

Sandwell and West Birmingham Hospitals NHS Trust
Midland Metropolitan Hospital Project
Outline Business Case

Appendix 2b DH Approval Letter

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John Adler
Chief Executive
Sandwell & West Birmingham NHS Trust

14 August 2009

Dear John,

DH approval of Outline Business Case:

I am writing to you to confirm the Department of Health's approval of the Outline Business Case to redevelop the Trust's sites onto a single new site in the Grove Lane area of Smethwick. This approval clears the way for the Trust to begin the process of negotiating the acquisition of the land that is necessary for the new buildings, and the process of applying for a compulsory purchase order, should this prove necessary.

There are however a number of important matters that I need to draw to your attention.

Firstly, the Treasury has not yet considered the Outline Business Case. Their reason for not doing so was because they considered that the scheme parameters, particularly scheme cost, would be firmer once the trust has made progress with negotiating the acquisition of land and when it has worked up its procurement documentation. Treasury officials have advised that they intend to consider the case immediately prior to launch of the procurement.

This means that approval of the Outline Business Case is not complete and the Treasury will require an updated business case when the Trust has completed the arrangements to acquire the land. DH will liaise with both the Trust and the Treasury on the timing and arrangements for procuring the Treasury's approval in due course.

Secondly, the Treasury may apply conditions to its approval over and above those applied by the Department of Health, which are summarised below:

- 1) The procurement documentation and any application for a compulsory purchase order will need to be approved by DH Capital Investment Branch/Private Finance Unit officials and DH Estates prior to procurement.
- 2) In developing the scheme further, the Trust should note that the capital cost should not vary, in real terms, from the current estimates of £432 million for construction and £22 million for land. Any increase of 10% or more would precipitate a requirement to have the Outline Business Case re-approved.
- 3) The plans must also remain affordable to the trust in revenue terms. The Trust should note in particular that the normalised revenue unitary charge of the scheme must not exceed 12.5% of the trust's turnover, and a real-terms increase of 5% or more in the revenue costs of the scheme would precipitate a requirement to have the Outline Business Case re-approved.

In the time between now and submission of the business case to the Treasury, the Trust should not just look carefully at scheme costs, but also continually update its income projections to ensure affordability. The trust should also ensure that the scheme is likely to remain within the financial parameters that Monitor may apply, should the Trust become an Foundation Trust.

Should, you or your team, require any further information concerning this approval, or on progressing the scheme in general, please refer to Ben Masterson on 0113 2545550 or ben.masterson@dh.gsi.gov.uk.

I would like to wish you and your team every success in the further development of this scheme.



Bob Alexander
Director of NHS Finance

cc David Flory
Peter Coates
Andrew Stubbings
Ben Masterson
Peter Spilsbury (West Midlands SHA)