### WELSH HEALTH CIRCULAR

**Issue Date:** 2<sup>nd</sup> February 2005  
**Status:** ACTION

#### Title: Revised Capital Investment Business Case Procedure

**For Action by:** Chief Executives: NHS Trusts, Local Health Boards  
**Action required:** Paragraphs 5-13

**For Information to:** See attached list

**Sender:** Christine Daws, Director of Resources, Health & Social Care Department, Welsh Assembly Government, Cathays Park, Cardiff, CF10 3NQ.

**National Assembly Contact for matters of Policy:** Mr Martin Sollis, Resource Directorate, Health & Social Care Department, Welsh Assembly Government, Cathays Park, Cardiff, CF10 3NQ.

**Enclosure(s):** Appendix 1: OBC and FBC content  
**Appendix 2:** Programme for Excellence in NHS Procurement

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REVISED CAPITAL INVESTMENT BUSINESS CASE PROCEDURE

SUMMARY

1. This circular sets out the process to be followed by NHS organisations in developing proposals for capital investment. It also describes the initiatives the Health and Social Care Directorate is putting in place to support the Assembly, its Regional Offices, NHS Trusts and Local Health Boards (LHB's).

2. The circular does not apply to primary care estates developments which are governed by WHC(2004)55. If, however, LHB’s wish to access central capital programme funds for major projects this guidance will apply.

3. The circular includes the following:

   • Limits for delegated authority and proposals for increased delegation subject to accreditation
   • Business case requirements
   • Business case approval arrangements
   • Advanced notice of a Programme for Excellence in NHS Procurement

BACKGROUND

4. A robust framework for making decisions on capital investment is an essential part of good corporate governance. Investment decisions must be justified by a systematic appraisal of options set out clearly in a business case at key stages of the process.

5. For major investment proposals there are three stages where formal approval to proceed is required. These are as follows:

   • At the outset – a Strategic Outline Case (SOC) should be made which demonstrates clearly the need for the investment in service terms. If a “strategic fit” to enhancement of services cannot be demonstrated at the outset then the proposal should not proceed. The appraisal of SOCs can also be used to prioritise investments to avoid time being spent on proposals which will not come to fruition through lack of funding or commitment. WHC (2004) 011 issued on 27th February 2004, outlines the requirements for SOC’s

   • Before the procurement process starts – an Outline Business Case (OBC) should justify the preferred option for meeting the requirements and demonstrate that the relevant stakeholders and decision makers are committed to funding the investment and to its successful implementation.

   • Before the final decision is taken – a Full Business Case (FBC) must ensure that all aspects of the proposed investment have been fully considered and the decision to commit can be justified on the basis of rigorous analysis.
6. A SOC will be required for all major building schemes and for major IMT programmes such as Informing Healthcare (IHC). Other IMT projects, major engineering or medical equipment projects will not normally require a SOC. Informing Healthcare has largely set the strategic direction for IMT investment in NHS Wales. LHBs or NHS Trusts proposing investment in IMT beyond the parameters of IHC must demonstrate within the OBC the “strategic fit” to that programme. For major equipment investment, the strategic rationale should be outlined in the OBC. Investment in diagnostic equipment must conform to the Diagnostic Services Strategy. WHC (2004) 061 outlines the approach in this area. The Diagnostic Services Strategy will be developed further in the next few months and will include an approach to procurement. In the meantime, proposed developments within this area should be discussed with Richard Phillips, Programme Director for Health Enabling Technologies (contact details in para. 17).

7. An OBC and FBC will be required for all IMT and most cases major medical equipment cases. In some instances, where there is only one realistic option (e.g. the replacement of a specialist item of medical equipment that is in line with strategy) it may be appropriate to produce just an FBC.

**DELEGATED AUTHORITY LIMITS**

8. Where planned investment is above the limit of an organisation’s delegated authority, the approval of the Welsh Assembly will be required at key stages of the process. For proposals within the limit of delegated authority the Board of that organisation must agree procedures for the scrutiny and approval of planned investment. Arrangements should be set out in Standing Orders and Financial Regulations.

9. It is important to note that delegated limits apply regardless of the source of funding. (ie. an NHS Trust funding a development from its own funds would still require approval if the value of the scheme exceeded the limits set out below).

10. Approval of the Welsh Assembly will be required for the following:

- Land and buildings with a total capital cost greater than £2 million
- IMT schemes where the Whole Life Cost exceeds £2 million. (NB. Whole Life Costs are the total costs of the project over the life of the contract – typically 7 to 10 years – including costs of capital, maintenance, direct IMT staff, project management and training)
- Equipment leases where the Whole Life Cost exceeds £2 million (NB. Whole Life Cost includes the total cost of the lease including maintenance excluding VAT)
- Any other one-off capital purchase exceeding £0.5 million.

Any novel or contentious development should be discussed with the Assembly regardless of delegated authority.

11. The approval limits above apply to all NHS Trusts, LHBs and to the IHC programme. On occasions the IHC programme will pass funds to NHS Trusts and LHBs for agreed local initiatives or to draw upon contracts negotiated corporately by the Programme.
The use of these funds by individual organisations will not require approval by the Welsh Assembly except where proposed expenditure in a single organisation exceeds £1 million for a one-off purchase. NHS Trusts and LHBs must establish effective arrangements for managing funds passed to them by the IHC Programme.

12. An accreditation scheme will be developed within the Programme for excellence in NHS Procurement leading to an enhanced delegated limit for NHS Trusts and LHBs who meet agreed standards.

BUSINESS CASES

13. Business Cases, both OBC and FBC, should conform to the “Five Case Model” – the five cases being:

   - The strategic case
   - The economic case
   - The commercial case
   - The financial case
   - The project management case

   The content required in the OBC and FBC is outlined in Appendix 1.

BUSINESS CASE APPROVAL

14. The Director of Resources for NHS Wales will manage the approval of outline and full business cases on behalf of the Welsh Assembly. Regional Offices will manage SOCs.

15. The sponsoring organisation should discuss the proposed investment at an early stage. This will identify any key issues, confirm the process to be followed and the likely timetable. Contacts are listed at the end of this circular.

16. The Resource Directorate will organise the scrutiny of business cases working closely with the sponsoring organisation. The final approval of business cases submitted to the Welsh Assembly will rest with the Director of Health and Social Care following recommendation from the Capital Investment Board.

17. The Resources Directorate is establishing a Programme for Excellence in NHS Procurement to support the Assembly, its Regional Offices, NHS Trusts and LHBs. Details are set out in Appendix 2. Further information will be issued in the New Year.

18. Business cases should initially be discussed with Regional Office leads. Further advice is also available as follows:
   - General: Martin Sollis, Chief Accountant
   - IMT: Paul Nicholls, Acting Head of Information Services Division
- Medical equipment: Richard Philips, Programme Director, Health Enabling Technologies
- Primary Care: Helen Field, Head of Primary Care Capital

Contact details are as follows:

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Appendix 1

OBC and FBC Content

The Outline Business Case

1. Executive Summary

2. The Strategic Case

- Snapshot of the Organisation: purpose, structure and environment
- Relevant business strategy and drivers
- Investment objectives and relative priority of objectives
- Existing arrangements including a description of strengths and limitations, gaps to be filled and future business needs
- Main benefits by key stakeholder ranked in order of importance
- Strategic risks and specific proposals for mitigation and management
- Constraints and dependencies

3. The Economic Case

- Critical success factors (CSFs) and benefits criteria
- Long-list of options with SWOT analysis
- For short-listed options (including do-minimum) a detailed description and review including economic appraisal of costs, benefits and risks; appraisal of non-financial benefits and a high level assessment of risks (financial and operational)
- Sensitivity analysis for short-listed options
- Preferred option resulting from the appraisal

4. The Commercial Case

   For a possible deal in outline, the potential:

- Scope and services
- Charging mechanisms
- Key contractual arrangements
- Personnel implications
- Implementation time-scales
- Accountancy treatment

5. The Financial Case

   For a possible deal in outline, the potential:

- Capital requirement
- Net effect on income and expenditure
- Impact on balance sheet
- Overall affordability

6. Project Management Arrangements

- Intended procurement strategy
- Project methodology and structure
- Proposed project plan
- Proposed use of advisers
The Full Business Case

1. Executive Summary

2. The Strategic Case
   - Update on the OBC as required for each key area cross-referring to OBC as appropriate

3. The Economic Case
   - Restate CSFs and update as required
   - Summary of OBC options with conclusions updated if appropriate
   - Preferred way forward
   - Results of economic appraisal of costs, benefits and risks
   - Results of benefits appraisal including scores and ranking
   - Full assessment of risks
   - Results of sensitivity analysis
   - Recommended option following the analysis

4. The Commercial Case

   For recommended deal, the agreed:
   - Scope and services
   - Charging mechanisms
   - Key contractual arrangements
   - Personnel implications
   - Implementation time-scales
   - Accountancy treatment

5. The Financial Case

   For recommended deal:
   - Capital requirement
   - Impact on income and expenditure
   - Impact on the balance sheet
   - Overall affordability with confirmation of specific support from commissioners

6. Project management arrangements
   - Description of the procurement process
   - Communications strategy
   - Arrangements for contract management
   - Agreed benefits realisation plan
   - Risk-management strategy
   - Arrangements for post-project evaluation
   - Contingency plan
Programme for Excellence in NHS Procurement

Introduction

This appendix provides an overview of the arrangements that the Resources Directorate of the HSC Department is putting in place to support the successful implementation of capital investments in NHS Wales. It will include investment in the Informing Healthcare Programme.

The work programme seeks to create a Procurement Centre of Excellence within NHS Wales. This means equipping senior managers and their staff with the knowledge, tools and techniques and processes they require to improve the procurement of NHS investments.

Chief amongst these are the preparation of Business Cases (SOC’s, OBC’s and FBC’s) and the scrutiny and business assurance review processes, which are an integral part of successful delivery.

Programme Content

Consequently, the programme is focused on four key components: training; guidance; support; and review – the contents and key deliverables of which are outlined below.

Staff Training

Investments will not optimise value for money unless they are scoped, planned and procured in accordance with established and accepted best practice.

Awareness training events

We will be providing a series of awareness training events to the Health Boards on the preparation of preparation of business cases, using the 5 Case Model Methodology. Three regional events will be held early in the New Year.

More advanced and ongoing Training

We are also putting in place arrangements with the CPMS Learning in Government to provide more advanced training on using economic tools and techniques.

We are promoting, in conjunction with the Centre for Health Leadership and Innovation, the adoption of the Chartered Institute of Purchasing and Supply (CIPS) qualification for example or an equivalent qualification, amongst Welsh NHS procurement professionals.

Guidance

More comprehensive and user friendly guidance is required in order to keep experienced and qualified practitioners up-to-date with the latest developments on the procurement front.
**Regular Briefings**

Regular briefing on topical and practical issues will be provided as and when the need arises. In addition, we will be asking you for feedback on your needs at the regional events.

**Revised Capital Investment Manual**

We will be re-writing the Business Case module within the Manual to meet the specific needs of NHS Wales. This will cover the scoping, planning and preparation process, including the use of workshops for options appraisal, and benefits and risk analysis. The revised module is planned for mid 2005.

All guidance will be available on the HOWIS website.

**Ongoing Support**

The Assembly, NHS Trusts and LHBs have an ongoing requirement for people who can prepare, interpret and scrutinise business cases, in accordance with established standards.

**In-house Consultants and templates**

Consequentially, we will recruit a number of experienced business case practitioners to help with the scoping and planning of investments and the preparation of associated business cases. Templates will be developed to simplify the process of procurement and to avoid “reinventing the wheel”.

**National Call-Off Contract for External Consultants**

In many cases, however, specialist external support will be required.

In order to maintain and safeguard standards, to harmonise consultancy rates and reduce procurement costs, we intend to set-up a national “Call-off Contract” for the use of external consultants preparing business cases and associated procurement activities.

We aim to have this call-off contract in place by August, 2005, following a competitive OJEU competition.

**Accreditation and Delegations**

Following the successful delivery of training, guidance and support, we anticipate that it should be possible to provide Boards with some accreditation, leading to enhanced delegated limits.

The Director of Resources will keep this aspect of the programme under review.

**Reviews**

We recognise that the Assembly can improve the responsiveness and quality of the scrutiny and business assurance processes, in order to assist you to meet your milestones for investments.
**Scrutiny reviews**

We are appointing an experienced practitioner, who will be responsible for scrutinising business cases and advising the Capital Investment Board. This appointee will be in place early in the New Year.

**NHS Gateway Reviews and Health Checks**

We are investigating the possibility of adopting the use of OGC (Office of Government Commerce, HM Treasury) Gateway criteria and providing an enabling framework.

In the interim, we are encouraging the use of health checks (i.e. independent reviews undertaken by teams using OGC Gateway criteria). We are also discussing with the Department of Health the possibility of managers, clinicians and procurement practitioners in Wales gaining experience of Gateway as reviewers within the NHS in England.

**Welsh NHS Database**

Within the Resources Directorate, we are improving our database of the existing NHS projects, in order to better manage our own resources and activities and to provide you with information that will enable you to share experiences and collaborate on progress.

This will be available on the HOWIS website.
| Distribution List |
|------------------|------------------|
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| Chief Executives | Local Health Boards |
| Chairmen         | NHS Trusts       |
| Chairmen         | Local Health Boards |
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| Dean of the Faculty of Health Studies | University of Wales, Bangor |
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