

Capital Investment Policy

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CONTENTS		PAGE NO
1.	INTRODUCTION	4
2.	DEFINITIONS	4
3.	PURPOSE	5
4	ROLES AND RESPONSIBILITIES	5
5.	DEVELOPMENT OF THE ANNUAL CAPITAL BUDGET	7
6.	DEVELOPMENT OF THE FIVE YEAR CAPITAL PLAN	7
7.	INVESTMENT PRINCIPLES	7
8.	APPROVAL PROCESS	8
9.	RESOURCING THE PROGRAMME	9
10.	DELIVERY OF SCHEMES	9
11.	MONITORING	10
12.	ASSET MANAGEMENT	10
13.	LEASES	10
14.	PROPERTY DISPOSAL	11
APPENDICES		
A	Revenue and Capital Classifications	12
B	Capital Bid Application Form	13
C	Prioritisation Matrix	19
D	Lease Authorisation	20

1 INTRODUCTION

- 1.1 An essential part of the Trust's financial governance is ensuring that capital expenditure is effectively planned, approved and managed to enable investments in both developments and backlog maintenance within a structured programme.
- 1.2 For the purposes of this document, a capital investment project is defined as any scheme initiated within any Trust department relating to:-
- purchase, lease alteration, upgrade and extension of buildings
 - purchase, lease or upgrade of equipment, plant and machinery, and transport equipment
 - purchase, lease, upgrade of information technology hardware, software, information systems and project implementation services.

Within the definition of equipment that may be funded from Capital are digital software and licences, IT hardware, communications systems, communications hardware, medical devices, and furniture and fittings. This list is not exhaustive but is meant to provide an indication of the type of expenditure.

- 1.3 The process and procedures for the development of capital investment projects contained in this document are consistent with those set out in the NHS England Capital Investment guidance.

2 DEFINITIONS

- 2.1 In order to be defined as capital, the proposed property, plant and equipment must meet the below criteria as set out in the Trust's Accounting Policies: -
- It is held for use in delivering services or for administrative purposes;
 - It is probable that future economic benefits will flow to, or service potential be provided to, the Trust;
 - It is expected to be used for more than one financial year;
 - The cost of the item can be measured reliably;
 - Items have an individual cost of at least £5,000; **or**
 - Collectively a number of items have a cost of at least £5,000 and individually have a cost of more than £250, where the assets are functionally interdependent, have broadly simultaneous purchase dates, are anticipated to have similar disposal dates and are under single management control.

To meet the final criteria and be classed as a group that is functionally interdependent the items must depend on each other to work, this would preclude purchases such as multiple chairs, desks, beds with an individual cost less than £5k etc.

Costs incurred as a result of staff spending time on capital projects can be capitalised, provided that time can be linked to bringing a specific, separately identifiable asset into working condition, or substantially enhancing the working life of an existing asset. Employee costs incurred whilst considering options. e.g. scoping potential solutions and choosing between them cannot be capitalised. Until a solution is decided upon the costs cannot be directly attributable to bringing an asset into working condition.

Examples of revenue and capital classifications are included in Appendix A.

- 2.2 Where there is any doubt around whether a scheme is capital it should be referred to the Finance Accounting team to confirm they meet the capital criteria before submitting an Initial Capital Request (ICR) to the Capital Projects Steering Group (CPSG). A copy of the ICR can be found in Appendix B.

3 PURPOSE

- 3.1 The purpose of the Capital Investment Policy is to:

- I. Ensure the Trust meets its corporate responsibility for the proper management of Public Funding and NHS resources, through the rigorous control of capital allocation and expenditure on capital investment projects.
- II. Support the Trust's organisational objective for delivering services of the highest possible quality, from facilities that are fit for purpose.
- III. Support the delivery of approved information technology strategies and plans, and maintain our existing technology infrastructure and services.
- IV. Support the maintenance, development and continued evolution of Trust estate.
- V. Set out the procedures to be followed in developing and managing Capital Investment Projects.

4 ROLES AND RESPONSIBILITIES

- 4.1 In order for the Trust's capital process to work successfully there is a need for close co-operation between staff from different departments across the Trust. The respective roles and responsibilities of each area are outlined in the paragraphs below.

4.2 Directorate Teams

- 4.2.1 Authority for the initiation of directorate capital investment proposals is required by the Directorate Management Team (DMT). Where a proposal involves more than one Directorate the respective Borough Director will agree which of them will act as the lead. The Head of Service is responsible for development of the Initial Capital Request (ICR) or Business Case (BC).
- 4.2.2 It is essential that the production of the ICR or BC is owned at DMT level. Early identification and appointment of a "project lead" is essential, so that support from other Directorates can be mobilised and the ICR/BC adequately developed before being approved.
- 4.2.3 Borough Directors have overall responsibility for the completion and approval of the case, including co-ordination of corporate inputs.

4.3 Finance team

- 4.3.1 The Finance team is responsible for maintaining the Trust's asset register and accounting for all Capital Investments. The team will ensure that the appropriate audit trail of expenditure is maintained, that only expenditure defined by the Trust's accounting policies are capitalised, and that Trust accounting procedures are adhered to. The Finance team will ensure regular reporting of spend and commitments and will advise the CPSG of all accounting changes that affect capital planning or treatment.

- 4.3.2 The team will support services and directorates in costing ICRs and BCs by production of revenue consequence schedules and provision of specialist financial advice.
- 4.3.3 The team will ensure that capital monitoring controls are in place to meet the Trust's Capital Resource Limit (CRL).
- 4.3.4 The team will arrange a rolling programme for physical check of assets against the asset register on an annual basis.
- 4.3.5 The team will consider annually whether a valuation of the estate is required and will arrange this with professional advisers.

4.4 Estates, Facilities and Capital Development

The Estates, Facilities and Capital Development team will formulate ICRs and BCs in support of estates strategies and plans, such as backlog maintenance, and will provide technical support for BC and ICR preparation by the Directorates, for the development of infrastructure or provision of equipment, and subsequent detailed planning, design and costing. The team will provide or commission all necessary estates input and support for the proposal.

4.5 Digital

The Digital team will formulate ICRs and BCs in support of Digital strategies and plans, and on request arrange technical support for BC and ICR preparation by the Directorates, including development of technical infrastructure or provision of digital equipment, and subsequent detailed planning, design and costing. The department will provide or commission all necessary technology input and support for the proposal.

4.6 North East London Integrated Care System (ICS)

The ICS is responsible for setting the capital resource limit (CRL) in conjunction with the Trust on an annual basis. System targets are issued by NHS England (NHSE). These are then devolved to trusts within the ICS who participate in a bidding process. The agreed CRL will then dictate the scale of capital programme for the upcoming year.

4.7 Capital Project Steering Group (CPSG)

- 4.7.1 Overall accountability for compliance with the Capital Investment Policy sits with the CPSG. The CPSG membership includes members of the Executive Team, Estates, Digital and Finance. The CPSG reports to the Finance, Business and Investment Committee (FBIC) and acts to prioritise capital schemes in the context of the available resource.
- 4.7.2 For schemes valued at less than £750k an ICR should be prepared and submitted, the CPSG has authority to approve or decline these schemes.
- 4.7.3 For schemes valued at £750k or over in accordance with the Business Case policy, a Business Case is required, following consideration of the scheme by the CPSG, the case will be submitted to the Business Case Review Group (BCRG). For schemes over £750k BCRG will make a recommendation for approval by FBIC.
- 4.7.4 CPSG have responsibility for developing the annual capital plan, overseeing prioritisation of capital schemes and recommending a plan to Trust Board
- 4.7.5 In exceptional circumstances the CPSG may need to make decisions about capital allocations outside of its regular meetings. In these cases, CPSG members will be invited to comment on the proposal through electronic distribution.

5 DEVELOPMENT OF THE ANNUAL CAPITAL BUDGET

- 5.1 The ICS will be set a capital control limit (called the Capital, Departmental Expenditure Limit, CDEL) by NHS England. This will establish the overall capital envelope for the ICS. The Trust will work with the system to set the resultant limits for each organisation.
- 5.2 The Trust will then be in control of setting the annual capital programme within the system limits.
- 5.3 Due to the limited national capital funding available prioritisation of capital schemes will be required. Proposed schemes will be put forward by Directorate Management Teams, and the Estates and Facilities and Digital Departments (based upon their knowledge of the needs of the Directorates) during annual business planning, the recommendations of external inspections and the agreed strategic direction for the Trust.
- 5.4 The list of potential schemes will be discussed at CPSG to ensure full consideration by Directorates and corporate teams, schemes will be scored against the agreed Prioritisation Matrix (Appendix C) and a proposed capital plan will be developed within the available capital resources. The annual plan will then be agreed by the Finance, Business and Investment Committee and the Trust Board.
- 5.5 Approval of the annual capital plan by the Trust Board provides authorisation for the specific, named schemes to proceed within the allocated budget. No further approval is required for these schemes. If funds are required in excess of those agreed in the capital plan this will need to be approved by the CPSG.
- 5.6 Where general contingencies have been allocated in the capital plan, ICRs or BCs will be required before any projects can go ahead.

6 DEVELOPMENT OF THE FIVE YEAR CAPITAL PLAN

- 6.1 In addition to an annual budget, the Trust will maintain a capital plan that as a minimum covers the next 5 years. This will include strategic priorities such as ward refurbishments, disposals and purchases.
- 6.2 The long term plan will be signed off by CPSG on an annual basis, and included in planning submissions to NHSE.

7 THE INVESTMENT PRINCIPLES

The following principles will apply to any proposed capital investment, and relate to the Prioritisation Matrix that should be used for all capital schemes (included as Annex C):

Service Driven

Capital investment proposals will only be considered if they link directly to the strategic direction of the organisation.

Addressing Key Risks

Capital investment proposals should be focused on addressing identified risks, and will be correlated against the Trust Risk Register as part of the review process.

System Working

Given the focus on system working it is important that consideration is given to wider system priorities. Plans may need to change to reflect changing targets and capital allocations, as well as supporting other trusts in the system with collective priorities.

Representatives from Finance, Digital and Estates will sit on various system capital groups, they will represent the Trust's interests in all discussions.

8 APPROVAL PROCESS

- 8.1 The first step for any capital scheme is completion of an ICR. This document sets out the scope of the scheme, the key stakeholders, the timescales and expected budget. All fully completed ICRs should be submitted to the CPSG for consideration, following consideration by the Estates and Digital Liaison Group. It will be normal for all schemes to be reported to, and considered by the CPSG, even if the threshold for approval is in excess of its delegated authority. This allows for CPSG to retain strategic oversight of the whole programme and recommend to other Committees/Trust Board as appropriate. The ICR proforma is attached at Appendix B.
- 8.2 Annual Plan - The approval process for schemes within the Annual Plan is set out above. ICRs or BCs are required for all general contingencies that have been allocated before any projects can go ahead.
- 8.3 Schemes below £50,000 – Urgent ICRs that are below £50,000 can be approved by the Associate Director of Finance and Director of Estates, Facilities and Capital Development (or nominated Deputy), these will be reported and ratified at the next CPSG.
- 8.4 Schemes between £50,000 and £750,000 – The CPSG has authority to approve any capital schemes up to £750,000.
- 8.5 Schemes in excess of £750k will require a BC, these will be reviewed by CPSG and then submitted to Business Case Review Group (BCRG).
- 8.6 Schemes between £750,000 and £2m - Schemes in excess of £750k will require approval by FBIC following recommendation by BCRG.
- 8.7 Schemes over £2m will require approval by the Trust Board following recommendation by FBIC.
- 8.8 **Schemes requiring NHSE Approval**
 - 8.8.1 For schemes with a likely value in excess of the Trust delegated approval threshold (currently £25m) the DHSC 5 case model must be followed. This requires development of strategic (SOC), outline (OBC) and finally, full (FBC) business case. A SOC should not incur significant costs to develop. For example, it is not expected that external advisors would be recruited and commissioned to provide input at cost at this stage. No costs that require separate funding should be incurred until consideration of the SOC by the CPSG.

- 8.8.2 The CPSG will satisfy itself that the project links to Trust's strategies and overall objectives. The group will recommend as appropriate to the FBIC whether the necessary resources should be deployed to support development of the proposal to OBC. The FBIC will similarly make its recommendation to the Board.
- 8.8.3 If the SOC is approved and authorised to progress with its development to outline business case (OBC) this will enable the project to incur costs, if required, in order to fully develop the business case to OBC status. The order of those costs must therefore be identified at SOC stage and the CPSG will agree the available budget, provided this falls within their delegated authority.
- 8.8.4 The CPSG will also agree any further or increased input from the Estates, Facilities and Capital Development team or other corporate source. At this point the scheme will be added to the capital programme and given a Scheme number. Alternative decisions at SOC consideration stage may be to either a) return the business case to the Directorates for further work on the grounds that it does not match the required robustness of a SOC or b) the SOC is rejected and the project aborted, or a BC for an alternative project commenced at local level.

9 RESOURCING THE PROGRAMME

- 9.1. Funding for the Trust's capital programme will come from three main sources: -
- **Provider allocations via the North East London ICS** – This will be calculated based on historic depreciation charges. These will need to be covered from cash reserves or borrowings.
 - **Public Dividend Capital** – This will be for specific national schemes that the Trust can apply for. Memorandums of Understanding will need to be formally entered into between the Trust and NHSE. Cash will be provided to fund these schemes but can only be drawn down retrospectively.
 - **Property Sales** - The net book value of disposed assets is recorded as a 'credit' to system CDEL and therefore increases the allocation, usually this goes to the originating Trust but this is not guaranteed.

10 DELIVERY OF SCHEMES

- 10.1 Once schemes have been approved, the scheme returns for delivery to the local management team and their identified project management arrangements. The ICR/business case will have spelt out the project management requirements including the level of support required from the Estates and Digital teams and will identify a Project Manager, accountable for delivery, supported by the capital planning team as necessary.
- 10.2 The principles of good project management should be applied from the outset.
- 10.3 Monitoring and oversight of project delivery needs to be established, but a corporate oversight role will rest with the CPSG, which will receive regular reports on the progress of all approved capital schemes, and which will keep FBIC informed of progress.
- 10.4 Those reports will need to identify significant risks to successful project delivery and the CPSG will need to be reassured that the identified project management inputs to support the local

project delivery team are available and effective. Directorates will need to maintain risk register and management plans as necessary, feeding into the Trust's overall register if required. These must be comprehensive and cover the project in the broadest terms, not just the capital project component.

11 MONITORING

- 11.1 The CPSG will undertake a review of the progress against schemes on a monthly basis.
- 11.2 The Finance team will provide the group with a detailed schedule showing spend to date, variances to plan and the forecast position.
- 11.3 Summary reports on progress will also be provided from an operational perspective from the Estates and Digital teams.

12 ASSET MANAGEMENT

- 12.1 For the purposes of maintaining an accurate asset register all additions and disposals of fixed assets must be captured on a timely basis.
- 12.2 Each quarter the Estates and Digital teams will advise Finance on the assets coming into use for the purposes of liability to capital charges. At project completion the capital planning team will be required to sign off that schemes are complete and assets are operating as intended.
- 12.3 The asset register and the information held therein will be used by the Trust to identify assets nearing their end of their useful life and therefore help inform the strategic planning function within the organisation.
- 12.4 The Finance department will commission the Trust's value to undertake a valuation following the completion of any material scheme.

13 LEASES

- 13.1 Due to the introduction of IFRS 16, new or renewed leases of over 12 months in length should sit within the process for capital expenditure.
- 13.2 The acquisition of any new lease or renewal of existing leases must be supported by completion of the lease authorisation form (Appendix D). This will record:
 - Details of the consideration or lease payments;
 - Details of the period of the lease;
 - Service charges;
 - Break clauses
 - Dilapidation obligations
 - Capital impact
- 13.3 The approval limits for entering into leases will be based upon the total charge to capital.

14 PROPERTY DISPOSAL

- 14.1 The disposal processes for capital assets are consistent with investment procedures. A business case (where applicable) setting out the rationale for disposal will need to be completed, to justify the 'surplus to requirements' position, this should set out why no other use for the asset is possible, and what purpose any capital receipt might serve.
- 14.2 Approval for disposal of land and property is governed by the NHS Estate code (HBN 00-08), which also sets out the processes to be followed around surplus declaration, marketing and disposal.
- 14.3 Market value needs to be assessed as part of the planning process which will not only assist with the case for disposal but also enable any impairment to be estimated.
- 14.4 The Standing Financial Instructions set out the following approval limits for asset disposals (based upon the higher of the replacement price or net book value): -
- Up to £1,000 – Deputy Director of Estates, Facilities and Capital Development or Chief Technical Officer – Digital
 - Up to £25,000 – Associate Director of Finance
 - Up to £100,000 – Chief Finance Officer
 - £100,000-£749,000 – Executive Management Team
 - £750,000-£1,999,999 – FBIC
 - Over £2m – Board
- 14.5 Once the property is vacant it will be transferred from the asset register to 'Assets Held For Sale' at the business case market value. Any impairment will be reflected at this point.

Appendix A

Revenue and Capital Classifications

The following should be classed as revenue and cannot be capitalised: -

- Training
- Support and maintenance
- Annual licence fees
- Redecoration
- Repairs, maintenance or remedial works
- Minor works with a cost of less than £5k
- Security costs during construction
- Renting alternatives whilst the asset is being developed
- Furniture with an individual cost less than £5k (desks and chairs are not interdependent and therefore cannot be treated as a grouped asset)
- General administrative costs and overhead costs regardless of whether those costs are incurred internally or outsourced to a third party, e.g. executive management, accounting, procurement etc

The following are examples of items that should be classed as capital if they are an individual item with a cost over £5k: -

- Specialist furniture, including beds and chairs
- CCTV
- Dishwasher
- Wheelchair

Treatment of costs during a construction project: -

PHASE	STEPS	COST ITEMS	ACCOUNTING TREATMENT
Phase 1 – Concept development	Project concept brief	Staff costs for project team	Treat as revenue expense
Phase 2 - Feasibility study - developing financial and economic business case	Proposal requesting capital works funding for a feasibility study	Staff costs for project team	Treat as revenue expense
	Feasibility study (needs assessment)	Staff costs for project team Consultancy costs	Treat as revenue expense
	Forward design proposals and cost benefit analysis (using feasibility study results)	Staff costs for project team Consultancy costs	Treat as revenue expense
Phase 3 - Design for approved capital scheme	Engage project director/manager	Staff costs for project team Project Managers	Capitalise
	Design documents produced	Architectural / Design consultant Quantity surveyor costs Specialist consultant costs	Capitalise
Phase 4 – Construction	Staff are moved to temporary accommodation	Rental costs Minor fit out costs	Treat as revenue expenditure
	Project director/ manager goes out to tender for construction	Staff costs for project team Project management costs Tender costs Insurance costs	Capitalise
	Project director/ manager engages builder and other construction contractors	Staff costs for project team Project management costs Tender costs Insurance costs	Capitalise

Appendix B

Paper:
X

CAPITAL BID APPLICATION FORM

(For Projects over a value of £5,000 incl. VAT @ 20%)

Bid prepared by:			
Directorate			
Borough			
Location			
Project Title			
Estimated Cost (incl. VAT)			
Submitted for Approval	Month:	Year:	Approval Status:

1

PRIORITY (Please indicate the priority level for this bid)

- ☐ Priority 1* Immediate
- ☐ Priority 2 Within the next 3 months
- ☐ Priority 3 Within the current financial year

* If this requires immediate approval, explain what the implications would be if the project does not go ahead:

2

PROJECT DESCRIPTION Briefly outline the required development. Please provide any relevant supporting documentation relating to service improvement, expansion or cost savings. If changes relate to patient facing areas a Patient Participation representative will be required.

Please state how this bid aligns to the Trust Strategy.

3

TOTAL CAPITAL FUNDING REQUESTED (inclusive of VAT @ 20%)

4

How has the NEED for this capital development arisen?

5

Please indicate how this bid has considered ELFT's Digitisation and Agile Working Plan.

6

Describe the OBJECTIVES and BENEFITS of this development

OBJECTIVES:

BENEFITS:

7

List the CAPITAL COSTS for this development. (to be filled in by Capital projects team) Provide a breakdown of estimates or any budget costs obtained so far. Attach copies of all relevant documents. These must have been agreed and signed off by Finance, Estates & Facilities, IM&T, NHS Supplies, Capital Development Team, information as appropriate.

ESTATES RELATED COSTS (inclusive VAT)	IM&T RELATED COSTS (inclusive VAT)
OTHER RELATED COSTS (inclusive VAT)	

NOTE: The above details create the combined project cost you are bidding for. Any omissions and subsequent additions may require you to submit a further bid. The project team do not have the authorisation to commit expenditure outside the approved perimeters.

8

What are the REVENUE COST implications of this development? Please indicate any known or likely impact this development might have on revenue budgets.

COST CENTRE/CODE	DESCRIPTION OF CHARGE	VALIDATED By:	Estimated Annual Cost
STAFF			
IM&T			
ENERGY			
MAINTENANCE			
RENT/RATES			
SLA			
CAPITAL CHARGES			
DEPRECIATION			
OTHER:			
Total Annual Estimated Revenue Impact: £			

9

FINANCIAL PHASING OF EXPENDITURE Please indicate the expected monthly expenditure in the table below, using the relevant colour code for each stage of the project.

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	Total
202X	k	k	k	k	k	k	k	K	K	k	K	k	k
202X	k	k	k	k	k	k	k	k	k	k	k	k	k

Colour Key:

FEASIBILITY	DESIGN	TENDER / APPOINTMENT	WORKS	COMMISSIONING / COMPLETION	RETENTION RELEASE
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10

AUTHORISED BY: (Borough Director who will present this bid)

Director's signature:	
Date:	
Contact Email:	
Contact Telephone:	

VALIDATIONS: At point of submission, the following checks have been made:

		Comments & BID REVIEWED BY: (NAME)	DATE
1	ARTS & ENVIRONMENT		
2	CAPITAL PROJECTS		
3	COMPLIANCE (Statutory)		
4	ENERGY		
5	ESTATES		
6	FACILITIES		
7	FINANCE		
8	FIRE		
9	IM&T		
10	INFECTION CONTROL		
11	PROPERTY		
12	PROCUREMENT		
13	PEOPLE PARTICIPATION		

PROJECT CLOSE ~ VERIFICATION

Has the project delivered the Objectives and Specifications in Section 6 and 7?

YES		NO	
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If you ticked **NO**, please list outstanding items:

Ref:	Description	Target date	Status

Signed by originating Director:	
Date:	
For Capital Projects:	
Date:	

Appendix C

SCORE	STRATEGY FIT (Including impact on sustainability)	PATIENT/STAFF SAFETY/CARE	LEGAL / COMPLIANCE	CONTRIBUTION TO EFFICIENCIES	RISK MITIGATION
5	Clear evidence that the case delivers a specific and tangible element of the Trust's strategy	Clear evidence that the case delivers a specific and tangible improvement to patient/staff safety	Clear evidence that the case is urgent and critical to meet a specific legal or regulatory requirement.	Over £100k a year, within 12 months of investment	Very high risk score (20 or above) as per Trust's Risk Matrix
4	Clear evidence that the case directly drives a specific and tangible element of the Trust's strategy	Clear evidence that the case directly drives a specific and tangible improvement to patient/staff safety/care	Clear evidence that the case is necessary to meet a specific legal or regulatory requirement.	£50k-£100k a year, within 12 months of investment	High risk score (15-20) as per Trust's Risk Matrix
3	Clear evidence that the case directly drives the delivery of the Trust's strategy	Clear evidence that the case directly drives the strategy on improving patient/staff safety/care	Clear evidence that the case is recommended by legislation and regulations.	Less than £50k a year, within 12 months of investment	Medium risk score (9-14) as per Trust's Risk Matrix
2	Evidence that the case influences a specific part of the Trust's strategy	Evidence that the case influences a specific part of the strategy on improving patient/staff safety/care	Evidence that the case contributes to achievement of a specific legal and regulatory requirement	Over £50k a year, more than 12 months after investment	Moderate risk score (4-8) as per Trust's Risk Matrix
1	Evidence that the case influences the Trust's strategy	Evidence that the case influences improvements in patient/staff care	Evidence that the case is desirable under regulations	Less than £50k a year, more than 12 months after investment	Low risk score (1-3) as per Trust's Risk Matrix
0	No impact on delivering the Trust's Strategy	No impact on patient/staff care improvements	No impact on legal or regulatory requirements	No savings/efficiencies	No risk, score 0
Weighting	20%	25%	20%	10%	25%

Appendix D

Lease Authorisation

2 x signature required for lease document where indicated. Affix the Trust common seal where indicated.

Please **DO NOT DATE** as this will be carried out by the solicitor.

Reason:	
Lease Type (New Lease/Renewal/Assignment/Sub-let)	
Lease commencement and Term:	
Service Directorate:	
Approving Service Lead Director:	
Occupying Service/Function:	
Premises to be leased:	
Landlord Details:	
Landlord Type: (ICS/Local Authority/NHS Trust/Third Sector, Private Landlord/Other)	
Rental/Rates p.a.	
Service Charges p.a.	
Rent Review:	
Whole Term Funding Source Secured:	
CDEL/IFRS16 Impact (Whole Term):	
Break Clause Options / Notice Period: (Landlord and/or Tenant and/or Service Termination Break)	
Dilapidations Obligations: (Yes/No and state tenant repair responsibility i.e. FRI/TIR/IRI)	
Approved by Finance:	
Approved by CPSG in:	
Approved by Director/Deputy Director of Estates:	

For further information please contact:

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