

BARTS AND THE LONDON NHS TRUST
NEW HOSPITALS DEVELOPMENT PROGRAMME
PREFACE TO THE FULL BUSINESS CASE (FBC) VERSION 10.1

INTRODUCTION

1. This document provides a brief summary of the process for the approval of the Full Business Case (FBC) for the redevelopment of the Trust's hospitals. It also provides a summary of the main changes made to the FBC from version 10 which the Trust submitted to the Department of Health (DH) on 5 June 2006 and the current version (10.1) and hence reflects the responses to queries received from DH and the London Capital Investment Unit on the submitted version 10.

THE PROCESS TO APPROVAL

2. Version 9 of the Full Business Case, which reflected the outcome of the extensive review by the London Capital Investment Unit (CIU), NELSHA and DH, was formally submitted to the Department of Health for review and submission to HM Treasury on 21 November 2005.
3. Version 9 of the Full Business Case, based on an annual unitary charge (UC) of £116.9m (as at 2005/06 prices), became the focus for the Ministerial review of the scheme from December 2005 to March 2006.
4. In December 2005, DH expressed concerns about the size and affordability of the project, particularly in relation to the Barts cancer and cardiac development, which had been based on predicted Thames Gateway population growth and the activity associated with that growth. In January 2006, NELSHA therefore commissioned a review by the Independent Management consultants, Matrix.
5. The outcome of this review confirmed that the assumptions in the business case around growth and anticipated activity levels in cancer and cardiac, previously agreed with the PCTs, were robust.
6. DH and HM Treasury remained concerned about the affordability position, and in the light of;
 - the review of capital schemes announced in the NHS Operating Framework 2006/07;
 - the changing financial environment in which the NHS operates, since the Trust assessed affordability in September 2005, i.e.:
 - Lower levels of funding growth to the NHS from 2008 onwards;
 - The current financial overspend of the NHS;
 - Publication of the White Paper on care outside of hospitals; and
 - The introduction of the Payment by Results 2006/07 regime and policy changes such as "Best Research for Best Health, SIFT revision to unit costs", etc.

Thus the DH informed the Trust, on 14 February 2006, that it wished to see a reduction in the annual UC to £96.6m per annum (in the Steady State year at 2005/06 prices) which equates to £100.8 at 2006/07 prices.

7. In response, the Trust reviewed the scope of the scheme and identified four types of adjustments (descoping variations) to the FBC, as detailed below:
 - **Type 1 adjustments** involved the Trust modifying the PFI scheme in an innovative way. The Trust's output requirements and Skanska Innisfree's (SI) proposals remain

as set out in the December 2005 Project Agreement but the funding provided under the contract is varied to allow flexibility in the extent to which these proposals are fully implemented, within secured planning approvals. The two elements of SI's proposals described below, mothballing and refurbishment in Phases 2 and 3 will be included within an amended Variation Schedule (Schedule 22, part 7) so that there is no contractual obligation on SI to carry out the works unless instructed to do so by the Trust. The works would only be implemented on the basis that they are required to meet planning approvals; health need; and are affordable to the Trust and subject to DH approval. The schedule includes a capital figure to carry out the works and the price to go back on the UC for the services (Appendix 1 to Schedule 22, part 7).

Under this arrangement the Trust will keep its requirements under review during the long construction period. If activity and associated income arise as projected, then additional funds will be raised.

The two elements subject to specific review in this context are:

- Mothballing two floors at The Royal London (192 beds out of 905 bed complement) and one floor at St Bartholomew's (58 beds out of 343 bed complement) of newly built space; and
 - Not proceeding with certain refurbishments projected to get under way in Phase 2 and Phase 3.
 - **Type 2** adjustments which were relatively straightforward in commercial terms.
 - Reduction of the buffer - the Trust had preserved a 25bps interest rate buffer throughout the procurement. Given the closeness to financial close and following discussions with the Department of Health and SI, the buffer was reduced to 5bps. In addition, the updated position on the European Investment Bank funding was 9 bps lower.
 - **Type 3** adjustments reflect capital contributions to the costs of the scheme. They fall into two categories, namely medical equipment and enabling works:
 - Medical equipment – The St Bartholomew and The Royal London Charitable Foundation has agreed in principle that it will donate equipment covering the capital cost consequences of the initial tranche of medical equipment (i.e. up to the point when the first equipment refresh requirements arises).
 - Enabling works - SI has undertaken a series of enabling works which, together, total approximately £8m (construction costs) in capital value. The ODPM Thames Gateway office has contributed £4m towards these costs.
 - **Type 4** adjustments represent minor modifications to the Project Agreement and include:
 - The removal from the UC of the 0.7% construction cost inflation buffer for post-Phase 1 works. At the £96.6m level (05/06 prices), the UC will now fund construction cost inflation at an annual rate of 3.5% per annum (previously assumed at 4.25%).
 - A potential reduction in the interim service costs which, perhaps, assumes an over-prudent level of double-running costs in the period prior to steady state.
8. These changes were captured within an Addendum to the FBC (v4.4), submitted to the Department of Health 28 March 2006. It should be noted that version 10.1 of the FBC is at 2006/7 prices and the UC at steady state is £100.8m.

9. In parallel to the production of the addendum, a number of further queries on version 9 of the FBC were received (from the London CIU and DH), addressed and closed down by the Project Team. The response to these queries was reflected in a revised version of the FBC (version 9.5).
10. DH and HMT accepted the proposals outlined in the Addendum to the FBC and formal approval to the FBC and the Addendum, and thus the scheme as a whole, was provided in writing by Peter Coates (Deputy Director of Finance – Investment, DH) on 31 March 2006. In this letter, the Department made it clear that the content of the Addendum would need to be incorporated into a revised version of the FBC and submitted to the Department for review, although further formal approval of that version would not be provided. Furthermore the DH confirmed that the Trust could take 15 months from Financial Close (until July 2007), to work up the detail of the descoping variations (1/50 level) with SI and secure any necessary 3rd party consents.
11. Version 10 of the FBC, reflecting the content of the Addendum and updated to reflect the 2006/07 price base was subsequently produced and approved by the Trust Board at its meeting on 31 May 2006 and the NEL Strategic Health Authority at their meeting in June 2006. It was submitted to DH for review on 5 June 2006.
12. This review has taken DH some time for to complete. As a consequence, the Trust sought and was granted an extension to the deadline for publishing the document to 8 September 2006.
13. The review (which is now complete) generated a number of queries which resulted in further amendments to the FBC. These amendments to Version 10 of the FBC are captured in track changes in the attached version 10.1. A summary of the main changes to the chapters are set out below.

| Chapter | Key Changes |
|-------------------------------------|---|
| The Executive Summary | <ul style="list-style-type: none"> • Summarises DH affordability concerns and the Trust's response; • Sets out high level detail of the variations; • Revised 2005/06 activity figures; • Provides the Matrix report as an appendix |
| The Strategic Context | <ul style="list-style-type: none"> • Gives the detail of the Matrix review and confirmation of the Trust's assumptions; • Provides overview of baseline activity levels |
| The Case For Change | <ul style="list-style-type: none"> • Reference to the Thames gateway population expansion and associated activity levels agreed with PCTs |
| New Models Of Care | <ul style="list-style-type: none"> • reference to the Matrix review and the need to keep activity levels under review; |
| Review Of The Outline Business Case | <ul style="list-style-type: none"> • Update of the audit trail re bed changes to accommodate capacity reductions • Updated capital, revenue & space audit trails from OBC to FBC |
| The Public Sector Comparator | <ul style="list-style-type: none"> • Updated capital and lifecycle costs reflecting the Descoping of the PSC i.e. completion of PSC 7 (version 9 contained PSC 6) |
| The PFI Procurement Process | <ul style="list-style-type: none"> • reference to DH concerns re affordability and the independent Matrix review • Reference to continued Gateway reviews; |
| The Preferred PFI Scheme | <ul style="list-style-type: none"> • reference to Aquamen's change of name to Carillion; • revised source and application of funds; • updated joint governance structure; • reference to the fact Phases 2 & 3 may not be commissioned and the need for constant review of planning requirements in the light of the Descoping; • reference to the time period to work up the detailed |

| Chapter | Key Changes |
|------------------------------------|---|
| | Descoping |
| Financing The Scheme | <ul style="list-style-type: none"> updated to reflect revised funding structure and CF's £25m donation |
| Economic Appraisal | <ul style="list-style-type: none"> Revision of the Generic Economic Model to reflect the Descoped PFI & PSC solutions i.e. updating of the value for money assessment Updating of the value for money sensitivity analysis. |
| Accounting Treatment | <ul style="list-style-type: none"> Updated to reflect CF £25m donation to equipment costs; Updated to reflect the Trust maintaining responsibility for non-refurbished buildings. Updated treatment of impairments; |
| Affordability | <ul style="list-style-type: none"> updated to reflect revised UC and how it will be achieved, i.e reduction in income assumptions and efficiency programme and work of "best value" group; productivity improvements; updated to reflect 2006/07 price base; updated section on the Trust's financial performance; updated to reflect latest transitional relief position updated sensitivity analysis |
| Risk Analysis | <ul style="list-style-type: none"> Analysis of the risks in respect of the Descoping variation process added in |
| Equipment | <ul style="list-style-type: none"> reference to the CF's contribution to the MES and how this will be employed for max advantage; reference to the flexibility in the Project Agreement (PA) re equipment funding; |
| Project Management Arrangements | <ul style="list-style-type: none"> reference to the updated governance structure; reference to the revised retained structure, including the dedicated Descoping team; |
| Project Agreement | <ul style="list-style-type: none"> sets out detail of the Descoping variations agreement in PA; reference to the flexibility in the PA re equipment funding; |
| Workforce HR And Change Management | <ul style="list-style-type: none"> reference to the revised/updated manpower plan to reflect greater savings; |
| Information Technology | <ul style="list-style-type: none"> updated to reflect latest CRS implementation |
| Benefits Realisation Plan | <ul style="list-style-type: none"> Reference to changed financial benefits profile. Revised Appendix 18A - High level benefits; Revised appendix 18B - process for achieving benefits plan; TOR of Benefits Realisation Steering Group provided as an Appendix (18C); |
| Post Project Evaluation | <ul style="list-style-type: none"> Updated to reflect revised programme timetable |

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30 August 2006