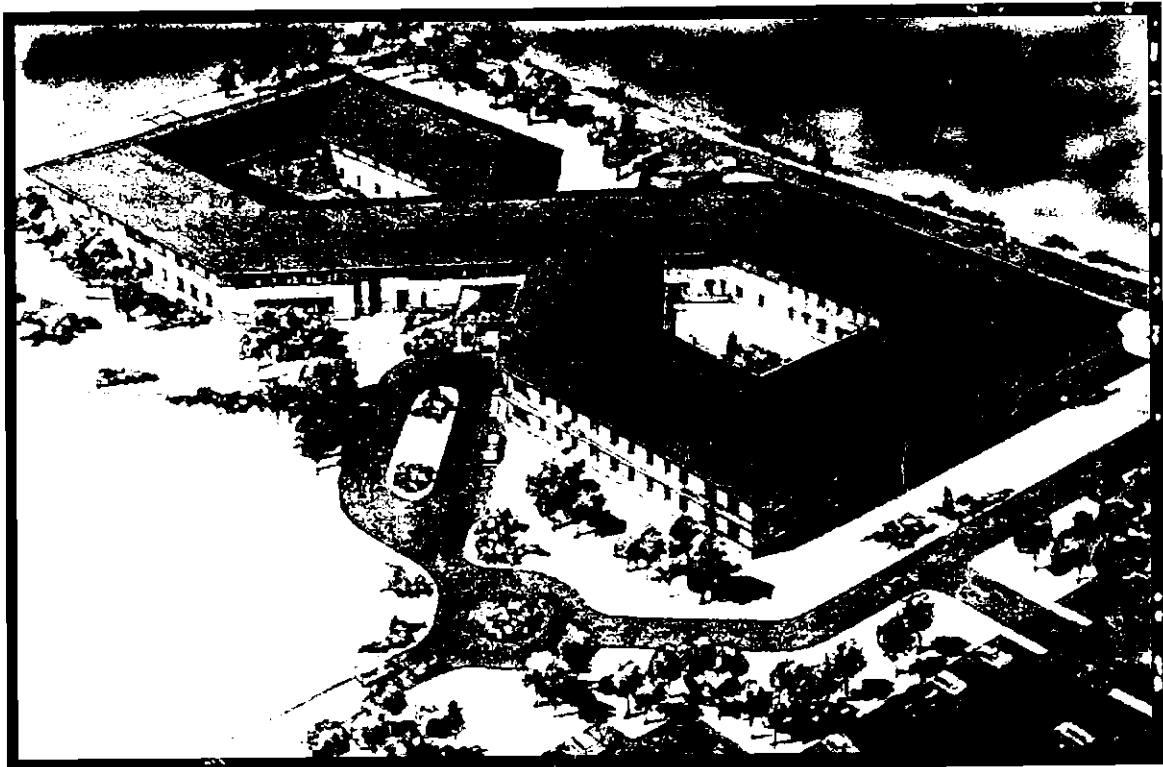


Private Finance Initiative

Full Business Case
and
Executive Summary

for the

Redevelopment
of
Medicine for The Elderly Services



PRIVATE FINANCE INITIATIVE
FULL BUSINESS CASE
And
Executive Summary
For the
REDEVELOPMENT OF MEDICINE FOR THE ELDERLY
SERVICES

Southern General Hospital NHS Trust

Executive Summary

Executive Summary

*[This Business Case has been prepared in accordance with NHS MEL(1998)46
"Interim Capital Guidance".]*

In 1992 the Southern General Hospital NHS Trust set out a strategic plan to improve the quality of the patient accommodation across all specialties. As part of that plan the Trust recognised the need to improve the poor quality accommodation occupied by the Department of Medicine for the Elderly. The current accommodation comprises six wards and a 30 place day hospital which are not linked and of poor patient amenity.

The Trust carried out an option appraisal in 1993 and concluded at that time that a refurbishment (capital cost £5million) would offer best value for money and would enhance the quality of the patient accommodation.

In 1994 the Trust took forward a project with Wimpey Healthcare to construct a 150-bed facility for Medicine for the Elderly to replace the existing 160-bed accommodation. The Trust presented this proposal to the Management Executive but was advised that the approved business case was for upgrade and not new build. The Trust was required to submit an Outline Business Case for new build which it did in March 1995. *[A more detailed project history is included as Appendix 1.]*

The service objectives were established in the Outline Business Case. These objectives have been fully reviewed and remain valid. The objectives are set out below.

- ◇ to increase existing levels of patient activity by 5% over the first 3 years of the enhanced facilities

- ◇ to improve the quality of patient accommodation giving due regard to patient dignity and privacy, with single rooms and 4 & 6 bed areas
- ◇ to provide integrated diagnostic imaging and rehabilitation services in order that elderly patients do not have to travel by internal ambulance to the general radiology department and therapy centre.
- ◇ to enhance day hospital provision by improving dining facilities, treatment areas and therapy treatment areas. Integrating the day hospital within the main inpatient facility.
- ◇ to improve flexibility and efficiency of staff, impacting on the revenue expenditure and unit cost.
- ◇ creating acute admission facilities for medicine for the elderly

The Trust received approval in July 1995 for the project to be advanced through the private finance initiative process. The Trust advertised and subsequently interviewed three consortia before deciding on a shortlist of two; M.J.Gleeson and Tarmac.

Both consortia submitted reference bids for evaluation. Both bids set out the provision of 150 beds with integrated facilities as described above. The Trust evaluated the reference bids under *finance, legals, risk, design, equipment and facilities management*. The conclusion of the evaluation was that the Tarmac reference bid was the preferred bid under the aforementioned criteria. In concluding that Tarmac was the preferred bidder the Trust further concluded that the 150-bed proposal was not affordable. The gap between the PFI proposal and the funds available to the Trust was £446,000. The Trust could not identify a way to bridge this gap.

[The OJEC advertisement was placed on the basis of the negotiated procedure. The Invitation to Tender invited both consortia to submit variant proposals as well as reference proposals. Tarmac submitted a variant bid that proposed a 210-bed facility. Gleesons did not submit a variant bid.] Medicine for the Elderly requiring only 150 beds would leave 60 beds without an occupier. 30 beds are allocated for Young Physically Disabled and Greater Glasgow Health Board has agreed to support the Trust in the construction of this facility and the identification of a user specialty. A

letter from Greater Glasgow Health is enclosed and confirms the Health Board's support to utilise the balance of ward accommodation by reconfiguring services over the forthcoming 24 months. *[Appendix 2 sets out the options under consideration for the use of the balance of 30 beds.]*

The original Invitation to Tender included the provision of equipment. Evaluation of the proposals concluded that it was not cost effective to include equipment (the majority of which will cost less than £5,000) in a 60-year agreement. Previous discussions with the Management Executive accepted the need to fund the equipment from the EFL pool. The cost of this equipment is £875,000, inclusive of VAT. The earliest requirement for this funding would be in financial year 1999/2000 subject to scheme approval in 1998. A criteria submission is submitted as part of this Business Case. **Appendix 3** The only major Electro-medical equipment is diagnostic imaging. This will be obtained through a lease arrangement.

The existing ward accommodation will require to be demolished to clear the ground for the new build. This will require the Trust to provide suitable decant accommodation. Whilst ward accommodation can be identified it requires minor upgrade to achieve an acceptable standard. Earlier discussions identified the cost associated with the decant to be £250,000. Assuming approval to proceed is given and financial and legal close is reached in the latter part of this financial year then this funding would be required in 1998/99. A criteria submission is enclosed as part of this Business Case. **Appendix 4.**

Economic and Financial Appraisal

1.2 The financial analysis of the two options is detailed below. These options have been evaluated in accordance with the Scottish Capital Investment Manual (CIM) and

the Private Finance Initiative (PFI) evaluation guidance. This analysis is split into two distinct areas:

- economic analysis, and
- impact on affordability criteria

1.3 Economic Analysis

1.3.1 The purpose of the economic appraisal is to rank the options in terms of their Net Present Values (NPV). The economic analysis addresses the relative future values of the investments and utilises NPV calculations. The NPV only takes account of actual cash flows and consequently indirect taxes and non-cash transfers such as VAT and capital charges are excluded. The calculation adjusts future values for the time value of money by applying a discount factor.

1.3.2 The basis of any option appraisal is to make the comparison of fair and equal terms. A discount rate of 6% is applied to all cashflows in accordance with the CIM and PFI evaluation guidance.

1.4 Affordability

1.4.1 The options are also reviewed against the impact they have on the income and the expenditure position of the Trust, i.e. looking at the affordability of the options.

2 Outline of the Tarmac (PFI) Limited proposal

2.1 Overview

2.1.1 The proposal from Tarmac (PFI) Limited consists of three major elements;

- the design and build of the Medicine for the Elderly Unit;
- the facilities management of the unit; and
- the financing of the construction costs.

2.1.2 The new 210-bed facility and associated services will be provided to the Trust through a Special Purpose Vehicle (SPV).

2.1.3 Payment for these services will be through periodic payments linked to the availability of facilities within the building and the quality of services provided.

2.1.4 The initial agreement with the SPV will be for a period of 60 years from the Operational Date of the facilities.

2.15 The finance for the construction of the new facility has been put in place by Tarmac.

2.1.6 On expiry of the 60-year agreement the ownership of the land and building will revert back to the Trust.

2.2 Facilities Management

2.2.1 Tarmac (PFI) Limited is contracted to provide or procure FM Services in accordance with the FM Specification. This requires Tarmac (PFI) Limited to provide at its cost all staff, food, equipment and other services whatsoever required for the provision of the FM Services to the Contract Specification.

2.3 Payment mechanism

2.3.1 The payment mechanism consists of three principal elements

- Availability
- Service price element
- Maintenance price element

2.3.2 Availability

2.3.2.1 The building element of the charge will escalate by the GDP inflator set by Treasury. This element is subject wholly to availability. The purpose of which is to:

- encourage the consortium to ensure facilities are available for the Trust business:
- penalise the consortium if facilities are unavailable.

2.3.2.2 The principles of availability have been agreed and are set out under risk analysis

2.3.2.3 The Trust will accept that during the course of the 60-year service agreement, essential maintenance, planned maintenance and major plant replacement will inevitably give rise to partial non-availability. This availability model is not intended to apply to such instances. Good liaison and forward planning will ensure disruption to the Trusts service can be kept to a minimum.

2.3.3 Service price element

2.3.3.1 At the Operational Date the service price element shall be fixed at the same amount as the Trust pays for the provision of Facility Management services at present.

2.3.3.2 It is the Trusts intention to review hotel services provision in line with NHS Circular MEL (1998) 32. Notwithstanding this the service element shall be benchmarked by comparison to the price at which the FM services are currently provided to the Hospital.

2.3.3.3 A service default credit system is being developed in relation to the services to be provided to the unit (heating, lighting, catering, cleaning, etc.). The service default credit system would, essentially, relate to the quality of the service provision.

2.3.3.4 Performance criteria are being established. Failure to meet these performance criteria will result in the allocation of a service default credit, the amount of which will depend on the severity of the default.

2.3.3.5 Once a certain level of default credits has been accrued then the availability charge for the relevant period will be reduced by a percentage to be agreed.

2.3.3.6 The cost escalator on this element of the service is split into two:

- the FM element
- the utilities element

2.3.3.6.1 The FM element is covered through the benchmarking comparator.

2.3.4.6.2 The utilities element will have flow through inflation from the public utilities charges, as does the remainder of the hospital.

2.3.4 Maintenance price element

2.3.5.1 The maintenance element comprises two parts, namely the part to be applied for reactive maintenance and that to be used for Life-cycle maintenance. Reactive

maintenance is to be provided as part of the FM services and shall be affected by all the provisions applying to the FM services.

2.3.4.2 The element for life-cycle maintenance will comprise a "sinking fund" which will be spent on maintenance subject to the priorities of the Trust and SPV

2.3.4.3 The cost escalator on these elements of the service is RPI.

3 NPV analysis

3.1 The detailed NPV analysis is provided at Appendix 5. The following paragraphs provide an explanation of the key elements included in the analysis.

NHS capital cost (publicly funded option only). The cost of £11.3m (excluding VAT) is only the build cost of the facility.

Life cycle costs. The life cycle costs are an assessment of the costs for essential maintenance, which is vital to ensure the building remains operational and meets health and safety requirements during the period of operation. Under the Public sector option it is a relevant cost throughout the life of the building (60 years). Under the PFI option it is only a relevant cost from year 27 onwards as this cost is included within the maintenance charge.

PFI lease cost. NPV of total payments to SPV for building and finance costs.

Ground rent. Rent received by Trust for rental of ground to SPV.

3.2 Assumptions

3.2.1 The purpose of the NPV analysis is to rank the options in cost or value terms. In carrying out the analysis a number of assumptions have been made.

- the useful life of an asset is 60 years.
- the discount factor is 6%.
- all taxes and transfer payments are excluded.

4 The impact of risk transfer

4.1 The Tarmac (PFI) Limited proposal demonstrates significant transfer of risk from the public to private sector. The risk transfer matrix is appended as Appendix 6

4.2.2 The principal risks are as follows;

- *Planning*

The private sector is assuming virtually all risk in relation to the costs of obtaining planning permission. Similarly the private sector is assuming the risks of complying with all requirements set down by the planning authorities, save for any extraordinary requirements which place the scheme in jeopardy.

- *Design*

The private sector is assuming responsibility for the design of the unit in accordance with the Trust's requirements. The majority of risk relating to defect in design is therefore transferred.

- *Construction*

The private sector is assuming the risk of construction, cost overrun, delay and latent defects. Damages will be payable in relation to any delay in commissioning.

-

- *Operations*

The key risks associated with maintaining the operational service levels and standards set out in the Trust's specifications, which are being assumed by the private sector, are:

1. failure to deliver to the required standard will result in default credits being accrued by the service provider leading to deductions from the contract sum by the Trust.
2. Persistent failure will lead to that service provider's contract being terminated. The private sector will bear the risk and be obligated to find and implement an acceptable replacement.
3. Volume. No risk is being borne by the SPV
4. Availability. If the building is not available for use by the Trust as a result of the SPC's failings the fee payable for availability is reduced.

4.3 Financial assessment

4.3.1 The detailed financial arrangements relating to a number of areas in which substantial risks are being transferred to the private sector are still under discussion/negotiation.

4.3.2 For evaluation purposes the most likely level of risk, in the context of the potential outcomes considered during the detailed risk assessment and the current position with the negotiations has been used in the evaluation process.

5 Affordability

5.1 The affordability issue within the Trusts income and expenditure profile is seen as key to the success of the project. The expenditure at April 1998 levels has been divided into two elements for assessment, namely;

- Service element, and
- Property element

5.2 Service element

5.2.1 In analysing the service elements of the scheme the projected costs have been compared with the current expenditure on the Medicine for the Elderly facility and show that the new facility is more cost effective. The Trust will make cost savings against the current budget.

5.3 Property element

5.3.1 The Trust has explored other sources of income to meet this element of cost. In summary they are;

- *Existing contract income.* The existing contract contains an element of capital charges income associated with the present facility, which can be transferred to the new scheme, as the existing buildings will be demolished.

The second element is cost savings identified due to the design of the facility, which will enable more efficient use of nursing staff especially on the night shift. This together with the building having it's own basic Radiology equipment will reduce the need for a dedicated ambulance for patient movements.

- *Additional income from principal purchaser*

Greater Glasgow Health Board has indicated that they recognise that the new facility will be of a high standard and have recognisee that there will be a premium payment to achieve this standard.

- *New service provision*

As indicated earlier in this document the Trust has agreed with Greater Glasgow Health Board that new income streams will be identified during the construction phase of this strategically important project.

6 Price Escalators

The Trust has endeavoured in its negotiations with Tarmac (PFI) Limited to meet the expectations of the NHS and the financial market in terms of price escalators.

6.1 Service Elements

6.1.1 The Trust has agreed that both maintenance elements of expenditure are inflated by RPI. The FM elements are benchmarked and therefore will be inflated when and if the benchmarking process requires. The Utilities elements of heat, light and power will have flow through inflation from the suppliers.

6.3 Property Element

6.3.1 The property elements will be inflated by GDP.

6.3.2 This means of inflation will avoid the surprises of the current treatment of capital charges, which are increased by indexation annually as well as the District Valuers five-year revaluation.

Key Milestones

Clearly the first key milestone is the approval to proceed from the Management Executive. Once this has been obtained the two parties to the agreement can begin discussions on the final detail of the financial and legal agreements. In addition Tarmac will proceed to obtain full planning permission in parallel to the financial and legal negotiations.

In order to facilitate the process Tarmac has obtained, by agreement, a copy of the Dartford and Gravesham contract. This contract has been approved by Treasury and has the support of the banking consortium backing the Dartford and Gravesham contract. The Trust has reviewed this document with its legal advisers to determine the suitability of the framework and structure for this project. The legal framework set

out in support of this Business Case is structured on the Dartford and Gravesham agreed Contract. Clearly this is a much smaller scheme and therefore Dartford and Gravesham cannot be transferred without some amendment. *[The differences between the Dartford and Gravesham contract and the Southern General Hospital contract are:*

- *It is not intended that there will be any conditions precedent to this Agreement.*
- *The contract period is different.*
- *There are no transferring employees.*
- *There are no surplus premises in this deal.*
- *The commissioning and equipment list details differ.*
- *There are step in rights for the Trust that are not available at Dartford and Gravesham because the Trust is already on – site as a major service provider in the area.]*

On receipt of Management Executive approval the Trust believes, on the basis of timetable discussions that financial and legal close could be completed within 3 months. With Tarmac pursuing the full planning approval in parallel there is a view that construction could commence on site 4 months from Management Executive approval.

In conclusion the proposal to build a 210 bed facility would provide 150 high amenity beds for Medicine for the Elderly assessment and rehabilitation and would facilitate Greater Glasgow Health Board's stated intent to take forward further strategic change as set out in the 1998-2003 Health Improvement Programme.

Full Business Case

Introduction

The 1992 Trust Application for the Southern General Hospital set out the need to provide improved accommodation for the Department of Medicine for the Elderly. In October 1993 the Trust appointed the Common Services Agency Building Division¹ to carry out an option appraisal and to set out the design requirements for this patient group. In 1994/95 the Trust received a provisional EFL of £5million allocated against Medicine for the Elderly. The business case in support of the provisional EFL was submitted to the Management Executive to take forward the upgrade of this accommodation.

In November 1994 the Trust advised the Chief Executive of the Scottish Health Service that for a similar cost of upgrade the Trust could procure a new build through *a PFI style contract*. This proposal was not agreed to as the Trust only had approval for upgrade and not new build. The Trust was therefore required to submit an Outline Business Case for new build.

The Southern General Hospital NHS Trust submitted an outline business case for a new build replacement for the Department of Medicine for the Elderly in March 1995.

Consideration of this outline business case by the Management Executive concluded that the proposal should be subjected to the Private Finance Initiative process.

Appendix 1 sets out the project history in more detail.

The Southern General Hospital NHS Trust has now completed the evaluation of reference and variant bids received under the Private Finance Initiative route and this Full Business Case is submitted on the basis of that work.

This Full Business Case will by its very nature revisit and challenge the assumptions made in the outline business case to ensure that they remain valid.

Southern General Hospital NHS Trust - Strategic Context

The Southern General Hospital NHS Trust is an acute teaching Trust located in South West Glasgow. The Trust comprises:

- the Southern General Hospital
- Cowglen Hospital

The Trust provides patient services to five population zones, namely

- Core Services - 175,000
- Sector Services - 361,000
- Pan Glasgow Services - 906,000
- West of Scotland - 2,730,432
- National - 5,145,958

The health care services provided to these population zones are set out below.

| <u>Core Services</u> | <u>Sector Services</u> | <u>Pan Glasgow</u> | <u>West of Scotland</u> | <u>National</u> |
|---|---|--|-------------------------|-----------------|
| General Surgery | Urology | Physically Disabled Rehabilitation (Assessment & Rehab) (Continuing Care) | Neurosurgery | Spinal Injuries |
| General Medicine | Ophthalmology | Podiatry | Neurology | |
| Orthopaedics | Dermatology | | Prosthetics and Seating | |
| Medicine for the Elderly (Assessment & Rehabilitation) (Continuing Care) | Physically Disabled Rehabilitation (Community Team) | | | |
| Obstetrics | | | | |
| Neo- Natal Paediatrics | | | | |
| Gynaecology | | | | |
| Accident and Emergency | | | | |
| Laboratories | | | | |
| Radiology | | | | |
| Anaesthetics | | | | |

¹ Common Services Agency Building Division is now W.S. Atkins.

The configuration of the Trust and the detailed bed complement for the Trust is set out in the following tables.

| <u>Hospital</u> | <u>Beds</u> |
|--|-------------|
| Southern General Hospital ² | 852 |
| Cowglen Hospital | 148 |

| <u>Hospital</u> | <u>Specialty</u> | <u>Beds</u> |
|---------------------------|-------------------------------------|-------------|
| Southern General Hospital | General Surgery | 64 |
| | Orthopaedics ³ | 61 |
| | Ophthalmology | 18 |
| | Urology | 46 |
| | Neurosurgery ⁴ | 89 |
| | General Medicine ⁵ | 162 |
| | Neurology ⁶ | 46 |
| | Dermatology | 15 |
| | Spinal Injuries | 48 |
| | Gynaecology | 26 |
| | Obstetrics | 52 |
| | Special Care Baby Unit ⁷ | 16 cots |
| | Surgical Intensive Therapy | 5 beds |
| | Medicine for the Elderly | 160 |
| Cowglen ⁸ | Physically Disabled Rehab | 30 |
| | Day Surgery Unit | 10 |
| | Continuing Care - Frail Elderly | 120 |
| | Continuing Care - YPD | 28 |

In seeking Trust status in 1992 the Trust set out its statement of purpose as being:

² The bed complement of the Southern General Hospital will increase by 24 beds in July 1998 when Physically Disabled Continuing Care is provided from the Southern General campus. Cowglen Hospital will reduce its bed complement by 28 beds at the same time.

³ 9 beds designated for orthogeriatric

⁴ Includes Neuro Intensive Care (8 beds) and Neuro Paediatrics (12 beds)

⁵ Includes Coronary Care Unit (7 beds)

⁶ Includes 2 beds for Video Telemetry

⁷ Includes 2 Intensive Care cots

⁸ The Directorate of Medicine for the Elderly also has access to 60 partnership beds at Darnley Court

“to provide a range of relevant, high quality, cost effective services to the local catchment population and to the rest of Scotland, having regard to the best interests of patients and staff”

This statement of purpose has underpinned the Trust's Operational Plan since 1993, and has been reviewed annually. The statement remains relevant in 1998 as the Trust continues to build on its successes of the previous five years. The provision of a new build for Medicine for the Elderly continues to be a high priority in the Trust's Strategic Plan. This has been re-stated in the 1997-2002 Strategic Direction Statement of the Trust. This development aligns itself well to the statement of purpose being relevant, high quality and cost effective in providing assessment and rehabilitation services to the local population.

Greater Glasgow Health Board's last Acute Strategy Review concluded that there would be no change in the disposition of acute Providers within Glasgow. Ergo the Southern General Hospital will continue to provide clinical services to the population of South West Glasgow.

This has been reinforced in the Health Board's reconfiguration proposals, which retain elderly services as an integral part of acute provision. The Southern General Hospital NHS Trust will become part of a larger Trust in South Glasgow continuing to provide a range of services including elderly assessment and rehabilitation.

A more specific review of Medicine for the Elderly will be addressed in the next section of this business case.

It is important to recognise the Trust's developing rehabilitation focus. 1992 saw the opening of the Queen Elizabeth National Spinal Injuries Unit providing care for spinal cord injury patients across Scotland. In 1995 the first Physically Disabled Rehabilitation Unit in Glasgow was opened at the Southern General Hospital serving the whole of Glasgow. These services further add to the existing rehabilitation services, which the Southern General Hospital has provided to the elderly population

for many years. In addition the Southern General Hospital has a comprehensive Therapy Service which provides support across the range of clinical specialties.

The provision of Physically Disabled Rehabilitation Services has caused the Trust to take forward an exciting development with Greater Glasgow Health Board in relation to provision of Physically Disabled Rehabilitation services in the community. This serves to demonstrate that the Trust looks positively beyond its boundary to ensure care is given in the most appropriate environment.

In April 1995 the Trust was requested by Greater Glasgow Health Board to assume responsibility for Cowglen Hospital. Cowglen Hospital provides continuing care for the frail elderly and young physically disabled.

The Southern General Hospital NHS Trust currently provides Medicine for the Elderly assessment and rehabilitation from 160 beds in Wards 52 - 56 and Ward 67. The Trust also provides a 30-place day hospital. Appendix 6 shows the site of the Medicine for the Elderly accommodation within the context of the Southern General Hospital campus. Appendix 7 shows the Medicine for the Elderly site in closer detail.

The outline business case set out that the current provision of Medicine for the Elderly services is from accommodation that is in extremely poor condition and does not provide the standards of amenity or staff flexibility that the Trust believes are essential to provide a high quality cost effective service. It should be noted that since the Outline Business Case was approved the accommodation has deteriorated further.

Medicine for the Elderly - Strategic Context

98% of the Medicine for the Elderly services provided at the Southern General Hospital are purchased by Greater Glasgow Health Board. The business case has only taken cognisance of the Greater Glasgow Health Board's strategy in light of this purchasing position.

Greater Glasgow Health Board purchases frail elderly services under four headings:

- 1. Geriatric Assessment**
- 2. Geriatric Rehabilitation**
- 3. Continuing Care**
- 4. Day Places**

The aforementioned categories of provision have been defined as follows:

1. Geriatric Assessment

In the units for assessment, elderly people are subject to a full multi-disciplinary review. Patients are referred to these units by General Practitioners or by hospital consultants who are treating them for another condition. The assessment is intended to establish the extent of their physical and functional disability, and to determine their capacity to live at home with the support of community services. This will influence the decision on whether they should be discharged, how soon and to what destination.

2. Geriatric Rehabilitation

Rehabilitation units have the function of preparing the elderly to return to living in the community, which requires considerable input from the paramedical professions.

3. Continuing Care Beds

These are intended for elderly people who are unable to maintain an independent existence outside the hospital. This could be due to increasing frailty through age or following a serious illness. Alternatively it could be due to a condition which has left the elderly person functionally disabled or physically disabled. Patients are transferred to these beds after treatment in hospital for an acute condition after assessment or from another institution.

4. Day Places

These are medically orientated, as opposed to daycentres provided by the Local Authority or voluntary agencies, which are socially orientated. Day Hospitals concentrate on diagnostic, therapeutic, evaluative and rehabilitative aspects of medical care. Patients are referred to these units by the General Practitioner or by a hospital consultant through a consultant in geriatric medicine.

Whilst the Southern General Hospital NHS Trust provides clinical care in all of these patient categories, this business case is only relevant to assessment and rehabilitation and day places.

Consideration of the population trends suggests that in Greater Glasgow Health Board there are an estimated 141,000 people aged 65 years and over. Whilst the total number of people over the age of 64 years is expected to decrease by approximately 4% by 1997, the number of people over 84 years will increase by 5%. By 1998 the over 74 year old population is expected to increase by approximately 1,000 people.

The population projections for South West Glasgow are set out in the following table.

| | 1996 | 2001 |
|-------------|-------|----------------|
| 65 and over | 25233 | 23777 (-14.4%) |
| 75 and over | 11040 | 10785 (-9.6%) |
| 85 and over | 2601 | 2691 (+19.9%) |

NB. The percentages in parenthesis show the difference based on the 1987 census figure.

[The Trust has reviewed these population statistics with clinical colleagues. Experience of the last 5 years has seen a steady increase in patient activity. It is the belief of the clinical staff that this trend will continue as the over 85 age group increases and places more demand on health services.]

Greater Glasgow Health Board's strategy for the 1990's clearly stated the necessary provision of assessment and rehabilitation services for the elderly in South West Glasgow based at the Southern General Hospital. The Strategy documents set out the need for 180 assessment and rehabilitation beds in South West Glasgow. This position was re-affirmed in the strategy to the year 2001. The accommodation proposed in this project will provide 150 high amenity beds for assessment and rehabilitation and this is in line with the Health Board's bed requirement beyond 2001.

The Trust has discussed this development with Greater Glasgow Health Board and kept the Health Board informed throughout the process and is confident that Greater Glasgow Health Board will continue to purchase these services for the population of South West Glasgow from the Southern General Hospital NHS Trust.

Since the middle of 1980 Greater Glasgow Health Board has systematically sought to upgrade geriatric assessment and rehabilitation facilities. Significant investment had been made throughout the Health Board with the final phase of redevelopment being in South West Glasgow at the Southern General Hospital. This redevelopment did not occur and as a result there has been no major refurbishment of the facilities on site.

In order to provide assessment and rehabilitation services from the Southern General Hospital, redevelopment of this accommodation is essential to meet the demands of emergency admission and the quality standards expected by patients in the late 1990's.

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In order to provide assessment and rehabilitation services from the Southern General Hospital, redevelopment of this accommodation is essential to meet the demands of emergency admission and the quality standards expected by patients in the late 1990's.

Medicine for the Elderly - Southern General Hospital NHS Trust

The Directorate of Medicine for the Elderly has set out the following objectives for the service: -

1. the provision of acute geriatric receiving for patients aged 65 years and over, with emergency medical problems referred by telephone from their family doctor or through the Accident and Emergency Department. This acute receiving area requires piped medical gases and suction and is currently located in ward 67.
2. assessment of patients both in their own homes and in other wards of the Trust and the arrangement of appropriate therapy.
3. the provision of outpatient clinics each week results in a cohort of patients requiring inpatient assessment and rehabilitation.
4. the provision of day hospital assessment and investigation provides a further group of patients requiring inpatient assessment and rehabilitation.
5. the provision of a tertiary geriatric neurological service for the West of Scotland in liaison with the Institute of Neurological Sciences.
6. the provision of palliative care for patients dying principally of malignant disease, but also a significant number dying from end stage organ failure.
7. the provision of respite care.

Other specialist interests include epilepsy, hypertension, endocrine disorders, and incontinence.

As previously stated the Directorate of Medicine for the Elderly has a bed complement of 160 beds and a 30 place Day Hospital.

Over the last three financial years the Directorate has seen an increase in activity. The table below details the inpatient activity of the Directorate.

| YEAR | INPATIENT NUMBERS |
|---------|-------------------|
| 1993/94 | 1635 |
| 1994/95 | 1700 |
| 1995/96 | 1758 |
| 1996/97 | 1780 |
| 1997/98 | 1852 |

The current workload is carried out with an average length of stay of 24.8 days. This represents a significant reduction in length of stay over the previous years. *[The Trust does not believe that there remains scope for significant reductions at this time.]*

The service as set out above is provided from buildings that are in extremely poor condition and do not provide the standard of amenity or staff flexibility that the Trust believes are essential to providing a high quality cost effective service. The Building Division of the Common Services Agency has confirmed the poor condition of the buildings.

Service Objectives

In order to fully assess the options the Trust set out the following service objectives in the Outline Business Case.

- ◇ to increase existing levels of patient activity by 5% over the first 3 years of the enhanced facilities
- ◇ to improve the quality of patient accommodation giving due regard to patient dignity and privacy, with single rooms and 4 & 6 bed areas
- ◇ to provide integrated diagnostic imaging and rehabilitation services in order that elderly patients do not have to travel by internal ambulance to the general radiology department and therapy centre.
- ◇ to enhance day hospital provision by improving dining facilities, treatment areas and therapy treatment areas. Integrating the day hospital within the main inpatient facility.
- ◇ to improve flexibility and efficiency of staff, impacting on the revenue expenditure and unit cost.
- ◇ creating acute admission facilities for medicine for the elderly

The Trust has reviewed these initial service objectives and believes that they remain valid. However in seeking to address the options the Trust has developed a benefits analysis. This analysis relates the specific investment objectives to the Trust's strategic objectives and subsequently links the investment objectives to a benefit criterion. This analysis concludes by identifying measurable indicators by which the project can be partially evaluated post construction. The following tables set out the analysis from the Trust's strategic objectives to the measurable indicators.

| TRUST STRATEGIC OBJECTIVES | SPECIFIC INVESTMENT OBJECTIVES |
|--|--|
| To provide a range of relevant, high quality, cost effective services to the local population | To ensure the continued provision of Medicine for the Elderly assessment and rehabilitation services to the population of South West Glasgow by the Southern General Hospital NHS Trust |
| Provide services which are responsive to changing demands | To develop a facility which will allow the services provided to respond to changing demands. |
| To recognise staff as a major resource | To provide an improved working environment that will encourage flexible working arrangements. |
| Optimise use of physical resources | To secure a design solution which allows the patient activity to be handled cost effectively and efficiently. In addition the design solution should provide an integrated day hospital which can be accessed over 7 days. |
| Minimise the requirement to transport patients across the campus site for investigation and treatment. | To provide improved therapy accommodation and to provide dedicated diagnostic imaging. |
| To provide services for patients in a modern comfortable environment. | To provide patient accommodation in a mixture of multi-patient rooms and single rooms, giving due regard to patient dignity and privacy. |

| SPECIFIC INVESTMENT OBJECTIVES | BENEFIT CRITERION |
|---|---|
| To ensure the continued provision of Medicine for the Elderly assessment and rehabilitation services to the population of South West Glasgow by the Southern General Hospital NHS Trust | Local access to assessment and rehabilitation services for an increasing elderly population |
| To develop a facility that will allow the services provided to respond to changing demands. | Flexibility of use |
| To provide an improved working environment that will encourage flexible working arrangements. | Greater flexibility in the deployment of staff. |
| To secure a design solution that allows the patient activity to be handled cost effectively and efficiently. In addition the design solution should provide an integrated day hospital which can be accessed over 7 days. | Maximise throughput per bed More intensive use of day facilities |
| To provide improved therapy accommodation and to provide dedicated diagnostic imaging. | Patient centred approach to treatment |
| To provide patient accommodation in a mixture of multi-patient rooms and single rooms, giving due regard to patient dignity and privacy. | Improved patient amenity |

| BENEFIT CRITERION | MEASURABLE INDICATORS |
|---|---|
| Local access to assessment and rehabilitation services for an increasing elderly population | Number of patient referrals |
| Flexibility of use | Cost associated with change |
| Greater flexibility in the deployment of staff. | Skill Mix Grade Mix Staff : patient ratios |
| Maximise throughput per bed | Patient numbers per bed |
| More intensive use of day facilities | Utilisation pattern over seven days Daily activity patterns |
| Patient centred approach to treatment | Number of external journeys made by patients for diagnostic tests and treatment |
| Improved patient amenity | Level of patient satisfaction |

Having set out the criteria for the benefits analysis, the Specific Investment Objectives and the Benefit Criterion are allocated a weight in order to assess the options under consideration. The weighting applied is set out in the following tables.

| SPECIFIC INVESTMENT OBJECTIVES | WEIGHTING |
|---|-----------|
| To ensure the continued provision of Medicine for the Elderly assessment and rehabilitation services to the population of South West Glasgow by the Southern General Hospital NHS Trust | 25 |
| To develop a facility that will allow the services provided to respond to changing demands. | 12 |
| To provide an improved working environment that will encourage flexible working arrangements. | 16 |
| To secure a design solution that allows the patient activity to be handled cost effectively and efficiently. In addition the design solution should provide an integrated day hospital which can be accessed over 7 days. | 17 |
| To provide improved therapy accommodation and to provide dedicated diagnostic imaging. | 13 |
| To provide patient accommodation in a mixture of multi-patient rooms and single rooms, giving due regard to patient dignity and privacy. | 17 |

Weighting (cont)

| BENEFIT CRITERION | WEIGHTING |
|---|------------------|
| Local access to assessment and rehabilitation services for an increasing elderly population | 20 |
| Flexibility of use | 8 |
| Greater flexibility in the deployment of staff. | 12 |
| Maximise throughput per bed | 10 |
| More intensive use of day facilities | 15 |
| Patient centred approach to treatment | 20 |
| Improved patient amenity | 15 |

Option Appraisal

The Outline Business Case set out four options, which had received detailed consideration. In presenting this Full Business Case for the re-development of Medicine for the Elderly the Trust has re-visited these options to ensure that no other possibility has been omitted from this process. **Appendix 1** sets out the project history that helps to clarify some of the options set out below.

This section of the business case will re-run the options and apply the weightings set out in the previous section in order to conclude a preferred option.

OPTION 1 Zero Option /Minimal Change

The buildings that currently accommodate the Medicine for the Elderly assessment and rehabilitation service Wards 52-56 was constructed between 1874 and 1974. Although these buildings have been deemed to be structurally sound, the general fabric and engineering services are in need of both maintenance work and substantial refurbishment to meet the standard of patient accommodation that is expected in the 1990's.

To do nothing is not an option. At the very least the minimum requirement is to provide wind and water tight facilities with a projected ten year life expectancy and to raise the fabric to category B standard. In addition it is essential that an acute assessment and rehabilitation service should be equipped with bed head services. Failure to recognise that there is no such thing as a minimum change option will mean that this service will experience great difficulty in continuing to meet the challenges faced in managing increasing winter demand thus impacting on the ability of the Directorate to handle emergency admissions. This of course has a knock on effect to other Directorates such as General Medicine.

Every effort has been made to maintain the buildings to wind and water tight standards, however the flat roofs give ever increasing problems and steam breaks are resulting in wet rot.

The most serious existing deficiencies are in respect of the following elements of the fabric.

- ◇ the external fabric and notably the existing windows require major repair and refurbishment.
- ◇ the roofs are giving cause for concern particularly the older Victorian buildings.
- ◇ the lack of adequate bedhead services and the ageing condition of those basic services which exist
- ◇ there are no piped medical gas services
- ◇ the main services installation requires replacement
- ◇ there is a gross inadequacy of patient toilet facilities

In functional terms the buildings entirely lack the facilities required for a modern elderly care provision. This is most evident in the older buildings although there are also clear deficiencies in the more modern buildings and the Day Hospital. The major areas of concern are:

- ◇ no ensuite facilities
- ◇ few single rooms
- ◇ lack of space between beds causing a lack of privacy for patients
- ◇ no medical treatment rooms
- ◇ no dedicated rehabilitation facilities for Occupational Therapy, Physiotherapy, and Speech Therapy.
- ◇ X-Ray department remote requiring patients to be moved by internal hospital ambulance
- ◇ limited relatives facilities
- ◇ lack of adequate storage

- ◇ no teaching facilities provided

The day hospital even for its current role is inadequate and more so on an expanded role. This building along with wards 54 and 55 is of a construction with a very limited remaining life expectancy.

As previously stated a zero option is not possible. In order to maintain the building to be wind and water tight and to raise the standard of the fabric to category B standard there requires to be investment to achieve this minimal change.

The estimated total including fees and VAT of maintaining these buildings to the necessary standard is £ 1,500,000⁹.

It is important to emphasise that whilst a minimum change option would make the buildings wind and watertight and would broadly enhance the patient and staff amenity, the very limited nature of the proposed refurbishment of the fabric and services would not provide any real opportunities, benefits or savings regarding energy use.

OPTION 2 MINIMUM REFURBISHMENT

This option expands on the minimum change option. Minimum refurbishment would extend to the upgrading of existing services and fabric within the existing ward accommodation (160 beds) and day hospital (30 places) but would not address the functional suitability of the accommodation.

This option would again address the issue of maintaining the building in a wind and water tight condition. In addition the internals would be redecorated and fixtures and fittings would be repaired or replaced. Floor coverings would be renewed. The buildings would be raised to category B standards.

Piped medical gases would be installed to building note standard. i.e. oxygen and suction with compressed air as necessary.

Consideration was given to decentralise the heating plant, however, the hospital has sufficient steam capacity to supply these buildings (although the plant is fairly old). The Trust took the view that the funding would be better used in the upgrading of the patient accommodation.

It should again be highlighted that this option does not deal with the energy efficiency problems nor does it deal with the functional deficiencies of the buildings.

It has been estimated that the cost of this minimum refurbishment including VAT and fees would be £ 2,400,000¹⁰.

OPTION 3 MAJOR REFURBISHMENT

The 1993 capital plan submitted by the Trust to the Management Executive included refurbishment of the Department of Medicine for the Elderly. This scheme was prepared by the Building Division of the Common Services Agency now W.S. Atkins Healthcare.

This proposal set out a partial new build of 90 beds (3 x 30 bed wards) linked to the existing wards 54 and 55 (2x 30 beds). This would provide a total of 150 beds partly new build and partly refurbished. . Wards 52,53,56 would be demolished.

Wards 54 and 55 would require to be upgraded externally and internally. The buildings would require a pitched roof.

This option would also include accommodation to locate diagnostic imaging facilities for Medicine for the Elderly.

⁹ 1996/97 Prices

¹⁰ 1996/97 Prices

The day hospital would remain in its present location.

The advantages of this option are:

- ◇ retention of wards 54 and 55 which were built in 1974
- ◇ reduce resultant capital charge
- ◇ afford some staff flexibility resulting from partly linked accommodation. Does not result in revenue savings.
- ◇ reduction of some of the maintenance problems associated with the existing accommodation

There are however remaining disadvantages in that this scheme still leaves separate buildings linked by external corridor and does not integrate the day hospital or improve the therapy services accommodation. This will mean that elderly patients will still require to be transported across the campus by internal ambulance.

With this option only part of the overall ward accommodation would be provided to fully meet the standards required (90beds). The remaining accommodation in the existing wards 54 and 55 would be a refurbishment of the existing accommodation and would therefore retain most of the inadequate space standards as detailed under option 1. The cost of this option is £5million¹¹.

OPTION 4 NEW BUILD 150 BEDS WITH INTEGRATED 30 PLACE DAY HOSPITAL.

In order to construct a new building on the existing site of the Department of Medicine for the Elderly the existing ward accommodation will require to be demolished. The Trust has, as part of the consideration of this option, identified suitable decant accommodation.

¹¹ 1993/94 Prices

It is proposed under this option that the new build accommodation would include a dedicated diagnostic imaging room and an integrated day hospital with dedicated therapy accommodation, which would allow both day patients and inpatients to receive therapy treatment within the Department of Medicine for the Elderly.

This option presents clear benefits. It provides a high quality flexible building which offers a high level of patient amenity. The integration of the day hospital and the provision of suitable therapy accommodation minimise inconvenience and distress to patients who would otherwise require to be moved by internal ambulance. This new accommodation would permit greater staff flexibility and revenue cost benefits to the Trust.

The cost of this development at departmental cost allowances, including equipment, fees and VAT with assessed on costs is estimated at **£9,100,000¹²**

A new build for 210 beds would have an estimated cost of **£11,600,000**.

Having considered the scope of each of the options open to the Trust the weightings previously identified have been applied as follows.

¹² 1996/97

| | OPTION 1 | OPTION 2 | OPTION3 | OPTION 4 |
|---|--------------------------|--------------------------|--------------------------|--------------------------|
| SPECIFIC INVESTMENT OBJECTIVES | RAW WEIGHTED SCORE SCORE | RAW WEIGHTED SCORE SCORE | RAW WEIGHTED SCORE SCORE | RAW WEIGHTED SCORE SCORE |
| To ensure the continued provision of Medicine for the Elderly assessment and rehabilitation services to the population of South West Glasgow by the Southern General Hospital NHS Trust | 4 100 | 4 100 | 5 125 | 5 125 |
| To develop a facility which will allow the services provided to respond to changing demands | 1 12 | 1 12 | 4 48 | 5 60 |
| To provide an improved working environment that will encourage flexible working arrangements | 0 0 | 0 0 | 3 48 | 5 90 |
| To secure a design solution which allows the patient activity to be handled efficiently and cost effectively. In addition the design solution should provide an integrated day hospital which can be accessed over 7 days | 0 0 | 0 0 | 1 17 | 5 85 |
| To provide improved therapy accommodation and to provide dedicated diagnostic imaging | 0 0 | 0 0 | 3 39 | 5 65 |
| To provide patient accommodation in a mixture of multi-patient rooms and single rooms, giving due regard to patient dignity and privacy | 0 0 | 0 0 | 3 51 | 5 85 |
| TOTAL SCORE | 5 112 | 5 112 | 19 308 | 30 510 |

| BENEFIT CRITERION | OPTION 1 | | OPTION 2 | | OPTION 3 | | OPTION 4 | |
|---|--------------------------|------------|--------------------------|------------|--------------|-------------------|--------------------------|------------|
| | RAW WEIGHTED SCORE | SCORE | RAW WEIGHTED SCORE | SCORE | RAW SCORE | WEIGHTED SCORE | RAW WEIGHTED SCORE | SCORE |
| Local access to assessment and rehabilitation services for an increasing elderly population | 5 | 100 | 5 | 100 | 5 | 100 | 5 | 100 |
| Flexibility of use | 0 | 0 | 0 | 0 | 3 | 24 | 5 | 40 |
| Greater flexibility in the deployment of staff | 0 | 0 | 0 | 0 | 3 | 36 | 5 | 60 |
| Maximise throughput per bed | 0 | 0 | 0 | 0 | 3 | 30 | 5 | 50 |
| More intensive use of day facilities | 0 | 0 | 0 | 0 | 0 | 0 | 5 | 75 |
| Patient centred approach to treatment | 1 | 20 | 1 | 20 | 4 | 80 | 5 | 100 |
| Improved patient amenity | 1 | 15 | 2 | 30 | 4 | 60 | 5 | 75 |
| TOTAL | 7 | 135 | 8 | 150 | 22 | 330 | 35 | 500 |

The weighting of the options under both the specific investment objectives and the benefit criterion lead to the conclusion that the preferred option is clearly new build.

Risk assessment on options

In analysing the risk of developing Medicine for the Elderly Services, the Trust has taken the view that with an ageing population and with the commitment of Greater Glasgow Health Board as the principal purchaser to continue to purchase services from the Southern General Hospital, that the overall risk to this part of the Trust's business is negligible.

The Trust assumed the responsibility for continuing care frail elderly provision at Cowglen Hospital in April 1995. Therefore should there be an unexpected drop in the demand for assessment and rehabilitation the Trust would transfer the workload from Cowglen Hospital to the new facility. This ability to transfer business further minimises any risk associated with the preferred option.

In relation to Option 1 there is a high degree of risk in that the suitability and functionality of the buildings as described previously does not give confidence in these services being delivered over an extended period without disruption caused by infrastructure difficulties.

The risk associated with Option 2 is clearly less than Option 1. This option does not address issues relating to the boilerhouse and therefore the heating plant. It is therefore possible that breakdowns would seriously disrupt the delivery of services. The risks associated with Option 3 again relate to the heating plant. Whilst this is a partial new build it does not address the flexibility necessary to achieve revenue savings.

Option 4, because of its flexibility and its linkage to the Directorate of Neurosciences, provides opportunities to utilise the 150 beds to their maximum should there be any change to the stated purchasing intentions of Greater Glasgow Health Board. In addition the Trust could if necessary transfer existing services from old Victorian buildings on the campus to this facility.

The Trust believes that the risks associated with Option 4 are negligible because of the built in flexibility of the new build proposal and Greater Glasgow Health Board's stated purchasing intentions and strategic policy for this patient group. The remaining

options have significant risk attached to them which the Trust believes weighs against them.

Preferred Option

The preferred option as demonstrated by the scoring and weighting of the options under consideration is clearly new build. A further factor in favour of the new build option is the Trust's assessment of risk in respect of the options under consideration. A new build Department of Medicine for the Elderly will offer a high quality patient facility that will be flexible in use thus facilitating improved throughput and more efficient use of staff resource.

In addition the new build with integrated diagnostic imaging and therapy services will offer a service which is first and foremost patient centred.

In summary therefore the non financial benefits of the preferred option are:

- ◇ integrated high quality patient accommodation
- ◇ fully equipped diagnostic imaging
- ◇ integrated day hospital thus giving greater flexibility of use over seven days
- ◇ greater staff flexibility
- ◇ rehabilitation facilities which will facilitate both day hospital and inpatient treatments
- ◇ improvements in patient privacy and dignity through single and multi patient accommodation
- ◇ patient centred approach to treatment
- ◇ maximise utilisation of beds

Purchaser Intentions

Greater Glasgow Health Board consulted on the provision of Medicine for the Elderly services in 1989 concluding that services should continue to be provided from the Southern General Hospital. The 1994 consultation paper on the provision of Medicine for the Elderly adopted by the Health Board concluded that Medicine for the Elderly assessment and rehabilitation services should be provided on a geographical basis and indeed reinforces the provision of facilities at the Southern General Hospital. Demand and bed requirements for South West Glasgow was stated at 180 beds. As a result of changing clinical protocols, the Trust believes it can meet projected demand with 150 beds.

The Southern General Hospital NHS Trust has engaged Greater Glasgow Health Board in discussion in respect of this development. Senior officers of Greater Glasgow Health Board have confirmed the Health Board's commitment to translate the intent within the adopted strategy into long term commitment with the Trust.

This has been reinforced in the Health Board's decision to retain elderly services with the new acute Trust configuration. The Southern General Hospital will twin with the Victoria Infirmary to provide comprehensive health care provision to South Glasgow as a single Trust from 1 April 1999.

Greater Glasgow Health Board's Finance and General Purpose Committee discussed this proposal at their meeting on 5 August 1997. The Committee agreed that *"the proposals were consistent with the Board's strategies and were affordable at the £250,000....."*.

Greater Glasgow Health Board at its meeting on 19 August 1997 ratified this decision.

Attached as **Appendix 8** is a letter of support from Greater Glasgow Health Board, as principal purchaser of Medicine for the Elderly services at the Southern General Hospital.

Private Finance Initiative Procurement Process

The Southern General Hospital NHS Trust submitted an Outline Business Case to the Management Executive in March 1995. Whilst the Outline Business Case was approved in principle the Trust was asked to subject this proposed development to the Private Finance Initiative process.

The Trust placed an advertisement with OJEC on 3 August 1995. In response to this advertisement the Trust received ten expressions of interest. Consideration of these expressions of interest concluded that only three submissions fulfilled the criteria to advance to the first stage of presentation.

The remaining submissions covered the following areas:

- conventional build
- management consultancy
- equipment supply

The following companies were long listed for consideration:

- ◇ Transcare
- ◇ Tarmac PFI
- ◇ M.J. Gleeson

The above companies were invited to present to the Trust's Project Board. Following evaluation of the companies submissions and presentations the Trust concluded that only two companies be shortlisted.

The shortlisted companies were:

- ◇ Tarmac PFI
- ◇ M.J. Gleeson

On the 2 February 1996 the Trust issued an Invitation to Negotiate to the two consortia. *[In this document the Trust invited variant proposals as well as reference proposals]*. This was followed on the 16 February 1996 by a draft contract. On the 29 March the Trust issued an Invitation to Tender requesting conditional bids to be lodged with the Trust by noon on the 25 April 1996. The consortia having lodged their bids were required to present their proposals to the Project Board on the afternoon of 25 April 1996. In addition to the Project Board, representatives of Greater Glasgow Health Board also attended as the principal purchaser of this service. The evaluation of the reference bids was carried out under the following headings:

- ◇ Design
- ◇ Finance
- ◇ Facilities Management
- ◇ Legals/Risk
- ◇ Equipment

The weighting applied to each of the evaluation criteria is detailed below.

| CRITERIA | WEIGHTING |
|-----------------------|------------|
| Design | 30 |
| Finance | 40 |
| Facilities Management | 10 |
| Legals/ Risk | 15 |
| Equipment | 5 |
| TOTAL | 100 |

The two reference bids received against the output specification promoted a 150 bed facility with integrated diagnostic imaging, day hospital and rehabilitation accommodation.

The initial evaluation of the reference bids required the Trust to seek clarification from the consortia on a range of issues. The Final Conditional Offers were received on 7 May 1996. Following further evaluation of the two reference bids in light of the points of clarification the Trust scored the bids as follows.

| | |
|---------|-------|
| Tarmac | 45.06 |
| Gleeson | 38.59 |

On the basis of the evaluation criteria Tarmac were the preferred bidder.

Notwithstanding the importance of all the evaluation categories, the important factor determining the Trust's ability to progress with a preferred bidder was the question of affordability. The financial evaluation concluded that the Tarmac proposal to build and part operate 150 beds was not within the financial parameters of affordability. The affordability gap between Tarmac and the public sector comparator was £446,000.

The Trust concluded that there was no practical solution to bridge this gap and therefore the Tarmac PFI proposal to build and part operate 150 beds for Medicine for the Elderly failed. A summary of the financial analysis is appended at **Appendix 9**.

In concluding that the 150 bed PFI proposal by Tarmac could not be advanced further the Trust took the view that it would not take forward further analysis, particularly in relation to valuing the risk matrix.

Variant Bid

[In addition to the reference bid, Tarmac submitted a variant bid that was acceptable under the OJEC advertisement which was placed under the negotiated procedure.]

Gleeson did not submit a variant bid. The variant bid proposed a building of 210 beds. Discussion with Greater Glasgow Health Board regarding the variant bid concluded with Greater Glasgow Health Board promoting the construction of 210 high amenity beds which would afford the Health Board flexibility in future rationalisation of services over the construction period of this contract.

The business case supporting the provision of a new build Department of Medicine for the Elderly has been set out in the Outline Business Case supporting the decision to take forward a Private Finance Initiative. This has been restated and expanded in the earlier sections of this document. It is not therefore intended to restate this in consideration of the variant proposal of 210 beds. It should be noted that the Trust has clear deliverable options for the use of the 30 unallocated beds. These options are set out in **Appendix 2**.

The consortium taking this proposal forward comprises Tarmac PFI, Tarmac Services and Tarmac Construction (Scotland).

Outline planning permission has already been obtained for this scheme. Tarmac Construction has agreed to apply for full planning permission once the Trust has received Management Executive approval. This would run in parallel with discussions to reach financial and legal completion. On the basis of previous planning applications the Trust does not foresee difficulty in planning approval being granted.

The Trust has had discussions with the consortium and the Central Legal Office regarding timetable. It is anticipated that, from receipt of Management Executive approval to proceed, financial and legal completion could be achieved within 3 months. The reasons for this view are based on the substantial legal work that has already taken place to shape this proposal and the introduction of the Dartford and Gravesham contract which has been prepared by Tarmac and has been subjected to banker scrutiny and approved by Treasury.

Financial Analysis

Purpose of this section

1.1.1 This section provides an analysis of the financial proposals from Tarmac (PFI) Limited. In doing so, it provides a comparison with the publicly funded option.

1.2 Introduction to the financial analysis

1.2.1 The financial analysis of the two options is detailed below. These options have been evaluated in accordance with the Scottish Capital Investment Manual (CIM) and the Private Finance Initiative (PFI) evaluation guidance. This analysis is split into two distinct areas:

- economic analysis, and
- impact on affordability criteria

1.3 Economic Analysis

1.3.1 The purpose of the economic appraisal is to rank the options in terms of their Net Present Values (NPV). The economic analysis addresses the relative future values of the investments and utilises NPV calculations. The NPV only takes account of actual cash flows and consequently indirect taxes and non cash transfers such as VAT and capital charges are excluded. The calculation adjusts future values for the time value of money by applying a discount factor.

1.3.2 The basis of any option appraisal is to make the comparison of fair and equal terms. A discount rate of 6% is applied to all cashflows in accordance with the CIM and PFI evaluation guidance.

1.4 Affordability

1.4.1 The options are also reviewed against the impact they have on the income and the expenditure position of the Trust, i.e. looking at the affordability of the options.

2 Outline of the Tarmac (PFI) Limited proposal

2.1 Overview

2.1.1 The proposal from Tarmac (PFI) Limited consists of three major elements;

- the design and build of the Medicine for the Elderly Unit;
- the facilities management of the unit; and
- the financing of the construction costs.

2.1.2 The new 210 bed facility and associated services will be provided to the Trust through a Special Purpose Vehicle (SPV).

2.1.3 Payment for these services will be through periodic payments linked to the availability of facilities within the building and the quality of services provided.

2.1.4 The initial agreement with the SPV will be for a period of 60 years from the Operational Date of the facilities.

2.1.5 The finance for the construction of the new facility has been put in place by Tarmac.

2.1.6 *[On expiry of the 60 year agreement the ownership of the land and building will revert back to the Trust.]*

2.2 Facilities Management

2.2.1 Tarmac (PFI) Limited is contracted to provide or procure FM Services in accordance with the FM Specification. This requires Tarmac (PFI) Limited to provide at its cost all staff, food, equipment and other services whatsoever required for the provision of the FM Services to the Contract Specification.

2.3 Payment mechanism

2.3.1 The payment mechanism consists of three principal elements

- Availability
- Service price element
- Maintenance price element

2.3.2 Availability

2.3.2.1 The building element of the charge will escalate by the GDP inflator set by Treasury. This element is subject wholly to availability. The purpose of which is to:

- encourage the consortium to ensure facilities are available for the Trust business:
- penalise the consortium if facilities are unavailable.

2.3.2.2 The principles of availability have been agreed and are set out under risk analysis

2.3.2.3 The Trust will accept that during the course of the 60 year service agreement, essential maintenance, planned maintenance and major plant replacement will inevitably give rise to partial non-availability. This availability model is not intended

to apply to such instances. Good liaison and forward planning will ensure disruption to the Trusts service can be kept to a minimum.

2.3.3 Service price element

2.3.3.1 At the Operational Date the service price element shall be fixed at the same amount as the Trust pays for the provision of Facility Management services at present.

2.3.3.2 It is the Trusts intention to review hotel services provision in line with NHS Circular MEL (1998) 32. Notwithstanding this the service element shall be benchmarked by comparison to the price at which the FM services are currently provided to the Hospital.

2.3.3.3 A service default credit system is being developed in relation to the services to be provided to the unit (heating, lighting, catering, cleaning, etc.). The service default credit system would, essentially, relate to the quality of the service provision.

2.3.3.4 Performance criteria are being established. Failure to meet these performance criteria will result in the allocation of a service default credit, the amount of which will depend on the severity of the default.

2.3.3.5 Once a certain level of default credits has been accrued then the availability charge for the relevant period will be reduced by a percentage to be agreed.

2.3.3.6 The cost escalator on this element of the service is split into two:

- the FM element
- the utilities element

2.3.3.6.1 The FM element is covered through the benchmarking comparator.

2.3.4.6.2 The utilities element will have flow through inflation from the public utilities charges, as does the remainder of the hospital.

2.3.4 Maintenance price element

2.3.5.1 The maintenance element comprises two parts, namely the part to be applied for reactive maintenance and that to be used for Life-cycle maintenance. Reactive maintenance is to be provided as part of the FM services and shall be affected by all the provisions applying to the FM services.

2.3.4.2 The element for life-cycle maintenance will comprise a “sinking fund” which will be spent on maintenance subject to the priorities of the Trust and SPV

2.3.4.3 The cost escalator on these elements of the service is RPI.

3 NPV analysis

3.1 The detailed NPV analysis is provided at Appendix 5. The following paragraphs provide an explanation of the key elements included in the analysis.

NHS capital cost (publicly funded option only). The cost of £11.3m (excluding VAT) is only the build cost of the facility.

Life cycle costs. The life cycle costs are an assessment of the costs for essential maintenance that is vital to ensure the building remains operational and meets health and safety requirements during the period of operation. Under the Public sector option it is a relevant cost throughout the life of the building (60 years). Under the PFI option it is only a relevant cost from year 27 onwards as this cost is included within the maintenance charge.

PFI lease cost NPV of total payments to SPV for building and finance costs.

On the basis of the evaluation criteria Tarmac were the preferred bidder.

Notwithstanding the importance of all the evaluation categories, the important factor determining the Trust's ability to progress with a preferred bidder was the question of affordability. The financial evaluation concluded that the Tarmac proposal to build and part operate 150 beds was not within the financial parameters of affordability.

The affordability gap between Tarmac and the public sector comparator was £446,000.

The Trust concluded that there was no practical solution to bridge this gap and therefore the Tarmac PFI proposal to build and part operate 150 beds for Medicine for the Elderly failed. A summary of the financial analysis is appended at **Appendix 9**.

In concluding that the 150 bed PFI proposal by Tarmac could not be advanced further the Trust took the view that it would not take forward further analysis, particularly in relation to valuing the risk matrix.

Variant Bid

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Gleeson did not submit a variant bid. The variant bid proposed a building of 210 beds. Discussion with Greater Glasgow Health Board regarding the variant bid concluded with Greater Glasgow Health Board promoting the construction of 210 high amenity beds which would afford the Health Board flexibility in future rationalisation of services over the construction period of this contract.

The business case supporting the provision of a new build Department of Medicine for the Elderly has been set out in the Outline Business Case supporting the decision to take forward a Private Finance Initiative. This has been restated and expanded in the earlier sections of this document. It is not therefore intended to restate this in consideration of the variant proposal of 210 beds. It should be noted that the Trust has clear deliverable options for the use of the 30 unallocated beds. These options are set out in **Appendix 2**.

Ground rent. Rent received by Trust for rental of ground to SPV.

3.2 Assumptions

3.2.1 The purpose of the NPV analysis is to rank the options in cost or value terms. In carrying out the analysis a number of assumptions have been made.

- the useful life of an asset is 60 years.
- the discount factor is 6%.
- all taxes and transfer payments are excluded.

4 The impact of risk transfer

4.1 The Tarmac (PFI) Limited proposal demonstrates significant transfer of risk from the public to private sector. The risk transfer matrix is appended as **Appendix 11**.

4.2.2 The principal risks are as follows;

- *Planning*

The private sector is assuming virtually all risk in relation to the costs of obtaining planning permission. Similarly the private sector is assuming the risks of complying with all requirements set down by the planning authorities, save for any extraordinary requirements which place the scheme in jeopardy.

- *Design*

The private sector is assuming responsibility for the design of the unit in accordance with the Trust's requirements. The majority of risk relating to defect in design is therefore transferred.

- *Construction*

The private sector is assuming the risk of construction, cost overrun, delay and latent defects.

- *Operations*

The key risks associated with maintaining the operational service levels and standards set out in the Trust's specifications that are being assumed by the private sector are:

1. failure to deliver to the required standard will result in default credits being accrued by the service provider leading to deductions from the contract sum by the Trust.
2. Persistent failure will lead to that service provider's contract being terminated The private sector will bear the risk and be obligated to find and implement an acceptable replacement.
3. Volume. No risk is being borne by the SPV
4. Availability. If the building is not available for use by the Trust as a result of the SPC's failings the fee payable for availability is reduced.

4.3 Financial assessment

4.3.1 The detailed financial arrangements relating to a number of areas in which substantial risks are being transferred to the private sector are still under discussion/negotiation.

4.3.2 For evaluation purposes the most likely level of risk, in the context of the potential outcomes considered during the detailed risk assessment and the current position with the negotiations has been used in the evaluation process.

5 Affordability

5.1 The affordability issue within the Trusts income and expenditure profile is seen as key to the success of the project. The expenditure at April 1998 levels has been divided into two elements for assessment, namely;

- Service element, and
- Property element

5.2 Service element

5.2.1 In analysing the service elements of the scheme the projected costs have been compared with the current expenditure on the Medicine for the Elderly facility and show that the new facility is more cost effective. The Trust will make cost savings against the current budget.

5.3 Property element

5.3.1 The Trust has explored other sources of income to meet this element of cost. In summary they are;

- *Existing contract income.* The existing contract contains an element of capital charges income associated with the present facility that can be transferred to the new scheme, as the existing buildings will be demolished.

The second element is cost savings identified due to the design of the facility that will enable more efficient use of nursing staff especially on the night shift. This together with the building having it's own basic Radiology equipment will reduce the need for a dedicated ambulance for patient movements.

- *Additional income from principal purchaser*

Greater Glasgow Health Board has indicated that they recognise that the new facility will be of a high standard and have recognised that there will be a premium payment to achieve this standard.

- *New service provision*

As indicated earlier in this document the Trust has agreed with Greater Glasgow Health Board that new income streams will be identified during the construction phase of this strategically important project.

6 Price Escalators

The Trust has endeavoured in its negotiations with Tarmac (PFI) Limited to meet the expectations of the NHS and the financial market in terms of price escalators.

6.1 Service Elements

6.1.1 The Trust has agreed that both maintenance elements of expenditure are inflated by RPI. The FM elements are benchmarked and therefore will be inflated when and if the benchmarking process requires. The Utilities elements of heat, light and power will have flow through inflation from the suppliers.

6.3 Property Element

6.3.1 The property elements will be inflated by GDP.

6.3.2 This means of inflation will avoid the surprises of the current treatment of capital charges, which are increased by indexation annually as well as the District Valuers five year revaluations.

[Income and Expenditure and Balance Sheet statements are included at Appendix 10].

Risk Analysis

Appendix 11 to the Full Business Case details the risk matrix. As set out in the Economic and Financial appraisal risk has been analysed under 4 principle headings, namely;

- * planning
- * design
- * construction
- * operations

The risk matrix has been prepared by valuing the cost of the risk and identifying the probability of that risk arising. The matrix details the rationale for the cost and the rationale for the estimate of probability. For example in considering the risk of unforeseen ground conditions (evaluation reference C3) the Trust has identified that the cost will be in the region of £600,000. The public sector comparator includes £290,000 for abnormals and therefore the Trust has identified the balance as being the risk transfer appropriate to this proposal, i.e. £309,400. The probability of this risk occurring is 60% and therefore the risk has been valued at £185,640.

Availability will be defined as 100% of the beds available for use by the Trust at all times unless prior agreement exists between the Trust and the Special Purpose Company for beds to be designated as being non available to facilitate planned maintenance or other works which have been agreed in advance and are not subject to failure of the Special Purpose Company to meet its obligations.

Failure to provide or maintain services that will impact on availability can be sub divided into two categories:

- Objective
- Subjective

The classification of an objective failure will relate to critical services that are defined as being

- heat, light and power
- standby power
- medical gases
- sewage
- water
- gas
- fabric

Examples of a failure defined by this sub division would be:

1. Failure to provide a constant power supply to the levels set out in the building specification
2. Failure to provide a constant water supply, including hot water, to the standard set out in the building specification
3. Failure to provide a constant and safe sewage system to the standard set out in the building specification
4. Failure to provide constant piped medical gases as set out in the building specification
5. Failure to provide temperatures within a range of 10% of the recommended maximum and minimum levels set out in ENCODE
6. Failure to provide lighting levels within a range of 10% of the recommended maximum and minimum levels set out in ENCODE
7. Failure/ damage to building fabric that causes an area to be unavailable for use for health and safety or accessibility reasons.

The classification of a subjective failure will mainly relate to the following areas of service

- cleanliness
- catering
- grounds maintenance
- personal laundry

- laundry
- portering
- maintenance of fabric, services and equipment where equipment is provided by the consortium.

Examples of a subjective failure may be:

1. Failure to maintain cleanliness and building fabric quality so as to avoid serious risk to life or health of patients, staff and visitors
2. Any other failure which would seriously jeopardise life or health of patients, staff and visitors.

As the key accommodation in this facility is wards followed by the day hospital and radiology the following percentages have been applied:

| | |
|--------------|-----|
| Ward areas | 84% |
| Day Hospital | 10% |
| Radiology | 6% |

If one ward is not available then 1/7th of 84% of the availability payment will be deducted. If part of a ward area is unavailable then the deduction will be adjusted to reflect that floor area that is effected.

Performance related payments can be considered under 4 headings:

- Little 'a' availability
- 'cannot be usefully be provided'
- Volume
- Performance Percentage

Little 'a' availability

This is based on the same criteria as the availability adjustment but there is no requirement to take the area out of use. 100% of the performance related payment for

the offending service is subject to adjustment. If availability is adjusted then little 'a' availability is adjusted as well.

'Cannot be usefully provided'

Deduction is made on a marginal cost saving basis where a failure in one service has caused unavailability and as a consequence the subject service cannot be usefully provided.

Volume

Performance related payments for services such as catering, linen, and waste disposal are based on a set volume. Adjustments can be made if the actual volume in the measurement period does not reach the contracted level.

Performance percentage

These payments are based on an agreed monitoring procedures applied on a service by service basis. Quality standards and response times are set in Service Level Agreements. Performance percentage is applied to 100% of the performance related payment for that service.

Performance percentage of > or = 95% attract 100% payment. <95% attracts deduction. The scale has yet to be agreed as part of the service credit regime, which is part of the SLS discussions.

There will be exceptions to this method of calculating financial penalties. For example, if the lifts were out of action it would not be practical to describe the first floor as being unavailable. However the Trust would require to increase staffing levels for the period of failure and deductions would be set against the services payment at an appropriate level.

The Special Purpose Company cannot be held responsible for failure of equipment, which it is not responsible for providing or maintaining. The Special Purpose

Company will however be responsible for equipment failure where that failure is caused by the failure of inputs which are required for the proper operation of equipment and which are the responsibility of the Special Purpose Company

Contract Structure

The Trust has had detailed discussion with Tarmac PFI. Throughout these discussions the Trust has been advised by the Central Legal Office. Early submissions of the draft legal framework prepared by the CLO were presented along with the previous submissions of the draft FBC.

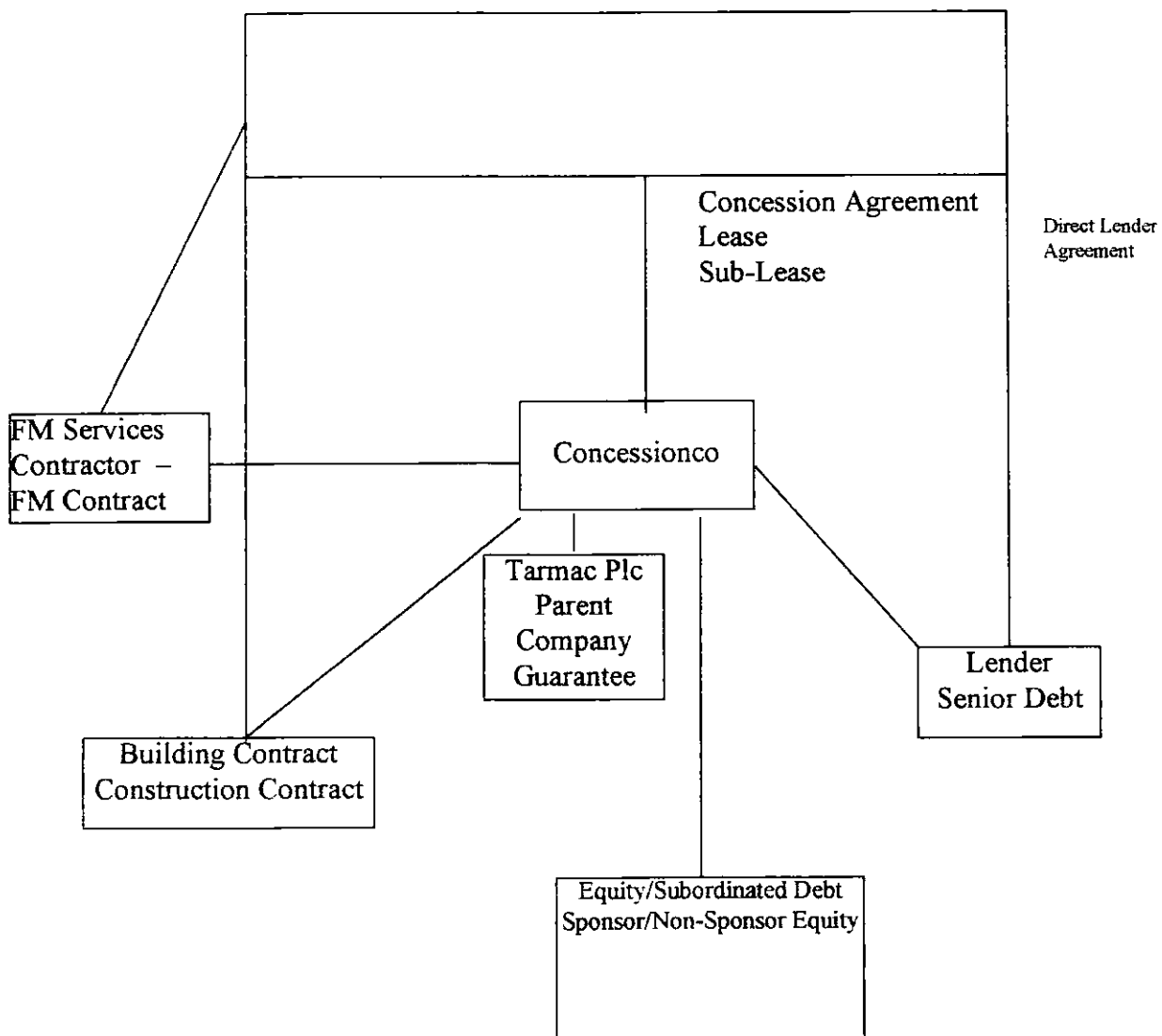
Tarmac PFI have requested that to facilitate the process the Trust consider using the Dartford and Gravesham contract as a framework for advancing the legal discussions.

The Trust has had detailed discussion with Tarmac. A draft Southern General Hospital Agreement is appended to this Business Case at **Appendix 13**. In addition the Trust has completed the contract matrix as required by the Management Executive. This is also appended to this Business Case at **Appendix 12**.

This section sets out a summary of the key points. Each point is cross referenced to the "Key Commercial Issues" annex of the Full Business Case Checklist.

This paper sets out the framework of documents to be entered into in order to create the appropriate rights and obligations between the parties. The main document to be entered into is the Concession Agreement, and this is explained in detail. The flow chart set out below shows the inter-relation of the documents and parties.

FLOW CHART



The Parties

| | |
|---------------------------------------|--|
| <u>Trust:</u> | Southern General Hospital NHS Trust |
| <u>Concessionco:</u> | A special purpose company limited by shares to be created |
| <u>Building Contractor:</u> | Tarmac Construction |
| <u>FM Services Contractor:</u> | Tarmac Services |
| <u>Lender:</u> | The main financing body lending money to Concessionco. This may or may not be an agent for a syndicate. |
| <u>Parent Company:</u> | Tarmac Plc which will grant a Parent Company Guarantee of Tarmac Construction and Tarmac Services obligations to Concessionco. |
| <u>Sponsor Equity:</u> | Tarmac PFI Limited and UME Investments Limited |
| <u>Non Sponsor Equity:</u> | means third party companies and investment trusts purchasing shares in Concessionco on an arms length basis as an investment. |

The various agreements set out in the flow chart are as follows: -

Concession Agreement - In terms of this Agreement, Concessionco is obliged to procure the construction of the facility and the provision of the services to the Trust for a period of 60 years, with breaks at the option of the Trust after certain periods.

Lease - In terms of the Lease, the Trust will grant a lease of the ground to Concessionco on the day after signing the Agreement for a period of sixty years, plus the construction period and fourteen day commissioning period.

Sub-Lease - In terms of the Sub-Lease the Concessionco will grant a lease-back to the Trust from the day after the Facility is built to allow the Trust the right to use the facility.

Construction Contract - This is an Agreement between Concessionco and Tarmac Construction to build the facility.

FM Contract - This is an Agreement between Concessionco and the FM Contractor to provide the services.

Parent Company Guarantee - This is the Guarantee granted by Tarmac plc to Concessionco of Tarmac Constructions' obligations to build the facility and Tarmac Services to provide the FM facility.

Step in Undertakings - means the agreement of Tarmac Construction and Tarmac Services and Tarmac plc, that in a default (other than where the Lender has stepped in to remedy the situation) the Trust can step into the shoes of Concessionco to

enforce the Construction Contract, the Services Contract and the Parent Company Guarantee directly.

Direct Lender Agreement - the Agreement which allows the Lender to step in to remedy failures of Concessionco to procure the building of the facility or the provision of the services in order that the Lenders can procure that any failure in Availability is rectified to enable their cash flow to be safeguarded.

CONCESSION AGREEMENT

REFERENCE TO SCOTTISH OFFICE FBC REQUIREMENTS (ANNEXE A)

It is not envisaged that the Concession Agreement will be signed with any conditions precedent, but the execution will only take place once the following conditions are satisfied:-

- Detailed planning permission granted (to be undertaken on behalf of Concessionco once Operational Requirement approved)
- Letter of Approval from Greater Glasgow Health Board including support for 210 beds and basis of indexation.
- Approval of FBC by Scottish Office and Treasury.
- Letter from Secretary of State for Scotland providing comfort to the Consortium under the National Health Services (Residual Liabilities) Act 1996.
- Certificate from Secretary of State for Scotland confirming this deal is an externally financed agreement under the National Health Service (Private Finance) Act 1997.
- Concessionco's funding is signed up simultaneously.

The Parties:

A1.1

The Concession Agreement will be between Southern General Hospital NHS Trust and Concessionco. The Concession Agreement is a single contract for the provision of services. Concessionco has not yet been formed, but it is envisaged that the shareholders will be:-

- Tarmac (PFI) Limited
- UME Investment Company Limited
- Non-Sponsor Equity (as yet unidentified)

Duration:

The duration of the Concession Agreement is divided into two phases:-

1. Phase I from the day after signing to completion of a facility; and A1.3
2. Phase II, from the Services Commencement Date, which is the first day after completion of a facility to the end of the Contract Period. The Contract Period is Phase I and Phase II together.

It is intended that Phase II (i.e. the period during which Concessionco recoups its capital investment by earning revenue from making the facility available) will last 60 years, subject to the Trust's right to terminate after 25 years (and thereafter 5 yearly intervals). If Concessionco is late in completing the construction of the facility (except in certain circumstances e.g. force majeure, agreed variations or permitted delay events), this 60 year period will be reduced accordingly. This provides an incentive to Concessionco complete the construction on time (as well as Concessionco bearing additional financing costs) and ensures that the risk of delay in construction is passed to the private sector.

A7

In addition, one must consider the duration of the Lease and Sub-Lease. If the Concession Agreement terminates then both the Lease and Sub-Lease will also terminate (i.e. ownership of the site will revert to the Trust), save in one circumstance. In the event that the Trust exercises its right to terminate at twenty five years or five yearly intervals thereafter, then the Lease will not fall. Concessionco will be entitled to be the tenant of the Trust for the remaining period.

A1.2

A7

A4.3

Exclusivity:

The rights given to Concessionco are exclusive save (a) that procurement regulations may apply to future alterations; and (b) some existing trust wide concessions (e.g. R S McColl trolley service) may be safeguarded.

Assistance and Co-operation:

The Trust is required to give any reasonable assistance necessary for Concessionco to carry out its obligations. The Trust cannot hold Concessionco responsible where it delays to fulfil any of its obligations if a failure is caused by the Trust's negligence or default or inter alia where the source of failure is an act or omission of the Trust not connected with the normal running of the facility or where the fault is caused by statutory undertakers or utilities. The Trust will be responsible for any additional costs incurred by Concessionco due to the negligence or default of the Trust.

Premises and Access:

The Trust is obliged to grant Concessionco sufficient access to the Trust's premises to enable it to carry out duties under this Agreement. This issue is dealt with in greater detail by the Lease and Sub-Lease.

THE WORKS

Design and Construction Obligations

A1.2

This clause provides that Concessionco must carry out its design and construction obligations to appropriate standards. The facility must be built in accordance with the Building Specification for which Concessionco is responsible. The Agreement deals with the commissioning of the completed buildings for use as an acute medical facility for the elderly, and the design will have been created (and the completed Works based on that design), to enable the Trust to operate effectively and efficiently at the new facility. Concessionco's responsibility concerning design, construction and commissioning under the Concession Agreement ensure that the risks associated with the design proving ineffective or inefficient are largely passed down to the private sector.

Appointment of Building Contractor and Letter of Undertaking

The Trust has a right to approve the form of Contract entered into between Concessionco and its Building Contractor. The form of Building Contract includes a Parent Company Guarantee from Tarmac plc to Concessionco. Both the Construction Contract and Parent Company Guarantee will be assignable to the Trust in the event of Concessionco default and a failure of the Lender to step in. This ensures the Trust is at reduced risk from Concessionco becoming insolvent.

A1.2

Review of Detailed Design

Consistent with its rights to occupy the new facility and its statutory obligations concerning the provision of healthcare services, the Trust is entitled to insist upon variations to the design or construction of the Services Commencement Date where necessary, but only if such proposals do not adversely affect the structure, design life or function of the facility. The Trust would be responsible for additional costs of any changes it requires.

A1.2

During the design process, Concessionco may vary the basic design or the Detailed Design which do not adversely affect the quality, appearance or function of the facility or the ability of the facility to meet the Trust's requirements and will not unreasonably delay the date of which the Works would otherwise have been completed. Such changes are at the cost of Concessionco. If the proposed change will affect the quality, appearance or function of the facility or the ability of the facility to meet the Trust's requirements, then the Trust must give its consent to such variations, such consent not to be unreasonably withheld.

Change in Law Affecting Construction

The risk of the added expense and delay caused by changes in law and regulations affecting the construction of the facility are shared between Concessionco and the Trust. Any change of law, which is reasonably foreseeable by the Contractor as at the date of signing of the Concession Agreement, is at Concessionco's risk. Concessionco is also at risk for corporation tax changes, environmental and health and safety legislation. Where changes in law risks which relate to hospitals or healthcare only or to Private Finance Initiative ("Qualifying Changes") and which are not reasonably foreseeable are taken by the Trust. Where the risks do not fall within the above categories, the risk remains with the Trust, which must compensate Concessionco for the financial effects of the change of law concerned.

A5

Inspections, Meetings and Information

Concessionco must keep the Trust properly informed at all times of progress to the Works. It gives the Trust the opportunity to identify and take action on any non-compliance by Concessionco.

Copyright and Intellectual Property

Concessionco will indemnify the Trust from any infringement with copyright by Concessionco and ensures that the Trust has the Intellectual Property Rights necessary (e.g. in the plans of the facility) for the Trust to use the facility lawfully.

Extension of Time (Works)

A delay in completion will normally mean, firstly, that the Concessionco has less time to recoup its investment, and secondly that the Trust may have a right to terminate because the long stop date for completion has passed. In certain circumstances, however, this long stop date for completion is extended, and the final date of the Concession Agreement is also extended so that there remains a 60 year concession. These circumstances relate to where a delay arises through (i) any variation required by the Trust, (ii) negligence or default of the Trust, (iii) any change in legal circumstances or (iv) any one of a specified list of events which are beyond Concessionco's reasonable control.

A3.2

Commissioning Schedule and Equipment

The parties are obliged to agree a detailed commissioning schedule. The detailed commissioning schedule must comply with the timing of the completion of the facility. The current position of the Trust is that it will provide groups 2, 3 and 4 equipment and procure its installation.

A1.2

Practical Completion and Commissioning

Completion occurs when a Certificate of Practical Completion has been granted and the pre-completion commissioning has been undertaken. Provided there are only minor snagging problems remaining, then Concessionco can deliver a Completion Certificate to the Trust. The payment of the Availability in Performance Related Payments by the Trust will then begin 14 days after delivery of the Completion Certificate. The post completion commissioning is undertaken during the 14 day period following delivery of the Completion Certificate, in accordance with the detailed commissioning schedule.

A1.2

GENERAL PROVISIONS

Commencement of Services

On the Services Commencement Date (which begins immediately after the issue of the Completion Certificate) Concessionco delivers such services as are practical pending the expiration of a 14 day post completion commissioning period. Thereafter the full payments become due subject to deductions for non-availability and poor performance. On the Services Commencement Date the sub-lease to the Trust is granted.

Facilities Management Contract

The Trust must approve the Facilities Management Contract (like the Construction Contract). Concessionco is obliged to comply with its terms and secure compliance by the FM Contractor of obligations relevant to the Trust. As in the case of the Construction Contract the FM Contractor undertakes directly with the Trust to allow the Trust step-in rights in the event of the Concession Agreement ending. Concessionco must maintain the delivery of the services by the FM Contractor and liaise with the Trust. The Parent Company Guarantee granted by Tarmac plc would transfer in those circumstances to the Trust.

A1.2

Information Technology

Concessionco will provide a data communications network for the exclusive use of the Trust at the facility to connect into the existing Trust's local area network. There are provisions for ensuring access for the Trust to Concessionco's data at the end of the contract term.

A1.2

Energy and Business Rates

Concessionco is responsible for procuring and paying energy charges. The costs are passed through to the Trust together with business rates for the areas sub-let to the Trust or in its possession.

Payment

For the 14 days from the Service Commencement Date to the Payment Commencement Date the Trust pays the concession on a "services received" basis. From the Payment Commencement Date, the Availability and Performance Related Payments become payable quarterly in advance (subject to deductions for non-availability or deductions for poor performance of the services calculated in arrears). On agreed review dates the Availability and Performance Related Payments are adjusted in line with movements in the Gross Domestic Product Deflator – the base date being the date of signature of the Concession Agreement.

A2.1

A2.4

Availability

All or part of the Availability Payment will be withheld if all or part of the facility is declared unavailable for use. This will happen if one of the unavailability criteria set occurs in a defined area. Once the circumstances have occurred then:-

A2.1, A2.2
A2.5

- The Trust may serve an Unavailability Notice on Concessionco.
- Concessionco has a period of time to rectify the fault within agreed rectification times.
- If the fault is not remedied then the Trust may complete the rest of the Unavailability Notice and the area will be deemed unavailable for the following 24 hour period from either the time of the Unavailability Notice or from the time the area is taken out of use. The area must actually be taken out of use for the adjustment to Availability to be effective.

If the area continues to be unavailable beyond the initial 24 hour period, then a further notice will be served. When the Trust commences use of an area declared as unavailable then the area is deemed available and there shall be no further adjustments to the Availability Payment.

Performance Related Payment

The current proposal is that Performance Related Payment relates to payment for the provision of the following non-core services:-

A2.1

A2.2

- Estates and Maintenance
- Portering and Internal Security
- Catering
- Linen and Laundry
- Domestics, Window Cleaning and Pest Control.

Within a period after the last day of each Quarter the Trust is to prepare a Performance Notice setting out the adjustments to the Performance Related Payment calculated in accordance with the mechanics set out in the Service Level Specifications. The Performance Related Payment can be adjusted in three ways:-

A2.5

- Performance
- Availability
- Volume

Performance

- All or parts of the payment will be withheld if the service level fails to meet the minimum standard and agreed quality standards set out in the Service Level Specification for the individual services.
- Concessionco will receive all of the payment for the identified service if 95% of the agreed service performance level is achieved. Thereafter the Performance Related Payment will be reduced by way of Performance Percentage Deductions in a sliding scale. The Trust's rights in relation to poor performance is still being negotiated (in particular in relation to lead in to termination) there is a view that Concessionco will not be able to use over performance on one service to off-set poor performance on another. Concessionco will not receive any additional payment for over performance.

Effect of non availability on Performance Related Payment

- In addition to the deductions from the Performance Related Payment for poor performance, the Trust can also deduct for failure in the provision of a service which is a circumstance classified as a non availability criteria. The same fault could also result in a deduction from the Availability Payment. A percentage will be deducted from the Performance Related Payment for every day that the fault remains unrectified. The percentage depends on the area in which the fault occurs.
- If Concessionco is unable to provide certain services to an unavailable area then the Performance Related Payment will be reduced by a percentage for each day that area is unavailable. This provision relates to portering services and domestics. A deduction will not apply to catering and linen and laundry because they are volume related services and will be directly affected by the unavailability. Nor will the deduction apply to Estates and Maintenance, which has an obligation to ensure that Planned Prevention Maintenance is completed within a set time period.

A2.5

Effect of Volume on Performance Related Payment

If the volume of a particular service decreases the Performance Related Payment will be reduced by an amount based on the unit cost for the services concerned. For example for catering the costs will be based on the consumable menu cost per patient day and for linen and laundry the cost will be based on the use of laundry per month.

A2.5

If a Performance Level reaches minimum service criteria, then the Trust would be entitled to require Concessionco to appoint or procure the replacement of a replacement service provider within a set period of time. In the case of an emergency, the Trust will be able to step in and provide these services giving that it is on-site and may be in a position to do so.

If this minimum service level continues for a period of time, or if the service providers have to be replaced, then this will lead to a material breach of the Agreement, which will entitle the Trust to terminate the Concession Agreement. The final sensitivity of these thresholds has still to be finalised.

A2.7

Set-Off

Payment is to be made by way of cleared funds and is payable without set-off save:-

A2.9

- any monies decided to be paid to the Trust by the Dispute Resolution Procedure or a competent court; or
- otherwise indisputably payable by Concessionco to the Trust.

Benchmarking

At five yearly intervals, Concessionco must give advance notice to the Trust of its proposed prices for the coming five years and the parties will negotiate concerning these charges. The Trust can then require Concessionco to carry out a benchmarking or market testing exercise to compare the proposed charges with the charges for comparable services elsewhere. The benchmarking process does not apply to the Estates and Maintenance Service.

A2.3

Employment

It is understood that there will be no staff to which the Transfer of Undertakings Protection of Employment Regulations will apply in relation to the creation of a new facility. In the event that there is a member of existing staff or existing contractor's staff who successfully claim that TUPE applies, the Trust is responsible for the cost of any termination of the employment then involved.

A9.1

It is recognised that at the end of the Contract Period, the employees working the provision of the services to the Trust will transfer back to the Trust or to an alternative service provider; if a change of law or other event occurs which prevents this from taking place, Concessionco must use its reasonable endeavours to ensure that staff is available.

As the employer of the relevant staff, Concessionco and the FM Service Provider are responsible for the quality of the staff appointed. The Trust can require the removal of any staff that it does not consider as suitable.

Recognition Agreements

Concessionco will undertake to procure that in respect of all employees of Tarmac Services and any FM sub-contractor, the company will recognise appropriate unions.

A9.1

Trust Changes to the Services

In view of the length of the Contract Period, it is essential that the services provided can be varied. The Trust can provide changes in the service level specifications, additions to or deductions in the scope or quality of the services. The Trust must pay for the cost of changes, but the amount paid must reflect not only in the additional costs to Concessionco but any savings. This will allow the Trust to adjust the services to reflect any mandatory cost savings imposed from the Scottish Office or Greater Glasgow Health Board.

A5

Where additional services are required by the Trust, Concessionco has the option to provide them. If the cost cannot be agreed, the Trust can require a tendering exercise.

Changes to the Facility (Additional Work)

In the same way that the Trust can require changes in the Services, it also has rights to require additions and alterations to the facility. Concessionco must, at the Trust's request, put forward proposals for changes, which the Trust require. The cost may be incorporated in adjustment to the total payment made under the Concession Agreement (i.e. repaid out of revenue), or it could be on other terms if Concessionco cannot obtain funding on reasonable commercial terms (i.e. out of Trust capital). In such an event, the Trust must pay for the additional Work itself.

A5

Changes in Legal Requirements During the Contract Period

The risk of changing legal requirements causing additional cost (or reducing the cost) during the Contract Period is divided between the Trust and Concessionco. Concessionco accepts:-

A5

- Risks reasonably foreseeable as at the date of signing the Agreement, or as at any subsequent benchmark date;
- Changes in corporation tax legislation;
- Changes in environmental or health and safety legislation for a period of 5 years from the Services Commencement Date; up to a total limit of 2% of the capital build.

The Trust takes all "Qualifying Changes", i.e. changes in law specific to facilities and the Private Finance Initiative transactions and any other changes of law not taken by Concessionco except where they are reasonably foreseeable. There are mechanisms enabling Concessionco to be compensated where the change of law risk materialises and the Trust is responsible for it.

Change in Legal Requirement includes change of interpretation of an enactment, in addition to change of statute. A Legal Requirement includes, EC Law, UK Statutes and subordinate legislation, and direction rules and justice with which the Trust would normally comply. (For PFI documentary legislation, see Trust Default.)

Extension of the Contract Period

There is a series of "relief" events (which cover a range of events outside the control of Concessionco) which if they occur would prevent Concessionco from earning income from the facility because (in whole or in part) the facility may cease to be available. Particularly in the light of the need to ensure the project as a whole is bankable, Concessionco is given the opportunity to recoup its loss in such an event during an extension of the Contract Period. Concessionco remains at risk, however, to deductions to Availability and Performance Related Payments.

A3.4

Reduction in Size of Facility

The Trust may reduce the size of the facility, but the obligation to pay the Availability and Performance Related Payments remains.

Stocks

Concessionco may purchase all stocks owned by the Trust at the old facility.

Funding of Company

There are restrictions on the company to ensure that its assets are not denuded by its equity shareholders. There are however no restrictions on the transfer of shares by shareholders of Concessionco to third parties provided the shares are paid up prior to the sale and this is consistent with Treasury Policy.

Funding is expected to be by Senior debt, and Junior debt and by equity. No bond issue is envisaged.

A8

Insurance

Agreement will specify significant joint insurance obligations which each party will be insured for its respective rights and liabilities. Policies will provide for a period of cover against claims made after the Contract Period. In particular the facility will be insured for full reinstatement value, and the Trust's primary insurance will be its employers liability insurance. During the Construction Period there will be Constructor's All Risks Insurance, and various extensions may be taken out by the Trust in relation to damage to existing Trust facilities in respect of the inclusion of the joining of the covered walkway to existing Trust facilities.

A3.3

There are circumstances in which the insurance proceeds may not be used to rebuild the facility. For example, if more than 50% of the termination sum payable under "without default" circumstances arises and the Trust cannot satisfy an appropriate Health and Economic Viability Case for rebuilding the facility, then the insurance proceeds may not be applied to rebuild the facility. It is envisaged that the Lender would have the first call on the insurance proceeds in the event that it still has monies due to it under the financing and security documentation.

The premiums for insurance of the Contract Period are a "pass-through" cost borne by the Trust. The Trust bears the uninsured losses excesses under the policy but excluding (1) small amounts, (2) amounts relating to claims where Concessionco is at fault, or (3) amounts which relate to repairs within the scope of Concessionco's Estate Maintenance and Service Level Specification.

Indemnity

There are cross indemnities between Concessionco and the Trust distributing liabilities between them on the following basis:-

- The Trust is financially responsible for any injury to its own employees
- The Trust is financially responsible for any loss or damage to its own equipment
- The Trust is responsible for any medical or clinical negligence to patients.
- Concessionco is responsible for any damage to its property
- Concessionco is responsible for any injury to its employees
- Concessionco is responsible for any injury to visitors and patients (non medical or clinical negligence)

All these indemnities are insurable, and also have the benefit that fault is not an issue, but only where the injury has occurred.

Force Majeure

There are "force majeure" events, which release Concessionco from liability. During force majeure events, Concessionco is obliged to provide such services as are practicable and they are paid for what they provide. However, such force majeure events are in effect at the Trust's risk since the Availability Payment continues. The force majeure events are therefore narrowly defined and conform to Treasury guidelines.

A3.1

Termination on "Fault" or "No Fault" Basis

There are a number of different circumstances under which the Concession Agreement may terminate. The most likely method envisaged is the expiration of the Concession at the end of the Contract Term; or through the Trust exercising its option to terminate which is exercisable 35 years prior to the end of the Contract Period and at intervals thereafter.

A4

There are, however, termination provisions which specifically address termination caused by default of Concessionco; default of the Trust; and termination brought about by a "force majeure" event.

Termination by Concessionco Default

A Event

The Trust has the right to terminate the Agreement if:-

A4

- Concessionco is in material breach of the Agreement; and
- the material breach has or will have a materially adverse effect on the ability of the Trust to provide clinical services at the facility; and
- the breach has not been remedied within 60 days of receipt of a notice of the breach.

B Consequences

(i) Termination pre-completion of the Facility

The Trust shall pay a fixed sum related to the construction costs of the facility (subject to pound for pound change for variations)

Less the costs to complete the facility

Payment, at the option of the Trust, is either:-

- lump sum, or
- 50 semi-annual instalments over a period of 25 years

Payment also includes interest.

The liability of Concessionco is limited to the capital value of the Contribution Costs of the facility

(ii) Termination post completion of the Facility

A The Trust shall pay the lesser of A or B

A4

A is equal to the aggregate of:-

- the quarterly Availability Payment

less the aggregate of:-

- the amount required to make the facility available;
- the amount of the Trust's professional fees relating to termination of the contract;
- the additional cost to the Trust to provide the services (not Estates and Maintenance) until the next benchmark date;
- the additional cost to the Trust to provide the Estates and Maintenance Service until the first break in the Contract Period;
- costs incurred by the Trust in respect of Planned Preventative Maintenance; and
- a fixed quarterly amount being Concessionco's management costs in the Availability Payment.

B is the Compensation Amount. The Compensation Amount is the amount due under the Funding Agreements.

The amount will be paid either:-

- quarterly until the end of the first break in the Contract Period or until the Compensation Amount has been paid whichever first occurs; or
- at any time the Trust chooses, by lump sum representing the net present value, at the date of payment, of the unpaid quarterly Availability Payments less agreed deductions itemised above.

The Compensation Amount shall accrue interest.

Termination by Trust Default

A. Events

A4

Concessionco may terminate the contract if:-

a total of [£100,000-150,000] payable by the Trust remains outstanding for 10 or more days after the due date and remains unpaid after 30 days notice; or

- if a Discriminatory Bill passes a second reading and which if passed into law would have specific effects with regard to the performance of the contract and has a material effect on the creditworthiness of the Trust; or
- if there is a change in legal requirements or action of a competent authority (including a decision of the court) which renders the performance of the contract by Concessionco unenforceable, void, impossible, unlawful or illegal.
- Concessionco wish the right to terminate if the Trust fails to provide clinical services at the Facility for a continuous period of six months or more (currently being rented).

B. Consequences

(i) Termination pre-completion of the Facility

A4

Trust shall pay to Concessionco an amount equal to the aggregate of:-

- all outstanding amounts owing by Concessionco under the Funding Agreements;
- the amount to pay the Equity Holders equal to the amount of equity paid up or called plus an agreed real rate of return;
- an amount representing the subordinated debt in Concessionco plus interest;
- qualifying third party debts resulting from early termination of the Contract; and
- professional fees of Concessionco in respect of termination of the Contract.

Less the amount of any Receivables owing to Concessionco (which includes sums deposited with bankers pursuant to security arrangements).

(ii) Termination post completion of the Facility

A4

Trust shall pay to Concessionco an amount equal to the aggregate of:-

- all outstanding amounts owing by Concessionco under the Funding Agreements;
- an amount representing the subordinated debt in Concessionco plus interest;
- an amount representing the market value of the issued shares in Concessionco;
- qualifying third party debts resulting from early termination of the Contract; and
- professional fees of Concessionco in respect of termination of the Contract.

Less the amount of any Receivables owing to Concessionco (which includes sums deposited with bankers pursuant to security arrangements).

Payment in either case will be a lump sum together with interest paid either:-

- within 1 year of the date of termination in the case of unpaid sums, non provision of clinical services and change of legal requirements; or
- within 60 days of the date of termination in the event of discriminatory legislation.

A5.4

Termination by Insolvency

A. Event

The Trust may terminate the Contract if the usual events of insolvency of Concessionco occur.

A4

B. Consequences

The consequences are the same as if termination was as a result of a default of Concessionco as set out in 1 above.

Termination without Default

A. Events

The Contract will terminate without default of either party:-

A3.2

- by effluxion of time at the end of the Contract Period;
- following an event of Force Majeure; or
- in the event of revocation of planning consent for the facility.

B. Consequences

BEFORE AND AFTER COMPLETION

The Trust shall pay to Concessionco (except if the Contract has terminated by effluxion of time) an amount equal to the aggregate of:-

A3.2

- all outstanding amounts owing to Concessionco under the Funding Agreements;
- the amount paid up or called in respect of equity;
- the principal amount of subordinated debt together with interest; and
- qualifying third party debts resulting from early termination of the Contract.

Less the amount of Receivables owing to Concessionco (which includes sums deposited with bankers pursuant to security arrangements).

Payment shall, at the option of the Trust, be either:-

- a lump sum; or
- 4 equal semi-annual instalments over a period of 2 years

Interest is also payable.

Any insurance proceeds would be deducted from the termination payment, and any surplus paid to the Trust.

A3.3

Entire Agreement

The Concession Agreement and the documents referred to in it contain the whole agreement between the parties.

Proper Law and Jurisdiction

Scots law applies and the Scottish courts will have jurisdiction over the Concession Agreement.

Publicity

No press release must be issued by either party without the other's consent save as required by law.

Notices

Any notices served under the Concession Agreement must be in writing or fax delivered to the specified address.

Precedents of Terms

In the event of a conflict between the terms of the Concession Agreement and its Schedules, the Concession Agreement will prevail.

Legal Requirements

Concessionco is not in breach of the Concession Agreement if a breach would otherwise arise as a consequence of Concessionco complying with the requirements of any law.

Accounting Treatment

The Trust has obtained an opinion from Price Waterhouse Coopers which advises that this proposal is 'off balance sheet'. A letter is included at **Appendix 14**.

Project Management Arrangements

The Trust will appoint a Project Director to work with Tarmac Construction throughout the construction period. The Project Director for the construction will be the Director of Operational Support. Change control will be the responsibility of the Project Director.

In order to facilitate the construction the Trust will require to decant the Medicine for the Elderly patient group to alternative accommodation. The Trust has already identified the decant accommodation and discussed the operational requirements with the clinical team.

To facilitate the decant arrangements the Trust has requested £300,000 to provide some modest infrastructure improvements to the decant accommodation. The operational responsibilities will lie with the Directorate management team for Medicine for the Elderly.

Post Project Evaluation Plan

The Trust estimates that it will take approximately 63 weeks to construct this facility from the time that full planning permission is granted. Evaluation of the project will effectively be an ongoing process. However there are key issues which will require specific attention to determine whether the project has fulfilled specifically the service objectives which the Trust set out in the Outline Business Case and has reaffirmed in this Final Business Case and also the specific investment objectives and the benefit criterion against which the options were weighted. The main areas of evaluation will be:

| |
|--|
| Benefits / difficulties of the design |
| Flexibility of design |
| Improved resource utilisation |
| Ability of the Directorate to meet the workload demands |
| Risk transfer |
| Benefit of integrated diagnostic imaging / day hospital / therapy services |
| Facilities management |
| Equipment management |
| Finance |

The initial post project evaluation will be carried out during the first two years following the operational date of the facility. The responsibility for co-ordinating the post project evaluation will lie with the Director of Planning and Contracts.

Information Management and Technology

This facility does not require a separate IM&T strategy. The Directorate needs are incorporated in the Trust IM&T strategy. The Trust is currently progressing a HISS procurement through a separate PFI project. This Directorate's needs are included in this exercise.

Equipment

The Invitation to Tender and The Invitation to Negotiate included the provision of equipment. During evaluation it became clear from the consortia that it was not economically viable to include equipment in the proposal. The basis of this view being that the majority of the equipment for this facility would be under £5,000.

The Trust therefore discussed the provision of equipment with the Management Executive. It was accepted that there would be a requirement to fund this equipment from the EFL pool. The value of the equipment at 1997/98 prices is £875,000. The earliest that funding would be required would be in financial year 1999/2000. A criteria submission is included as part of the Business Case submission at

Appendix 3.

The diagnostic imaging equipment for this facility would be the subject of a lease agreement with a supplier who would not be part of the consortium.

Risk Management Strategy

The Trust has considered possible risks that might occur during the implementation of this project. The risk matrix has taken into account delays that might arise in construction. In addition the Trust has sought to minimise any revenue risk that might arise from construction delay by introducing financial penalties for every week of delay.

The discreet nature of this project is such that the decant arrangements have been designed to minimise operational risk and therefore the only significant risk is related to construction delay.

Conclusion

This business case has set out in detail the process that the Trust has undertaken to identify the best option for the continued provision of high quality patient facilities for elderly assessment and rehabilitation. It is clear from the analysis of the options that there is only one option which meets the specific investment objectives and the benefit criterion that the Trust has set out, namely a new build facility offering the benefits of flexibility both in resource use and building use.

Having concluded that a new build was the right option the Trust has taken forward a Private Finance Initiative. This exercise has demonstrated that the compliant bid based on the output specification did not meet the Trust's affordability criteria.

The opportunity to consider a variant bid was offered by Tarmac. The variant bid set out a 210 bed facility.

The financial analysis of the variant bid, based on the existing income received for Medicine for the Elderly, and projected income streams following discussions with Greater Glasgow Health Board demonstrate that this project meets the affordability profile of the Trust.

In conclusion therefore this project meets the financial and PFI criteria necessary to proceed.