

11 November 1997

To: Health Authority Directors of Finance
Special Health Authority Directors of Finance
NHS Trust Directors of Finance
NHS Executive Regional Directors of Provider Performance Management
NHS Executive Regional Directors of Finance



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Dear Colleague

DISCOUNT RATES AND THE COST OF CAPITAL

Treasury Guidance, "Appraisal and Evaluation in Central Government" otherwise known as the "Green Book" (second edition, published August 1997) recommends that the use of national loans fund (NLF) plus 2% as the figure for the nominal equivalent of the standard public sector discount rate of 6% should be discontinued. From now on a discount rate of 6% should be used as the standard discount rate for all investment appraisal decisions measuring the value of projected future costs or benefits.

There are very few exceptions to this rule which are detailed in the "Green Book". None of these exceptions are expected to apply to investment appraisal decisions in the NHS.

When discounting cash flows which are defined in nominal terms, the nominal flows should be converted to real terms using a projected rate of inflation provided by HM Treasury. Rates are provided on the Treasury helpline (0171-270 4837).

Enquiries about the contents of this letter should be addressed in the first instance to the appropriate NHS Executive Regional Office. Any further queries should be addressed to David Revell, NHS Executive Headquarters, Private Finance Unit, Room 1N31, Quarry House, Quarry Hill, Leeds, LS2 7UE. Telephone 0113-254 5603.

Yours sincerely

RICHARD DOUGLAS
Deputy Director of Finance and Performance