SCOTTISH EXECUTIVE

Department of Health

NHS
MEL(1998)46

NHS Management Executive
St. Andrew's House
Edinburgh EHI 3DG

6th July 1998

Dear Colleague

INTERIM CAPITAL GUIDANCE

Over the next six to nine months, the Private Finance & Capital Unit and others in the Finance Directorate will be revising the Scottish Capital Investment Manual.

In advance of the revised SCIM, the attached interim guidance on the contents of key documents has been prepared. This guidance takes the form of content checklists for:

- an Initial Agreement;
- a Criteria Submission;
- an Outline Business Case;
- a Full Business Case - PFI; and
- a Full Business Case - publicly funded.

Compliance with this guidance will assist the ME in assessing capital proposals put forward for consideration.

In view of the recently published policy on openness and the publication of OBCs and FBCs, it should be possible for business cases to be shared more readily amongst the NHSiS. The PFCU or the Regional Finance Managers will be able to put NHS bodies in touch with other bodies who have developed business cases for similar or comparable schemes.

Yours sincerely

Dr PAUL BRADY
Director of Finance

Addressees

For action

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INITIAL AGREEMENT

PURPOSE

The Initial Agreement is a brief document which establishes the need for change and sets out the proposal in the context of the Trust's strategy to allow the Trust, Health Board and ME to ensure that the scheme meets the objectives laid down in the HIP.

MANDATORY FOR:

- All schemes bidding for public funding
- All IM&T schemes with a project life cost estimated to be above the current OJEC threshold for advertising (currently £104,000). Project life costs to be estimated over 4 years or the project life, if shorter. Estimates to exclude VAT.
- Trust non-IM&T PFI schemes over £1m
- Health Board non-IM&T PFI schemes over £0.5m

CONTENTS

The Initial Agreement should contain the following information:

1. **The title of the scheme**

   As it appeared in the Capital Plan and as it will appear in Monitoring returns.

2. **Introduction / Background.**

- Strategic Objectives
- Clinical Need
- Proposed Outcomes - benefits to patients

3. **Description of the service concerned.**

- Current Service
- Proposed Service

4. **List of options.**

5. **Capital Costs**

- Broad indication of capital costs
- Sources of Capital Funding
- Timescales

6. Impact on revenue costs.

The Initial Agreement should contain specific statements to confirm that:

a) the development fits with agreed HIP(s) and the objectives of the Trust;

b) the IA has been approved by the Trust Board;

c) agreement in principle has been obtained from the Health Board.

d) it is consistent with the Trusts estates strategy as agreed with the Health Board

e) having regard for the service objectives of the proposal no better use could be made of the existing estate

The Initial Agreement should be signed off, in the case of Trusts by the Trust Chief Executive and the Health Board General Manager; or in the case of Health Boards by the Health Board General Manager.

CRITERIA SUBMISSION

PURPOSE

The Criteria Submission is a short document outlining how the scheme measures up against key criteria. It is submitted for smaller schemes instead of Outline and Full Business Cases. In the case of PFI the Criteria Submission has to be followed up by a Fill Business case for Trust audit purposes, but there is no requirement for this to be submitted to the ME (although a sample of these may be subject to audit by the ME).

MANDATORY FOR:

- Trust non-IM&T schemes below £4m
- Trust non-IM&T PFI schemes above Lim but below £4m
- Health Board non-PFI schemes below £0.5m

CONTENTS

The Criteria Submission should contain the following information:

1. The title of the scheme

As it appeared in the Capital Plan and as it will appear in Monitoring returns.

2. Preferred Option

A brief narrative describing the preferred option, adding any relevant details not included in the option description in the Initial Agreement, and explaining the relationship between the proposed scheme and relevant HIP(s).

3. Public Funding

Where the preferred option is to be publicly funded, a cost profile showing capital expenditure over the project period.

4. Revenue Impact

A summary clearly demonstrating the revenue impact of the scheme to Health Boards.

The Criteria Submission should contain specific statements to confirm that:

a) the development fits with agreed HIP(s) and the objectives 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) Health Board support for the scheme and any resulting revenue consequences 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.

g) it is consistent with the Trusts estates strategy as agreed with the Health Board

h) having regard for the service objectives of the proposal no better use could be made of the existing estate

The Criteria Submission should be signed off, in the case of Trusts by the Trust Chief Executive and the Health Board General Manager; or in the case of Health Boards by the Health Board General Manager.

OUTLINE BUSINESS CASE (OBC)

PURPOSE

The OBC is a detailed document which identifies the preferred option and supports and justifies the case for investment. The emphasis is on what has to be done to meet the strategic objectives identified in IA. A full list of options will be reduced to a short list of those which meet agreed criteria. An analysis of the costs, benefits and risks of the short listed options will be prepared. A preferred option will be determined based on the outcome of a benefits scoring analysis; a risk analysis; and a financial and economic appraisal. PFI should be explored.

MANDATORY FOR:

- Trust non-IM&T schemes above £4m.
- Trust IM & T schemes with a project life cost estimated to be above £lm. Project life costs to be estimated over the first 4 years of the project or the project life, if shorter. Estimates to exclude VAT
- All Health Board schemes above £0.5m

CONTENTS

The OBC would typically contain the following information:

1. The title of the scheme

As it appeared in the Capital Plan and as it will appear in Monitoring returns.

2. **Executive Summary**

A brief self-standing statement of:

2.1 the service objectives of the scheme

2.2 summary of the shortlisted options

2.3 results of the economic and financial appraisal

2.4 statement of the preferred option

2.5 statement from Health Board of full support of the scheme

3. **Introduction /purpose – assessment of need**

3.1 explanation of clinical need and the benefits to patients which would result from implementation of the project

3.2 implications of not meeting the need e.g. reduced service, under-capacity, inappropriate facilities, failure to meet recognised standards

3.3 a full explanation of the services required together with a description of the existing assets to be replaced, altered or refurbished to allow efficient service delivery

4. Background/strategic context

4.1 description of the NHS Trust and its catchment area and catchment population for its services, including reference to Health Board (s) and HIP(s)

4.2 description of the Trust's strategic direction and business objectives

4.3 the current activities of the Trust and the range and quantity of health care services it provides

4.4 assessment of the Trust's current financial position and cost structure

4.5 assessment of Trust resources (assets and manpower) and their current utilisation in service provision (including their functional suitability)

4.6 assessment of the current service performance relative to Health Board's requirements (e.g. in the case of an acute hospital project patient activity for each of the main specialities and services, proportion of treatments conducted as day cases by speciality, average length of stay for in-patients, turnover interval by speciality and other relevant performance indicators). Also cost per case data.

4.7 overview of health strategy for the area, drawing on Health Board(s) strategies, Planning and Priorities Guidance and HIP. Also, any relevant local and national reviews which have a bearing on where and how different types of services should be provided

4.8 assessment of any changes in the pattern of services needed to meet Health Board(s) requirements and future demand (including the rationale for any changes to the current configuration of services or estate)

4.9 description of the Trust's strategy for meeting Health Board's service requirements, including how the proposed development will meet those requirements and its impact on other Health Boards served by the Trust

4.10 justification of the assessment of future services and functions required by reference to Health Board(s) requirements, projected catchment population, changes in medical technology, and other factors influencing the demand for services or the Trust's ability to meet demand

5. **Service Specification**

5.1 description of the services covered in the proposed scheme

5.2 summary of output specification for the project (including desired outputs for the building quality design, facilities and services, desired quality and performance standards)

6. **Project Objectives and Scope**

6.1 description of project objectives and their link to the Trust's strategy and overall business objectives (also link to overall commissioning strategy)

6.2 description of the desired benefits and why these cannot be delivered under the current configuration of the estate

6.3 identification of any constraints on the means of achieving the objectives of the investment

7. **Options considered**

7.1 description of the long-list of options (both capital and non-capital, including do-nothing or do minimum) for meeting the project objectives

7.2 reasons for early rejection of options

7.3 description of the short-listed options

8. THE APPRAISAL PROCESS

8a. **Benefits Appraisal**

8a.1 identification of non-financial benefits, an indication of when they are expected to occur, and quantification, ideally in the form of a weighting and scoring analysis

8b. **Financial Appraisal**

8b. 1 identification and assessment of capital and revenue costs associated with shortlisted options over the life span of the scheme using the standard format of forms FB1 & FB2 but headed OB1 & 0B2

8b.2 a statement of how much the Health Board is prepared to spend on the services to be covered by the proposed scheme

8b.3 revenue implications of the preferred option (including capital charges and net effect on prices). This estimate should make allowance for the cost of risk and the full lifetime costs of a scheme, including provision for equipment and IM&T at the start of, and during, the project. If refurbishment is required at any stage in the project's life, this should be included in the savings.

8b.4 impact on the Trust's balance sheet, cash flow position and income and expenditure account

8b.5 key assumptions underlying the financial appraisal and explanation of the methodology used to project income and expenditure

8b.6 full sensitivity analysis on the key assumptions behind the financial appraisal

8b.7 explanation of how the cost of risk has been factored into the financial appraisal

8b.8 assessment of whether there is flexibility to fund any additional revenue requirements and likely source of funding (e.g. disposal of surplus land)

8b.9 evidence of Health Board involvement in the development of the scheme (including confirmation that the scheme is affordable, complies with the HIP and will be properly managed)

8c **Economic Appraisal**

8c. 1 presentation of capital and revenue costs, excluding VAT and capital charges.

8c.2 identification and high-level assessment of risks and uncertainties associated with shortlisted options

8c.3 key assumptions underlying the assessment of costs, benefits and risks, and the results of sensitivity analyses undertaken

8c.4 results of the appraisals of the shortlisted options in Net Present Values, with Equivalent Annual Cost calculations if the schemes have different lifetimes.

8d. **Risks and uncertainty appraisal**

8d. 1 a full description of the risks associated with the leading options, indicating their nature, timing and potential impacts

8d.2 estimated cost of risk associated with the leading options (both risks likely to be retained by the public sector and those likely to be transferred)
[Note: transfer of risk will not apply WPFI has been ruled out at this stage]

8d.3 description of the methodology used to quantify and value risks

8d.4 results of sensitivity analysis on the key assumptions underlying the risk evaluation, including the results of a sensitivity analysis of the non-financial benefits

8d.5 analysis of how probable it is that the various risks will occur

8d.6 description of how risks are to be managed. Where PFI is an option some! all risks can be transferred to the private sector, but where PFI has been ruled out at the OBC stage then all risks will be managed by the public sector.

Ref Appendix A - Suggested Outline for OBC Risk Analysis

9. Preferred Option

9.1 detailed description of the preferred option

9.2 key factors responsible for superiority

10. Risk transfer

10.1 a preliminary risk allocation matrix indicating the likely risk allocation and contractual arrangements between the Trust and private sector (it is recognised that this will be subject to change during the course of negotiations and bidding. However, this issue should be considered before finalising tender documents and entering negotiations.
[Note: transfer of risk will not apply if PFI has been ruled out at this stage]

10.2 identification of potential mechanisms for transferring risk to the private sector *[Note: transfer of risk will not apply if PFI has been ruled out at this stage]*

11. PFI & Legal Issues

11.1 description of any risks or any aspect of the scheme which might affect its PFI-ability (e.g. planning constraints)
[Note: even if PFI has been ruled out at this stage potential risks should be identified]

11.2 preliminary views on the type of contract structure which might be used to achieve the desired project outcomes. This should describe how the Trust intends to approach the main contractual issues, particularly risk transfer, payment structure, payment mechanism, termination, penalty payments, service level agreement, market testing/benchmarking, indexation, etc. *[Note: if PFI has been ruled out at this stage non PFJ contractual issues should nevertheless be identified]*

12. **Personnel Issues**

12.1 Present Staffing

12.2 Future Requirements

12.3 Policy on openness - consultation and involvement

12.4 TUPE
[Note: not applicable if PFI has been ruled out at this stage]

13. **Timetable**

13.1 summary of the project plan from development of the OBC to completion of the new facility, including key milestones

14. **Project Management**

14.1 description of how the Trust intends to manage the various phases of the project, including any updates since the Initial Agreement. This should cover the composition and responsibilities of the project team and evidence of their capacity to achieve the various project milestones, evidence of purchaser and local stakeholder involvement, specific role of external advisers, and estimate of costs which will be incurred during the procurement process

Appendices:

A. **Cost analysis/assumptions**

B. **Benefits Matrix**

C. **Benefits Analysis**

D. **Risk Analysis**

E. **Risk Assessment Matrix**

F. **Affordability Model**

G. **Maps/diagrams/drawings**

H. **Draft OJEC advertisement**
[Note: obviously not applicable if PFI has been ruled out at this stage]

The OBC should contain specific statements to confirm that:

a) the development fits with agreed HIP(s) and the objectives of the Trust;

b) the OBC has been approved by the Trust Board;

c) agreement has been obtained from the Health Board that they will meet the revenue consequences of the scheme.

d) it is consistent with the Trusts estates strategy as agreed with the Health Board

e) having regard for the service objectives of the proposal no better use could be made of the existing estate

The OBC should be signed off, in the case of Trusts by the Trust Chief Executive and the Health Board General Manager; or in the case of Health Boards by the Health Board General Manager.

FULL BUSINESS CASE (FBC) - PFI

PURPOSE

The FBC explains how the preferred option would be implemented and how it can be best delivered. The preferred option is refined to produce a robust public sector comparator (PSC). This is used as a comparison against the best PFI option, securing best value for money for the public purse. Project Management arrangements and post project evaluation and benefits monitoring are also addressed in the FBC.

MANDATORY FOR:

- Trust non-IM&T schemes above £4m
- Trust IM & T schemes with a project life cost estimated to be above Lim. Project life costs to be estimated over the first 4 years of the project or the project life, if shorter. Estimates to exclude VAT.
- Health Board schemes above £0.5m
- Trust non-IM&T PFI schemes above £lm but below £4m (for submission to Trust Board but not ME)

CONTENTS

The FBC should contain the following information:

1. Executive Summary

A self standing statement of:

1.1 The background and objectives to the project.

1.2 A description of the preferred option.

1.3 A summary of the economic and financial (i.e. affordability) appraisals of the project.

1.4 The key points of the PFI deal.

1.5 The key milestones and timetable to financial close and delivery of services.

2. **Strategic Context**

2.1 Description of the NHS Trust and a statement of the objectives of the Trust and the project.

2.2 Description of the strategic context of the proposal, including a description of the purchaser's strategic plans and how the Trust's proposal intends to fulfil the purchaser's service requirements.

2.3 Review of key assumptions underlying the strategic analysis and effects of any changes since the OBC.

2.4 Description of present catchment population and present level of service activity.

2.5 Description of the market for services, the competitive position of the Trust and of other service providers and the likely future pattern of Trust income.

2.6 Description of the size and scope of the project.

2.7 Justification of the assessment of future services and functions required by reference to purchasers requirements, projected catchment population and other factors influencing the demand for services.

3. **The Outline Business Case**

3.1 Summary of the outline business case including description of the long list of options.

3.2 Description of short list of options considered including results of the economic appraisal, benefits analysis, financial appraisal and sensitivity analysis.

3.3 Review of assumptions underlying OBC to demonstrate how any changes have affected the ranking of options, including any changes to the assessed benefits of the scheme.

4. **The Public Sector Comparator**

4.1 Description of how the PSC has been derived and updated from the preferred option in the OBC.

4.2 Explanation of any updates that have been made in order to place the PSC on the same basis as the PFI option.

5. **The PFI Procurement Process**

5.1 Description of the procurement methodology undertaken.

5.2 Details of advisers used by the Trust.

5.3 Description of the pre-qualification process indicating the route by which the Trust arrived at the short list.

5.4 Brief summary of the Invitation to Negotiate document including the evaluation process and criteria described for selecting a preferred bidder.

5.5 Explanation of the choice of preferred private sector partner.

5.6 A copy of the original OJEC advertisement should be annexed to the business case.

6. The Preferred PFI Solution

6.1 Description of the consortium and its members, including an evaluation of their strength and qualities. This may include reports by a rating agency.

6.2 Description of the PFI solution.

6.3 Timetable for securing outstanding planning permission and details of what happens if planning permission is not achieved.

6.4 Timetable from FBC to financial close and delivery of services.

6.5 Details of when the price quoted in the PFI bid is firm until.

6.6 Details of the assumed interest rate on which the price of the scheme is based, including the interest rate buffer.

6.7 Sensitivity analysis of the effect on price of an increase or decrease in interest rates.

7. THE APPRAISAL PROCESS

7a. Financial Appraisal (Affordability Analysis)

7a. 1 Quantification of the revenue implications of the scheme for the PSC, and the PFI option.

7a.2 Analysis of the impact of the proposals on the Trusts I&E account, balance sheet and cash flow. This should highlight any peaks or troughs in individual years during the primary contract period.

7a.3 Description of assumptions made for the financial appraisal, including an explanation of the methodology used to project both income and expenditure.

7a.4 Explicit and up-to-date confirmation of purchaser support to the financial, strategic and service configuration aspects of the proposals. A letter from the General Manager of the main purchaser is required confirming their unequivocal support. It would be useful to have a breakdown of projected income between purchasers so that if there are other significant purchasers their support could also be confirmed. Any purchaser consultation on service charges must be completed before final FBC submission.

7a.5 Description of Trusts income from other sources, e.g. ACTR.

7a.6 Position on VAT treatment of the project, including details of clearance from C&E.

7a.7 Description of how land and buildings included in the PFI deal have been treated, and what assumptions have been made.

7a.8 Details of and justification for the writing off of any of the Trust's debt andlor assets from existing use value to open market value and (where appropriate) from open market value to nil.

7a.9 For building projects, FB 1 - 4 forms detailing capital costs must be included.

7b. **Economic Appraisal (Value for Money Analysis)**

7b. 1 Net present value (NPV) comparison of the PSC, and the PFI option. If the different options have different life spans then the equivalent annual cost (EAC) of the options should be shown. The risk adjusted NPVs or EACs should also be shown separately. It may also be appropriate to include details of the do-minimum option from the OBC for comparative purposes.

7b.2 An explanation of the reasoning why the preferred option is better value for money.

7b.3 Description of assumptions made for the economic appraisal.

7b.4 Details of how the PSC was calculated, including updated information from the OBC on how the capital expenditure schedules, lifecycle costs and other operating costs were calculated. Consideration should also be given to environmental factors such as emissions, clinical waste volumes, as applicable.

7b.5 Description of the quantification of costs and benefits included in the appraisal.

7b.6 Description of the non-quantified costs or benefits in the scheme, including a weighting and scoring analysis where appropriate.

7b.7 Sensitivity analysis, and scenario modelling of the key assumptions behind the economic appraisal.

7c. **Risk Analysis**

7c. 1 A risk allocation matrix showing which party is responsible for managing which risk. The risk matrix should reconcile back to the relevant paragraphs of the project agreement.

7c.2 A list of the key individual risks including an explanation of what each one means, and how the values and probabilities of those risks occurring were determined.

7c.3 An NPV analysis of the risks retained by the public sector under each of the options considered. This should be based on a probability analysis of the quantifiable risks.

7c.4 An assessment of the total risks associated with the project inc luding those risks which are non-quantifiable in the form of a weighting and scoring matrix.

7c.5 Sensitivity analysis of the key assumptions underlying the risk analysis.

7c.6 Sensitivity analysis on the impact of other purchasers altering purchasing behaviour.

8. **Summary of the contract structure**

8.1 Description of the contractual framework of the PFI project.

8.2 A diagram of the legal relationships between the various parties to the deal.

8.3 Summary of the main provisions of the contract agreement, the position reached on the key issues (detailed further in Annex A) and any points that are outstanding.

9. Accounting Treatment

9.1 An assessment of the proposed accounting treatment of the project in respect of the Trusts balance sheet by the Trust's Director of Finance, backed up by appropriate professional advice. It is expected that projects will be likely to be off-balance sheet. This should include a summary of the rationale and key elements underlying the off-balance sheet accounting opin ion. (See Treasury Taskforce Guidance Note No. 'How to Account for PFI Transactions' - or subsequent guidance)

9.2 There must be a written indication from the Trust's external auditors that they have no objection to the proposed accounting treatment of the project. (See Note for Guidance 96/6 published by the Accounts Commission.)

10. Project Management Arrangements

10.1 Description of the project management and control arrangements both throughout the construction and the operation phases of the project.

11. Benefits Assessment and Benefits Realisation Plan

11.1 Description of the benefits to be delivered under the project, including an indication of differences in the levels of benefits delivered under the PSC and the PFI options.

11.2 A thorough and complete benefits realisation plan.

12. Risk Management Strategy

12.1 Details of plans for managing risks which might arise during the implementation of the project. This will cover all potential risks retained by the public sector.

13. Post Project Evaluation Plan

13.1 A plan for monitoring the progress and completion of the project, and for evaluating the outcome following implementation is essential and should be carefully prepared and implemented.

14. Information Management and Technology Strategy

14.1 A description of the Trusts IM&T Strategy and how it relates to the project under consideration.

14.2 If a major redevelopment does not include a specific IM&T component, an outline of how the IM&T strategy will be delivered including any affordability implications.

15. Equipment

15.1 An explanation of how equipment will be provided for the project, and what equipment is in the PFI contract.

15.2 A summary of how equipment within the PFI contract is handled.

15.3 Details of how equipment not in the PFI contract will be paid for.

16. Personnel Issues

16.1 If the project involves any significant changes to the numbers and mix of staff employed, a human resource change management plan should be prepared, including redundancy costs, early retiral costs, etc.

17. **Conclusion**

17.1 A statement of the preferred option in the FBC for which approval is being sought.

The FBC should contain specific statements to confirm that:

a) the development fits with agreed HIP(s) and the objectives of the Trust;

b) the FBC has been approved by the Trust Board;

c) agreement has been obtained from the Health Board that they fully support the scheme and its financial consequences.

d) it is consistent with the Trusts estates strategy as agreed with the Health Board

e) having regard for the service objectives of the proposal no better use could be made of the existing estate

The FBC should be signed off, in the case of Trusts by the Trust Chief Executive and the Health Board General Manager; or in the case of Health Boards by the Health Board General Manager.

FULL BUSINESS CASE (FBC) -- PUBLICLY FUNDED

PURPOSE

The FBC explains how the preferred option would be implemented and how it can be best delivered. The preferred option is developed to ensure that best value for money for the public purse is secured. Project Management arrangements and post project evaluation and benefits monitoring are also addressed in the FBC.

MANDATORY FOR:

- Trust non-IM&T schemes above £4m
- Trust IM & T schemes with a project life cost estimated to be above £lm. Project life costs to be estimated over the first 4 years of the project or the project life, if shorter. Estimates to exclude VAT.
- Health Board schemes above £0.5m

CONTENTS

The FBC should contain the following information:

1. Executive Summary

A self standing statement of:

1.1 The background and objectives to the project.

1.2 A description of the preferred option.

1.3 A summary of the economic and financial (i.e. affordability) appraisals of the project.

1.4 The key milestones and timetable to financial close and delivery of services.

2. Strategic Context

2.1 Description of the NHS Trust and a statement of the objectives of the Trust and the project.

2.2 Description of the strategic context of the proposal, including a description of the purchaser’s strategic plans and how the Trust’s proposal intends to fulfil the purchaser’s service requirements.

2.3 Review of key assumptions underlying the strategic analysis and effects of any changes since the OBC.

2.4 Description of present catchrnent population and present level of service activity.

2.5 Description of the market for services, the competitive position of the Trust and of other service providers and the likely future pattern of Trust income.

2.6 Description of the size and scope of the project.

2.7 Justification of the assessment of future services and functions required by reference to purchasers requirements, projected catchment population and other factors influencing the demand for services.

3. The Outline Business Case

3.1 Summary of the outline business case including description of the long list of options.

3.2 Description of short list of options considered including results of the economic appraisal, benefits analysis, financial appraisal and sensitivity analysis.

3.3 Review of assumptions underlying OBC to demonstrate how any changes have affected the ranking of options, including any changes to the assessed benefits of the scheme.

4. The Preferred Solution

4.1 Description of the preferred solution.

4.2 Timetable for securing outstanding planning permission and details of what happens if planning permission is not achieved.

4.3 Timetable from FBC to contractual close and delivery of services.

4.4 Details of when the price quoted in the bid is firm until.

5. **THE APPRAISAL PROCESS**

5a. **Financial Appraisal (Affordability Analysis)**

5a. 1 Quantification of the revenue implications of the scheme for the preferred option

5a.2 Analysis of the impact of the proposals on the Trusts I&E account, balance sheet and cash flow. This should highlight any peaks or troughs in individual years.

5a.3 Description of assumptions made for the financial appraisal, including an explanation of the methodology used to project both income and expenditure.

5a.4 Explicit and up-to-date confirmation of purchaser support to the financial, strategic and service configuration aspects of the proposals. A letter from the General Manager of the main purchaser is required confirming their unequivocal support. It would be useful to have a breakdown of projected income between purchasers so that if there are other significant purchasers their support could also be confirmed. Any purchaser consultation on service charges must be completed before final FBC submission.

5a.5 Description of Trusts income from other sources, e.g. ACTR.

5a.6 Position on VAT treatment of the project, including details of clearance from C&E.

5a.7 Description of how land and buildings included have been treated, and what assumptions have been made.

5a.8 Details of and justification for the writing off of any of the Trust's debt andlor assets from existing use value to open market value and (where appropriate) from open market value to nil.

5a.9 For building projects, FB 1 - 4 forms detailing capital costs must be included.

5b. **Economic Appraisal (Value for Money Analysis)**

5b.1 Net present value (NPV) comparison of the preferred option, and the other options. If the different options have different life spans then the equivalent annual cost (EAC) of the options should be shown. The risk adjusted NPVs or EACs should also be shown separately. It may also be appropriate to include details of the do-minimum option from the OBC for comparative purposes.

5b.2 An explanation of the reasoning why the preferred option is best value for money.

5b.3 Description of assumptions made for the economic appraisal.

5b.4 Details of how the preferred option was calculated, including updated information on the do-minimum option (for comparison purposes) from the OBC on how the capital expenditure schedules, lifecycle costs and other operating costs were calculated. Consideration should also be given to environmental factors such as emissions, clinical waste volumes, as applicable.

5b.5 Description of the quantification of costs and benefits included in the appraisal.

5b.6 Description of the non-quantified costs or benefits in the scheme, including a weighting and scoring analysis were appropriate.

5b.7 Sensitivity analysis, and scenario modelling of the key assumptions behind the economic appraisal.

5c. **Risk Analysis**

5c. 1 A list of the key individual risks including an explanation of what each one means, and how the values and probabilities of those risks occurring were determined.

5c.2 An NPV analysis of the risks under each of the options considered. This should be based on a probability analysis of the quantifiable risks.

5c.3 An assessment of the total risks associated with the project including those risks which are non-quantifiable in the form of a weighting and scoring matrix.

5c.4 Sensitivity analysis of the key assumptions underlying the risk analysis.

5c.5 Sensitivity analysis on the impact of other purchasers altering purchasing behaviour.

6. **Summary of the contract structure**

6.1 Description of the contractual framework of the project.

6.2 A diagram of the legal relationships between the various parties to the deal.

6.3 Summary of the main provisions of the contract agreement, the position reached on the key issues (detailed further in Annex A) and any points that are outstanding.

7. **Project Management Arrangements**

7.1 Description of the project management and control arrangements both throughout the construction and the operation phases of the project.

8. Benefits Assessment and Benefits Realisation Plan

8.1 Description of the benefits to be delivered under the project.

8.2 A thorough and complete benefits realisation plan.

9. Risk Management Strategy

9.1 Details of plans for managing risks which might arise during the implementation of the project. This will cover all material potential risks.

10. Post Project Evaluation Plan

10.1 A plan for monitoring the progress and completion of the project, and for evaluating the outcome following implementation is essential and should be carefully prepared and implemented.

11. Information Management and Technology Strategy

11.1 A description of the Trusts IM&T Strategy and how it relates to the project under consideration.

11.2 If a major redevelopment does not include a specific IM&T component, an outline of how the IM&T strategy will be delivered including any affordability implications.

12. Equipment

12.1 An explanation of how equipment will be provided for the project, and what equipment will be leased.

12.2 A summary of how equipment within any lease contract is handled.

12.3 Details of how equipment not in a lease contract will be paid for.

13. Personnel Issues

13.1 If the project involves any significant changes to the numbers and mix of staff employed, a human resource change management plan should be prepared, including redundancy costs, early retiral costs, etc.

14. Conclusion

14.1 A statement of the preferred option in the FBC for which approval is being sought.

The FBC should contain specific statements to confirm that:

a) the development fits with agreed HIP(s) and the objectives of the Trust;

b) the FBC has been approved by the Trust Board;

c) agreement has been obtained from the Health Board that they fully support the scheme and its financial consequences.

d) it is consistent with the Trust's estates strategy as agreed with the Health Board

e) having regard for the service objectives of the proposal no better use could be made of the existing estate

The FBC should be signed off, in the case of Trusts by the Trust Chief Executive and the Health Board General Manager; or in the case of Health Boards by the Health Board General Manager.

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SUGGESTED OUTLINE FOR OBC RISK ANALYSIS

At the OBC stage, the risk analysis should focus on impacts on:

- The choice between options.
- Affordability.

However, it should also provide a starting point for the more detailed analysis in the FBC of preferred option risks and how to manage them.

The areas that the risk analysis should address are as follows:

- Sensitivity on benefits.
- Sensitivity on costs.
- Risk identification and quantification.
- Risk management.

(1) Benefits

The sensitivity of option rankings to changes in weights and scores should be tested. One way of approaching this is to run the weighting and scoring analysis on the basis of:

- Different relative weights suggested by the various parties involved in the exercise.
- Maximum and minimum scores suggested by those involved.

Alternatively, the impact of non-achievement of specific benefits for particular options on rankings could be tested.

(2) Costs

Possible areas to consider in terms of the impact on both the financial appraisal (affordability) and economic appraisal (ranking of options) include:

- Overrun on construction costs.
- Effect of reduced disposal proceeds.
- Effect of slippage due to disruption in transfer of services.
- Impact of varying asset lives.
- Revenue cost levels/savings not realised.

If there is no evidence on, for example, the extent to which construction costs might overrun, then it is legitimate to test sensitivity on a "what if" basis using what seems to be realistic ranges. Another approach is to calculate thresholds. This involves testing to establish what values would be required to change rankings/before affordability becomes a problem. The question then becomes are the values required to change rankings credible?

It is important to focus on differences between options, rather than applying the same sensitivity to variables that are of a common magnitude in all options.

Testing for changes in one variable is known as one way sensitivity analysis. However, it can also be instructive to look at combinations of changes in variables (two-way sensitivity analysis). The scenarios and resultant NPVs shown in the following example are illustrative.

NPV (£'000)		SAVINGS (%)		
		-1	0	+1
Construction Costs (%)	-5	1,000 (U)	1,100 (U)	1,200 (VU)
	0	700 (L)	800 (VL)	900 (U)
	+10	100 (L)	200 (L)	300 (U)

Each of the nine possible outcomes is defined as either "very likely", "likely", "unlikely" or "very unlikely". A similar table can be generated for each option.

(3) Identification and quantification of risks
As a starting point, the risks should be listed and the options that they relate to should be identified.

The next step is to assign probabilities (ideally quantify, but high/medium/low is an alternative).

The effects should then be identified in terms of cost, time, etc.

Risks may fall under the following headings:

- Construction overrun, delay.
- Site disposal receipts and timing.
- Asset lives.
- Site problems. Delays in construction and disruption to other services.
- Revenue cost risks. Efficiency improvements and financial savings are not delivered.
- Demand risk. What happens if bed numbers/scale of facilities are insufficient to cope with demand? What is the cost of accessing facilities elsewhere/creating additional capacity? What happens if there are too many beds (an upside risk)? Will there be scope for use by other services?

This list is not exhaustive.

Depending on whether probabilities have been quantified and effects have been valued, the expected value of risks can be calculated. Quantification is particularly relevant from the point of view of assessing affordability.

(4) Risk management
Once the significant risks have been identified, and their likelihood and effect quantified, the next question is how they will be managed? Contingencies to cover adverse outcomes should be established. It may be necessary to consider the case for greater flexibility of design and/or particular management arrangements in order to minimise the likelihood of adverse outcomes.

The above analysis should provide the basis for a move detailed assessment of the preferred option at the FBC stage. A benefits realisation plan will have to be prepared at that stage. A framework for post project evaluation will also have to be developed the results of which should be fed back into the planning process for projects in future.

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Scottish Executive Health Department
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