided in Annex A.

16th July 2003

Addresses

For action

Chief Executives of NHS Boards,
NHS Trusts, the Common Services
Agency & Special Health Boards.

For information

Directors of Finance NHS Boards,
NHS Trusts, the Common Services
Agency & Special Health Boards.

Enquiries to:

Lee Shedden
Basement Rear
St Andrew's House
EDINBURGH EH1 3DG

Tel: 0131-244 2811
Fax: 0131-244 2057



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Action

6. Chief Executives are required to ensure that 3-year estimates of property transactions are submitted to the Department as requested in September and March of each financial year.

Yours sincerely

JOHN ALDRIDGE
Director of Performance Management and Finance

GUIDANCE ON BUDGETING FOR PROPERTY TRANSACTIONS

Background

1. Prior to 2002-03, it was unlikely that NHS Trusts or Boards making a profit on disposal of fixed assets would be able to use this in revenue terms, without failing the 6% rate of return target, as such profit was reported below the line. Losses on disposal (and impairments/accelerated depreciation) which were greater than the brought forward Income and Expenditure and revaluation reserve element, were generally covered by capital debt write offs from the Department.
2. In 2002-03 profits and losses on disposal of fixed assets were included in the net operating cost charged against the RRL. The Department however had normally adjusted the RRL given to the Area NHS Board for the value of any profit or loss on disposal of properties such that there would be a neutral effect on the outturn against the RRL. Similarly, the Department had considered requests from the service for adjustments to the RRL to offset the net impact of impairments (including accelerated depreciation) on the accounts.
3. The above was however a transitional arrangement, since HM Treasury had allowed Government Departments to continue to deduct proceeds from the disposal of fixed assets from capital expenditure whilst implementing the new budgeting treatment. This contrasts with the treatment in the accounts, which deducts the net book value of disposals from fixed assets. The transitional period ceased on 31 March 2003 from when the Net Book Value of disposals will be deducted from capital expenditure charged against the CRL. NHS Boards and Trusts must therefore take account of this change in their financial plans. Bodies should therefore identify anticipated net book value of disposals and whether they will use the additional capital resource generated and any consequence on the subsequent revenue expenditure.
4. Assets that become surplus in financial years prior to the year of disposal should have be revalued to market value following the guidance laid down in the Capital Accounting Manual so their net book value should equate to sales proceeds in such circumstances. Assets that become surplus in the same financial year as that in which they are disposed will be treated differently such that a gain or loss on sale may arise. NHS bodies will therefore need to consider the effect of planned fixed asset transactions in terms of the timing of revaluation, the consequent charge or credit to the operating cost and the net book value available against the CRL.
5. This guidance sets out in more detail the proposed procedures for dealing with the above. The Accountable Officer should ensure that these procedures are brought to the attention of relevant staff.

Guidelines

6. In general, net property transactions will be assessed on a NHS board area basis. This means that the NHS Board shall be expected to manage property transactions for the board area and make necessary adjustments to the RRL and CRL of local NHS Trusts.
7. Where a NHS Board Area has a net profit on disposal of property (i.e. after deducting any losses on disposal or impairments), they should advise the Department whether they wish to request to utilise the additional revenue resource or whether it is surplus to their requirements.
8. Conversely, where a NHS Board area has a net loss on disposal or impairment of property, they should submit requests to the Department to increase their RRL by this amount if they require to do so.
9. It should be stressed that, under normal circumstances, a NHS Board would not be entitled to retain profits on disposal on property **and** receive an increase in their RRL to cover impairments. Such transactions should be netted off against one another within a NHS Board Area.
10. The Net Book Value of fixed asset disposals will be deducted from expenditure charged against the CRL. NHS bodies should therefore consider whether their CRL would also require to be adjusted if they are not able to utilise this to fund capital expenditure in year. Any adjustment required to the CRL should also be notified to the department under these arrangements. This should also include the effect of any difference between net book value and sales proceeds, as described above.
11. NHS Boards should not assume that an adjustment will be made to their RRL or CRL for property transactions. They must follow the procedures below before anticipating such adjustments within their monthly monitoring returns.

Procedures

12. NHS Boards will be asked to provide a 3 year forecast of property transactions in September and March of each year in conjunction with the capital charges estimates. The estimates will be used by the Department to assess the potential impact on the Health Budget for the current and forthcoming 2 years.
13. The Department will make an initial adjustment to the RRL and CRL of each NHS Board on the basis of the September estimates submitted in year. It should be stressed that the initial adjustment may not match the estimates. Although the Department will make every effort to ensure that all losses / impairments are covered, this will depend on the resources available within the Department and the overall request for resources from the service.

14. Further adjustments to the RRL will then be made at the year-end once the March estimates have been submitted by all NHS Boards. Again, it must be stressed that the adjustments to the RRL may not match estimates.
15. In September of each year, the Department will ask the Service to confirm amounts recorded in their annual accounts in the previous financial year in respect of property transactions. Any variance between the actual amounts recorded and the previous estimate will be adjusted for in the following year's RRL and CRL.
16. A timetable for monitoring property transactions in respect of 2002-03 and 2003-04 is provided in Table 1 in order to illustrate the new arrangements.
17. It should be noted that the September estimates should include details of each property transaction within the current financial year as outlined in Table 2. If full details of each transaction are not provided no adjustment will be made.
18. Finally, it should be noted that these adjustments relate to property transactions only. Profits/losses on disposal of equipment and other fixed assets must be funded within existing RRL and CRLs.

Table 1: Timetable for monitoring of property transactions.

Date	Action
Mar 2003	SEHD adjust NHS Boards' RRLs for 2002-03 property transactions.
Sep 2003	NHS Boards submit 3-year estimates for property transactions (i.e. 2003-04 to 2005-06), including details of each property transaction for the current financial year, 2003-04.
Oct 2003	SEHD make initial adjustment to NHS Boards' RRL and CRL for 2003-04 property transactions. SEHD will also check actual 2002-03 property transactions against previous 2002-03 estimates and adjust the RRL and CRL for 2003-04 for any variances as appropriate.
Mar 2004	NHS Boards submit revised estimates for 3-year period 2003-04 to 2005-06. SEHD shall make any further adjustments to the 2003-04 RRL and CRL as necessary.
Sep 2004	NHS Boards submit 3-year estimates for property transactions (i.e. 2004-05 to 2006-07), including details of each property transaction for 2004-05.

Table 2: Information required

Profits/(Losses) on Disposal of Property
Name and description of property
Proposed disposal date
Reason for disposal
Reference document (e.g. board minutes confirming decision to dispose of property)
Net book value of property at proposed disposal date
Anticipated disposal proceeds
Revaluation reserve balance in respect of property
Profit/(loss) on disposal of property
Details of reduction required to CRL and details of capital expenditure planned to utilise any remaining net book value of disposal
Impairments (including accelerated depreciation)
1. Name and description of property
Proposed disposal / Revaluation date
Reason for disposal / revaluation
Reference document
Net book value of property at revaluation date
Any anticipated disposal proceeds (if disposing of property)
Revaluation reserve balance in respect of the property
Details of impairment / accelerated depreciation values over current and future years (where applicable) and calculation thereof