Sandwell and West Birmingham Hospitals NHS Trust

Midland Metropolitan Hospital Project – Completion of Build post PFI termination

Outline Business Case

October 2018

DOCUMENT CONTROL SHEET

VERSION	DATE	COMMENTS
1.0		Adaptation of template
1.1		Insertion of core content
1.2		Insertion of core content
1.3		Insertion of core content
1.4		Insertion of core content
1.5		Initial version to DHSC
1.6		Amend for comments
1.7		Second Version to DHSC
1.8		Third Version including all case content to DHSC
1.9		Add agreed finance content , executive summary and appendices
1.10		Final Comments team (version with no finance to DH)
1.11		DM comments
1.12		Revised Finance chapter

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Introduction

The Outline Business Case for Midland Met does not repeat the strategic or alignment cases made in 2014 and 2015 when the project was nationally approved. The inclusion of the Midland Met changes as a key chapter in the Black Country and West Birmingham STP confirms the ongoing need and centrality of the changes to acute care that come via opening the hospital. The population served by the hospital is indivisible, and no meaningful patient care boundary exists between Sandwell and Birmingham. Both commissioning arrangements, and the STP structure, recognise that necessity and reality. In taking forward the hospital to successful opening we will reshape services without deference to postcode, and invite provider partners to work with us to ensure integrated care in line with the Government's Long Term Plan.

The case instead focuses on financial and commercial matters and clearly indicates how some specific issues are to be addressed. In seeking approval for the OBC, the Trust's Board is seeking endorsement of these approaches. In particular the case relies upon:

Financing, cost and accounting:

(1) Already agreed funding streams to address temporary reconfiguration, and city site maintenance, and those to support the time extension of the project.
(2) Capital funding from DHSC sufficient to meet the final costs of construction completion, which will be determined at FBC stage with commercial close.
(3) Specific accounting arrangements to address both balance sheet treatment in 2018-19 with the termination of the existing PF2, and intended accounting approaches, including impairment, when the asset is completed.
(4) Exemption by NHSI from assumed accounting treatments of asset value, and therefore PDC liability, in the period 2019-2023.
(5) Written agreement to the submitted "Carillion" taper relief ***prior to*** issue of procurement documentation for the final contractor, in line with agreements reached at the national steering group in September 2018.

Commercial approach and risk management model:

(6) Support for the contract form and procurement approach outlined in the case in both (i) a multi-bidder scenario and (ii) a more limited market response. It will not be possible to deliver the build in 2022 without this back-stop approach being clearly agreed.
(7) Recognition of the facilities management parallel process that the Trust will pursue, which is intended to ensure no interface agreement difficulties at the time of commercial close.
(8) Acceptance of the approach to risk sharing proposed between the contractee and contractor, recognising that the market may offer alternate solutions during the procurement process. This approach then travels into the pricing schedule adopted during the procurement.

The Trust's Board has completed a skills and capacity assessment of its own team and advisors. We have implemented the changes identified during that work. We strongly believe that we are able to implement the case submitted. That case has benefitted considerably from the advice of partners to date. After procurement has commenced a suitably redacted copy of this document will be made publicly available.

Toby Lewis, Chief Executive

1 Executive Summary

1.1 Introduction

1.1.1 In January 2018 Carillion PLC and most of its subsidiaries went into liquidation. As Carillion Construction Ltd was the construction company on the Midland Metropolitan Hospital (Midland Met) PF2 scheme this meant that construction stopped. This OBC has been written to secure approval to commence a new publically funded procurement to complete the hospital.

1.1.2 In agreement with DHSC, this OBC focuses on the following issues:

- Procurement Approach
- Objectives
- Finance Case
- Programme
- Resources

1.1.3 The case will not cover

- Further Commissioner Support (not required)
- Updated LTFM
- Analysis of the changed financial / budgetary flows
- Finalising the position on taper relief and reconfiguration

1.1.4 In so far as these are needed they will be dealt with in a Final Business Case (FBC).

1.2 Original Business Case

History

1.2.1 The original business case approved in July 2014 authorised the Trust to commence the procurement of a new 670 bedded acute hospital on a Brownfield site in Smethwick. The scheme was the PF2 pilot for health.

1.2.2 The procurement commenced in July 2014 and reached Financial Close in December 2015. A Project Agreement was signed with The Hospital Company (Sandwell) Ltd (THC) and construction commenced immediately. The expected Practical Completion date was 18th July 2018 with an opening date in October 2018. However there were difficulties associated with Mechanical, Engineering and Plant (MEP) design which meant that, although these had largely been resolved at the point Carillion went into liquidation, the Trust was expecting an eleven month delay on hospital delivery.

1.2.3 On 15th January 2018, Carillion went into liquidation and work stopped on site. At this point the shell of the building was 95% complete. However due to the MEP design issues referred to in section 2.3.2, the MEP installation had only just commenced.

Status of Original Project Agreement

1.2.4 Since January 2018, the Trust, DHSC, HMT and THC (the original SPV) have explored a number of routes to appointing a Replacement Construction Contractor (RCC) to complete the works.

1.2.5 THC explored the option of continuing the PF2 under the original Project Agreement. Whilst this may have been possible, it would have required further Government contributions and the option was discarded for policy reasons.

1.2.6 The Trust then worked with colleagues in DHSC and HMT to conduct a market test on the possibility of procuring the completion of the works via a new PFI agreement. There was no viable interest from the construction sector and most potential equity and debt providers were unwilling to wrap the unusual risks related to completion of a half built hospital.

1.2.7 Consequently in August 2018 the Trust recommended and DHSC accepted that the best route to procure an RCC was via a publically funded procurement.

1.2.8 A summary of the strategic case for Midland Met , and an introduction to the Trust are provided in chapter 2.

1.3 Design Development

Introduction

1.3.1 At the point of Carillion liquidation the architectural and clinical design process related to Midland Met was largely complete.

1.3.2 The project had suffered some problems with achieving a viable MEP design for the building which had caused a delay to the expected opening date. At the point of Carillion liquidation these issues had largely been resolved and the designs were in the process of being submitted as RDD for review. Carillion had commenced MEP installation at risk.

1.3.3 The frame and cladding of Midland Met were largely complete however less than 10% of the MEP had been installed and the fit out had barely commenced.

Design Process and associated warranties

1.3.4 In June 2018 it became clear that the Trust would need to undergo a new procurement exercise to complete Midland Met. At that time it was still unclear whether this would be a PFI or publically funded procurement however in either case a clear and unambiguous set of tender documents would be needed to ensure the RCC understood the scope of the works left to complete.

1.3.5 With DHSC funding approved, the Trust re-engaged the architectural, structural and MEP designers from the Carillion era. They are engaged directly by the Trust.

1.3.6 The scope of all these engagements is to resolve the outstanding issues and produce an aligned set of design documentation to form part of the forthcoming tender. Importantly however all the engagements include an obligation to provide a wrapped collateral warranty to the Trust covering the full design including that produced during the Carillion era.

1.3.7 More details on the scope of these appointments and other ways the Trust has sought to maximise warranty coverage on the partially built hospital are provided in chapter 3.

1.3.8 With DHSC approval the Trust has let an Early Works Contract to Balfour Beatty to run from 8th October 2018 to 31st May 2019. The expected value is c £13m. The purpose of this contract is to manage the site and prevent further dilapidation.

1.4 Procurement Strategy

1.4.1 This Trust has concluded that the most appropriate contract structure is as follows:

- An NEC4 Form of Contract
- A Design and Build Type of Contract
- A Med/High level of risk transfer to the RCC

1.4.2 In a Med/High level of risk transfer, the Trust is seeking to transfer the design and construction risk for the critical elements of work that remain to be completed – notably Mechanical & Electrical (MEP) and Internal Fit-out. These packages are the most important in achieving the Trust's primary objective: a hospital which functions correctly when it is opened and beyond.

1.4.3 The Trust will retain those risks relating to the previously completed Carillion works. This should ensure that the project remains attractive to the market and the Trust would rely on its warranties with designers and sub-contractors should issues arise, although there may still be programme implications.

1.4.4 With a medium/high risk transfer and the benefit of the warranties transferred , the following matrix outlines the primary (transferred to RCC) and secondary (Trust secured warranty) risk coverage position on Midland Met:

Building Element	Percentage of Final Building by Value	Specific Sub-element	Supplier	PRIMARY - Transfer Risk to RCC	SECONDARY - Trust Secure Warranties from Trades / Designers	
					Workmanship	Design
Groundworks	9%	Piling	Ivor King	No	Yes	Yes
		Drainage	Hannafin	No	No	Yes
Frame	17%	RC Frame	MJG	No	Yes	Yes
		PT Slabs	MJG / Walsh	No	Yes	Yes
		Steelwork	Adey / Traditional	No	WIP	Yes
Envelope	15%	External Walls	Martifer	Unlikely	Yes	Yes
		Courtyards	Prater	Unlikely	Yes	Yes
		Roofs	Prater	Unlikely	Yes	Yes
MEP	36%	N/a	RCC	Yes	Yes	Yes
Fit-out	23%	N/a	RCC	Yes	Yes	Yes
Percentage Coverage of Final Building (by Value)				**59%**	**96%**	**100%**

1.4.5 The Trust considered the use of the P22 framework but given the limited number of companies on the framework with experience of building major acute hospital decided that an bespoke OJEU procedure would be most appropriate.

1.4.6 A Competitive Dialogue process is considered the most appropriate award procedure. An initial pre-qualification Selection Questionnaire stage would reduce interested parties to 3 bidders based on their capability, capacity and experience.

1.4.7 The preferred procurement option is a two stage process in which the initial stage is conducted under Competitive Dialogue and lead to a commitment to a Not to be Exceeded Price, as well as firm commitment to wrap the MEP/Fit out design and installation. After the second stage is concluded, a preferred bidder is appointed to finalise their pricing to a Fixed Price Lump Sum, concluded technical documentation and get ready for contract signature and mobilisation.

1.4.8 The expected timeline is as follows:

One stage Competitive Dialogue.

Period	Activity
September / October 2018	Develop procurement strategy and tender documents
November 2018	Issue OJEU
December 2018	SQ responses received and evaluated 3 bidders are shortlisted to progress to the ITPD Stage
December 2018	Issued ITPD
January 2019 – April 2019	**Competitive Dialogue** **Duration –** 4 months **Level of Price Fixity** – Target Price for full contract value In a period of 4 months bidders would focus solely on understanding and dialoguing the MEP design and would be required to confirm that they will take the design risk as an output. Quality would be assessed by the bidders detailed proposals A Target Price would be submitted which bidders commit to work within during the Preferred Bidder period. The Trust would cover a portion of the bidding costs for the losing bidder
April 2019	Evaluation and **Preferred Bidder Appointed**
May 2019 – July 2019	**Preferred Bidder Period** **Duration** – 3 months **Level of Price Fixity** – 90-95% (remaining value is Trust contingency) In this period bidders would develop their target into a fixed price.
August 2019	Finalisation of FBC
September 2019	Contract Signature

1.4.9 The Trust has taken advice from their legal advisers on the legality of this approach and has received assurance they are appropriate. Advice is attached at Appendix 4B.

1.5 Market Engagement

1.5.1 The Trust is aware that the opportunity may appear a risky one to some contractors for a number of reasons including:

- Carillion connection

- Rumours about MEP design issues
- Incumbent EWC Contractor
- General preference for less risky construction than hospitals

1.5.2 The Trust does not believe this is a particularly risky scheme given the advanced level of aligned design which is available. It is essential to try and convince contractors that this is the case before the procurement commences to maximise competition.

1.5.3 The Trust held a market engagement event on 11th October which five contractors attended.

1.5.4 The general messages are that we need to allow sufficient time to get comfortable with the M&E designs and that the minimum time should be spent in competition.

1.5.5 The Trust has tried to respond to this feedback in designing the procurement process.

1.6 FM Strategy

1.6.1 Under the PF2 agreement the Hard FM maintenance and lifecycle costs of Midland Met would have been covered by the Unitary Payment for the 30 years of the operational contract.

1.6.2 In the context of the publically funded procurement of the RCC the Trust needs to form a plan to undertake these activities.

1.6.3 There is no disagreement that the Hard FM solution needs to be an outsourced solution

Methodology

1.6.4 The Trust has agreed that an outsourced Hard FM solution needs to be identified for both Midland Met and the Retained Estate.

1.6.5 We have identified two options:

- Option 1 – Procure Midland Met Hard FM concurrently with RCC
- Option 2 – Procure Midland Met and Retained Estate Hard FM following the RCC Procurement

1.6.6 .Our preferred option is Option 1, albeit that this may be phased, and we are currently forming a plan to enable this to happen.

1.7 Programme

1.7.1 The procurement stage programme is based on the procurement option described in section 1.4.8.ie a relatively short competitive dialogue (achieving MEP wrap and a not to be exceeded price) with a light touch approvals check prior to closure of dialogue and an extended Preferred Bidder stage during which a final fixed price, contract documentation and FBC approval process would be achieved.

1.7.2 DHSC normal process would be to ask for an approvals business case before closure of dialogue. Section 7.3 demonstrates what the effect of this would be and indicates why this would not be the Trusts preferred option.

1.7.3 For the construction stage, the Trust intends to indicate to bidders that the latest possible practical completion date should be 31st December 21.This is a build period of 27 months from 30th September

2019. Bidders may in competition shorten this period. They will be required to be transparent about construction float.

1.7.4 The way the NEC contract works the Trust also needs to hold a time float to absorb the consequence of any accepted Early Warning Events which are the Trusts responsibility. It is suggested that we hold a six month period to opening in June 2022. This covers both the float and the Trust commissioning period.

1.7.5 As the contract proceeds, the constructors float may be released and /or the Trust may find it does not require its own float enabling the opening date to be safely brought forwards.

1.8 Finance case

1.8.1 The Trust remains on track to deliver its Financial Plan for 2018-2019 except that, post PSF support, the Trust is now forecast to deliver a c£2.34 m control total surplus due to a risk of non-recovery of PSF(ED related) for year to date performance.

1.8.2 Key features of the "forward look" affordability case are summarised below:

1.8.3 The accounting treatment for incorporating the Midland Met asset into the Trust accounts has been agreed with DHSC and has proceeded through the Trust's Audit Committee. External auditors are in agreement with the proposed treatment, subject to confirming legal title, valuation, and disclosures at the 2018/19 audit.

1.8.4 The Trust's approved base capital programme has increased by £12.9m over the period 2018/19-2023/24 as a result of the delay. The current assumption is that the Trust will continue to fund the programme through internally generated funds with some support from Taper Relief where necessary.

1.8.5 The base capital programme excludes the cost of required reconfiguration schemes (assumed funded by STP capital at £15.439m), support to The Hospital company for Deed of Termination (assumed funded by PDC £2.282m), and the Early Works Programme (assumed funded by PDC, £27.159m).

1.8.6 Costs to complete Midland Met are [redacted] over the period 2019/20-2021/22. The assumed mechanism for funding is draw down of PDC to reflect milestone and certified cost checkpoints.

1.8.7 Relevant incremental Capital and Revenue cost headings have been assessed discretely, thus identifying the impact of the Midland Met scheme moving to a publically funded mechanism.

1.8.8 Total Capital Investment across numerous strands, including the Trust's extant Capital Programme is summarised below, REDACTED TABLE

1.8.9 Central PDC support will fund the EWP and the Cost to Complete Midland Met. An indication of that cost is provided for working assumption purposes.

1.8.10 As the Trust already adopts MEA accounting treatment it is likely a significant impairment of the Midland Met asset will occur in 2022, the year of Midland Met becoming operational. The affordability assessment assumes an impairment of c90% of the total construction cost of Midland Met is likely and the Trust is in dialogue with the District Valuer to review this assessment.

1.8.11 The impact on I&E of removing the PF 2 transaction and replacing it with the consequences of a publically funded solution is relatively neutral in the first year of operation, (2022-23).

1.8.12 The creation of an asset under construction for the period to completion creates an increased annual revenue charge which requires support from DHSC, to afford, or, to agree a mechanism by which this impact is neutralised. The cumulative support is estimated to be **c£23m** to 2022-2023 for which funding support has not yet been secured.

1.8.13 Hard FM will be subject to a procurement which will deliver best value. At this point, an increased cost, compared to the PF2 position is forecast.

1.8.14 Lifecycle costs were expensed in the Midland Met UP and did not occur in the first five years of the concession. The Trust intends to make provision in its Capital Programme to manage lifecycle once Midland Met is operational.

1.8.15 The Trust has submitted a bid under the STP capital regime for support to configure services and estate to cope with the prolongation period to Midland Met. The outcome of the bid is awaited but a critical investment of c£15.5m has been identified.

1.8.16 Taper relief cost support has been reassessed recognising the prolongation impact of keeping part of the estate operational for a longer period and the creation of new cost headings caused by delay. A further investment need of c£27.6m over the term has been identified (over and above the original £22m).

1.8.17 Chapter 8 draws together the investment required to complete Midland Met and demonstrates the outlook is affordable to the Trust in comparison to the position represented under PF2 terms.

1.9 Delivery of Acute Clinical Services during the Extended Construction Period

Introduction

1.9.1 Following the liquidation of Carillion in January 2018, it became apparent that there would be a significant delay to opening the Midland Metropolitan Hospital and therefore a need to run acute clinical services on 2 sites (City and Sandwell Hospitals) for an extended period i.e. until 2022.

1.9.2 The most significant risks identified in relation to safely sustaining acute services on 2 sites for this extended period primarily relate to maintaining a senior medical workforce at the 'emergency front door' (i.e. Emergency Departments and Acute Medical Units). The Trust has identified key actions to mitigate the most significant clinical risks.

1.9.3 In particular 3 acute medical specialty reconfiguration options are proposed for further development and appraisal ahead of agreeing which option/s should be the subject of public engagement from December 2018 in order to agree a preferred option in April 2019 for delivery by the end of October 2019.

1.9.4 More details of this process and the outcomes are included in chapter 9

1.10 Summary of Risks, Issues and Constraints

1.10.1 The Midland Met project is very unusual. The Trust is not aware of any major Acute Hospital where the construction contractor has gone into liquidation with the Hospital half built. This means that there are some very specific risks which the Trust faces. This section attempts to draw out those risks and explain the mitigations which have been put in place.

	Risk	Mitigation

	Risk	Mitigation
1	Clinical Risk to sustainability of Hospital Services caused by delay to opening of Midland Met / need to keep two Acute Hospitals open for longer than planned	The Trust is planning some Reconfiguration of services to mitigate the sustainability issues as far as possible – see chapter 9.
2	There may be limited interest in bidding for the scheme resulting in a lack of competition / single bidder situation. If this occurs it will be more difficult to prove VFM.	The Trust is actively encouraging suitable bidders to come to a market engagement event. We believe that if we explain the actual risks clearly more bidders may be interested in competing the opportunity. If a single bidder situation occurs, the price is unlikely to be far below the compliance ceiling , however it may be possible if all parties agree to move forwards to start on site sooner.
3	The building is part built and the RCC is unlikely to take risk on Carillion works.	The Trust is looking for a full risk transfer on MEP design / installation and fitout. Groundworks, frame and envelope risk will remain with the Trust. A full explanation is included section 4.3
4	Carillion Construction warranties did not flow to the Trust on termination due to issues with the standard form Project agreement.	The Trust has procured design warranties through separate contracts with the design team and has separately paid THC for the warranties they held. A full explanation is included in chapters 3 and 4
5	The design is not “complete”	The Midland Met design is as complete as any project at this stage of build. The teams have worked to produce a set of aligned design documents for the tender which resolve the majority of the historic issues. This is a far better position than a “normal” project which goes to Financial Close with a significant proportion of the design to be completed as RDD.
6	The team may not have the capacity / capability to complete the procurement.	The team has largely remained stable since 2014. They have significant complex PFI procurement experience. They have been augmented by 5 senior ex Carillion employees. They have experienced legal and commercial advisers. For more information please see chapter 12.

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1.11 Opportunities

1.11.1 This section summarises the commercial opportunities potentially available at Midland Met and the wider Grove Lane site.

Midland Met - Retail Units & Advertising Space – Current Position

1.11.2 It is currently assumed that the Trusts catering functions will manage the most of the retail spaces, and servery/restaurant services. All of the Trusts catering services are provided via a cook chill arrangement located at Rowley.

1.11.3 There is a servery and staff /visitor restaurant is also located on level 5 with a floor area of circa 372/m2, and coffee shops designated on levels 0,2 and 5.

1.11.4 In addition there are three retail spaces which the Trust will lease out.

1.11.5 WH Smith, Tesco's, Waitrose M&S and Boots have expressed interest in operating 1 or more of the retail units. Local interest has also been shown.

1.11.6 Advice will be taken whether a formal or informal competitive procurement process should be undertaken and the scope of any service / performance specification. This work is planned to commence in October 2019 to enable any procurement process including negotiations, execution of leases, and any fit out and commissioning to be undertaken and completed prior to Midland Met opening.

Internal and External Advertising (specialist billboard companies).

1.11.7 Contact has been made with J C Decaux, and Primesight and brief discussions made re the potential for Internal and External advertising on the periphery of the Midland Met and wider Grove Lane site. Both companies indicated that it was too early for them to provide forecasts of any income the Trust may secure/receive, but did confirm they would respond to a request made with 6-9 months before the Midland Met opened.

Wider Opportunities

1.11.8 The Trust has undertaken work to consider the potential uses for the remaining 2 development plots on the wider Grove Lane site. This indicated that certain sized and or niche developers may be interested in developing the plots, and that a development could include for example a hotel. More details are included in Chapter 11.

1.12 Resources

1.12.1 The Project Team have been challenged to demonstrate they have the capability and capacity to conduct the publically funded procurement in the timescales envisaged in this OBC.

1.12.2 The Trust also recognises the need for Project Management expertise from a third party to support NEC contract administration.

1.12.3 The work of the project team can be categorised into four work streams:

- Early Works Phase
- Replacement Construction Contractor
- Reconfiguration and City Site
- Estates and Capital Programmes

1.12.4 An analysis of the workload, staffing and leadership of these work streams can be found in chapter 12.

1.12.5 The Project Team has concluded that:

- there is a need for more resource in the Estates Department to backfill the individuals involved in the project
- there is need to procure QS advisory services to provide assurance to the team and DHSC
- there is a need to procure NEC project management services

1.13 Conclusion

1.13.1 The Conclusion of this OBC is that the Completion of Midland Met is necessary, achievable and affordable.

1.13.2 The Trust has a robust plan to deliver its objectives and mitigate risk through the publically funded procurement of a Replacement Construction Contractor.

1.13.3 The Trust team is capable of delivering the plan. Areas such as NEC4 Project Management which require specialist skills are being addressed.

2 Background and Scheme Status

2.1 Purpose of the Outline Business Case (OBC)

2.1.1 In January 2018 Carillion PLC and most of its subsidiaries went into liquidation. As Carillion Construction Ltd was the construction company on the Midland Metropolitan Hospital (Midland Met) PF2 scheme this meant that construction stopped. This OBC has been written to secure approval to commence a new publically funded procurement to complete the hospital.

2.1.2 In agreement with DHSC, this OBC focuses on the following issues:

- Procurement Approach
- Objectives
- Indicative Costs
- Programme
- Resources

2.1.3 The case will not cover

- Further Commissioner Support (not required)
- Updated LTFM
- Analysis of the changed financial / budgetary flows
- Finalising the position on taper relief and reconfiguration

2.1.4 In so far as these are needed they will be dealt with in a Final Business Case (FBC).

2.2 Structure of the OBC

2.2.1 The OBC is a slim line Business Case with content agreed by DHSC

2.2.2 The document comes in two volumes:

- Volume 1: The OBC Chapters
- Volume 2: The Appendices to the OBC

2.3 Original Business Case

History

2.3.1 The original business case approved in July 2014 authorised the Trust to commence the procurement of a new 670 bedded acute hospital on a Brownfield site in Smethwick. The scheme was the PF2 pilot for health.

2.3.2 The procurement commenced in July 2014 and reached Financial Close in December 2015. A Project Agreement was signed with The Hospital Company (Sandwell) Ltd (THC) and construction commenced immediately. The expected Practical Completion date was 18th July 2018 with an opening date in October 2018. However there were difficulties associated with Mechanical, Engineering and Plant (MEP) design which meant that, although these had largely been resolved at

the point Carillion went into liquidation, the Trust was expecting an eleven month delay on hospital delivery.

2.3.3 On 15th January 2018, Carillion went into liquidation and work stopped on site. At this point the shell of the building was 95% complete. However due to the MEP design issues referred to in section 2.3.2, the MEP installation had only just commenced.

Status of Original Project Agreement

2.3.4 Since January 2018, the Trust, DHSC, HMT and THC (the original SPV) have explored a number of routes to appointing a Replacement Construction Contractor (RCC) to complete the works.

2.3.5 THC explored the option of continuing the PF2 under the original Project Agreement. Whilst this may have been possible, it would have required further Government contributions and the option was discarded for policy reasons.

2.3.6 The Trust then worked with colleagues in DHSC and HMT to conduct a market test on the possibility of procuring the completion of the works via a new PFI agreement. There was no viable interest from the construction sector and most potential equity and debt providers were unwilling to wrap the unusual risks related to completion of a half built hospital.

2.3.7 Consequently in August 2018 the Trust recommended and DHSC accepted that the best route to procure an RCC was via a publically funded procurement.

Original Strategic Case

2.3.8 Midland Met will replace the acute inpatient services from the Trust's current acute hospitals – City Hospital Birmingham and Sandwell General Hospital. Outpatient, day case, diagnostic services and intermediate care will remain on both these sites. Minimal outpatient facilities will be provided in Midland Met.

2.3.9 The case for change for the scheme remains robust. The requirement for Midland Met continues to be fully supported within the local health economy and forms a vital part of the Trust's strategy to deliver high quality care into the future. It remains a Trust priority to open the Midland Met as soon as practically possible in order to ensure the safety and sustainability of key services.

2.3.10 The Trust and local partners agree that there is a clear case for change as summarised below:

- First and foremost, the Trust cannot sustain services and cannot meet Keogh recommendations on emergency care, operating acute services for adults and children from two sites.
- The poor health of the residents in the Trust's catchment area makes the case for change in the model of care to focus on prevention. The RCRH Programme (a strategic alliance of local partners) developed plans to deliver these changes. A new single site acute hospital is central to successful delivery of these plans.
- Major changes in primary and community care make the case for development of a new acute hospital with capacity aligned to the activity model agreed by the RCRH Programme.
- Due to the condition of the current estate the provision of a suitable environment for patients and staff will require investment in new hospital facilities.

- The preference for care closer to home and expansion of patient choice makes the case for delivering new services closer to home, building state of the art hospital facilities; and developing a high quality workforce.

2.3.11 The project objectives developed in response to the case for change presented below have not changed since the original OBC approval:

- To move to a single acute hospital site;
- To develop a new high quality hospital building;
- To implement a new model of care;
- To deliver the best possible quality of care; and
- To develop staff and provide an optimal working environment.

2.3.12 The implications of the Trust objectives continue to be that:

- The majority of outpatient attendances, day cases and planned diagnostics will be provided outside the acute hospital in community locations. The existing two hospital sites will become community locations.
- A greater proportion of inpatient length of stay will be provided in the Trust's intermediate care beds.
- There will be a significant reduction in average length of stay because the Trust is able to deliver consultant based inpatient medicine.
- There will be a modest catchment loss for emergency inpatient activity related to the change in location of the acute hospital. The Trust's partnership with The Dudley Group of Hospitals FT and Walsall Healthcare NHS Trust (the Black Country Alliance) will ensure that this transition is managed collaboratively and to time.
- There will be increased community-based urgent care and out-of-hours services to provide alternatives to attending the Emergency Department. The Trust will provide a major Urgent Care Centre (UCC) (already built) on the Sandwell Hospital site.
- The Trust will also provide an UCC within Midland Met co-located to the Emergency Department.
- There will be increased day surgery rates with the majority of adult day surgery being provided in dedicated day surgery units in the Birmingham Treatment Centre (BTC), Sandwell Treatment Centre (STC) and Birmingham and Midland Eye Centre (BMEC).
- Better physical environments will be provided for service users and staff which will encourage more rapid recovery and provide greater privacy and dignity.
- In partnership with our host CCG the service development plan includes repatriation of activity from other neighbouring Trusts where clinically appropriate to provide a more local service for patients.
- The development of a new single site acute hospital is required allowing consolidation of acute emergency and inpatient services. This includes co-locating paediatric, neonatal, maternity and gynaecology services.

The greater proportion of patients attending for acute care will therefore be acutely unwell, have complex conditions or require the most specialist assessment and treatment. Development of a new acute hospital to meet these needs by bringing specialist staff together on one site is therefore an essential part of the model of care.

Original Economic Case

2.3.13 The economic case has not changed since the OBC was approved in July 2014. 4 potential options were shortlisted to determine the strategic solution required to meet the strong case for change. The appraisal concluded that the Grove Lane Site was the preferred Option.

2.3.14 A summary of the original economic case is included in Appendix 2A

2.4 Trust Current Financial Position

2.4.1 This section covers

- Core Financial headlines generated from plans submitted to NHSI in April and June, 2018 covering forecast delivery of,
  - P&L Control totals.
  - CIP delivery and options to cover shortfall.
  - Cash availability and potential support.
  - Baseline Capital Programme assumptions.
  - Supply of plans including SOCI, Balance Sheet and Cash.

2.4.2 Section 8, the Finance Case cover the areas described below.

- The Trust's baseline Capital Programme and proposed changes to extant schemes generated by Midland met delay and IT pressures.
- Cost incurred by the trust in delivering consensual termination of the PF2 arrangement.
- Consideration of the Early Works Programme and its constituent parts.
- Consideration of the Capital Bid for Reconfiguration support and its usage.
- Articulation of the Accounting Treatment proposed for formalising the Midland Met asset in the Trust's accounts.
- Assessment of the impact on P&L of the avoidance on the Unitary Payment in comparison to estimated cost associated with the publically funded scheme.
- Consideration of the cost to complete Midland Met from the available information.

Financial Headlines

2.4.3 The plans submitted to NHSI reflect a control total of a surplus of £3.489m. The latest forecast outturn is £2.34m as it is assumed the Trust will not recover Provider Sustainability Funding (PSF – new term for STF) related to year to date ED performance

2.4.4 The Trust submitted a control total compliant plan that assumed full receipt of officially notified PSF, being £11.1m. The table below summarises the net impact:

Control Total Excluding STF (now called PSF)	**(7,567)**
PSF (Provider Sustainability Fund)	11,056
Control Total Including PSF	**3,489**

2.4.5 The levels of PSF received do not change the CIP "ask" inherent in the plan – which stands at £37m as it is only the surplus that changes.

2.4.6 The original plan assumed I&E delivery of a £9m CIP "gap" in Month 12 – through £6m other income and £3m other expenditure. Delivery of CIP plans has been updated in June's submission and is summarised in the table below:

In Year CIP Plan	**37,291**
Of which	
- General CIP Schemes	24,999
- Commercial Income (Car parking etc)	6,292
- Contract Income Margin	6,000
	37,291

2.4.7 The current Board approved capital programme is reflected in this plan – being £34.672m of capital expenditure planned in 2018.19. Cash requirements are £30.4m, there being £4.3m of IFRIC 12 non-cash reportable capex. The funding sources for this are;

a. Depreciation (net of Birmingham Treatment Centre (BTC) PFI costs) £13.8m
b. Grants and Donations £80k
c. Cash brought forward from 2017.18 £9.5m
d. Cash from in year surplus as per plan £3.5m (£11.1m PSF behind this, £7.2m pre PSF deficit)
e. Extra cash from receiving full PSF £3.6m
f. TOTAL £30.4m

2.4.8 Cash – The plan includes £10.2m of Bonus STF from 2017.18, assumed received in Month 4 of the plan. The plan assumes that for cash planning purposes, the Trust fails to deliver £10m of CIP, mainly in Q4, and fails to receive £1.2m of the PSF in relation to A&E trajectories. This, and other changes in cash is compensated for by movements in working capital of £11m and a revenue borrowing requirement of £5m, not repaid by the end of the year. This is to ensure that the possible borrowing requirement is flagged with NHSI should it be required. This is summarised in the table below:

Revenue Support Loans	
Taken during the year	**11,000**
Repaid during the year	(6,000)
Remaining at the end of the Year	**5,000**
Plan assumes CIP failure of £10m and PSF not received of £1.2m.	
Presented as a deteriation in the working capital position, driving out the loan requirement above.	

2.4.9 The trust has submitted an agency ceiling compliant plan – at £10.649m. Existing CIP plans reflect a reduction in agency spend, and work is ongoing to reduce the planned spend further to contain spend within the ceiling.

2.4.10 The Trust has reflected £25m of identified CIP in the plan. The Trust assumes delivery of the full £37m from an I&E perspective, but assumes failure from a cash perspective to ensure the possibility of cash borrowing is flagged to NHSI. Clearly should the CIP schemes deliver from an I&E perspective, the Trust would expect that these are cash backed. This approach is adopted for prudence.

2.4.11 The Trust headline targets have remained constant between April and June's planning submissions, although a small change in income assumptions has been made, compensated by a matched change in expenditure. The table below summarises that change:

Movement Between April plan submission and June plan submission						
	April	**June**	**Movement**			
Income	491,834	493,722	1,888	Gynae Onc Income		
Opex	(477,669)	(479,557)	(1,888)	Gynae Onc Expenditure		
Non Opex	(10,889)	(10,889)	0			
Check	**3,276**	**3,276**	**0**			

2.4.12 The Trust's in year performance is on track to deliver June's revised control plans.

2.4.13 The following Trust plans are included with Appendix 2B & 2C ,

- A detailed narrative supplied to NHSI as part of April's planning submission, which explains in more depth how the trust will deliver its financial targets and the issues it faces in doing so.
- Trust Forecast SOCI, updated June, 2018.
- Trust Forecast Balance sheet, updated June, 2018.
- Trust Cash Movements, updated June, 2018.

2.4.14 At this point, the following Midland Met related matters have not been included in above, and will be considered discretely in section 8 of this OBC:

- Asset Recognition for Midland Met.

- Cost Associated with the Early Works Programme.
- Cost Associated with Reconfiguration.
- A high level impact comparison in P&L terms of the difference between running costs avoided through the withdrawal of a unitary payment compared to likely replacement costs associated with a publicly funded scheme.

Status of Original Project Agreement

2.4.15 Since January 2018, the Trust, DHSC, HMT and THC (the original SPV) have explored a number of routes to appointing a Replacement Construction Contractor (RCC) to complete the works.

2.4.16 THC explored the option of continuing the PF2 under the original Project Agreement. Whilst this may have been possible, it would have required further Government contributions and the option was discarded for policy reasons.

2.4.17 The Trust then worked with colleagues in DHSC and HMT to conduct a market test on the possibility of procuring the completion of the works via a new PFI agreement. There was no viable interest from the construction sector and most potential equity and debt providers were unwilling to wrap the unusual risks related to completion of a half built hospital.

2.4.18 Consequently in August 2018 the Trust recommended and DHSC accepted that the best route to procure an RCC was via a publically funded procurement.

2.5 The Trust Context

Introduction to the Trust

2.5.1 Sandwell and West Birmingham Hospitals NHS Trust (the Trust) is an integrated care organisation. The Trust is dedicated to improving the lives of local people, to maintaining an outstanding reputation for teaching and education and to embedding innovation and research. The table below summarises the key facts about the Trust.

Table 1: Key Facts about the Trust

Population served	530,000
Annual turnover	£480m million (2017/18)
Number of sites	Two acute sites and two main community locations
Current CQC Rating	Requires Improvement

2.5.2 The Trust provides acute and specialist services from City Hospital in Birmingham and Sandwell General Hospital in West Bromwich. Emergency care, including A&E services is provided at both sites. In addition, the Trust provides comprehensive community services to over 300,000 people in the Sandwell area from more than 150 locations. Of these two are registered through the Trust. Those being:

- Rowley Regis Community Hospital;
- Leasowes Intermediate Care Centre;

2.5.3 A more detailed introduction to the Trust can be found in Appendix 2D.

Estates Strategy

2.5.4 The Trust will move all acute inpatient service from City Hospital Birmingham and Sandwell General Hospital to Midland Met on completion. Both sites will retain outpatient, diagnostic, intermediate care and day case departments. Sandwell will retain an urgent care centre. City will retain the Birmingham and Midland Eye Centre.

2.5.5 The Trust main administration functions and headquarters will be on the Sandwell site.

2.5.6 The net result of these moves is that a significant proportion of the City site will be surplus to requirements once these moves are complete.

2.5.7 In the expectation that this would happen during 2019, in 2017 the Trust transferred the majority of the City site to Homes England in return for a payment of c £18m. There was a contractual long stop date to vacate the land of 31st December 2019. The land was leased back at no cost to the Trust.

2.5.8 In the light of the events with Carillion, Homes England have agreed to issue a new lease at no cost once a more certain completion date is confirmed. The most likely date will be 31st December 2022.

3 Design Development

3.1 Introduction

3.1.1 At the point of Carillion liquidation the architectural and clinical design process related to Midland Met was largely complete apart from the following:

- A number of specific issues remained to be resolved;
- Some agreed variations needed to be incorporated in the drawings;
- Some non-critical path Reviewable Design Data (RDD) remained in progress e.g. specialist joinery and wayfinding;

3.1.2 The project had suffered some problems with achieving a viable MEP design for the building which had caused a delay to the expected opening date. At the point of Carillion liquidation these issues had largely been resolved and the designs were in the process of being submitted as RDD for review. Carillion had commenced MEP installation at risk.

3.1.3 The frame and cladding of Midland Met were largely complete however less than 10% of the MEP had been installed and the fit out had barely commenced.

3.2 Design Process and associated warranties

3.2.1 In June 2018 it became clear that the Trust would need to undergo a new procurement exercise to complete Midland Met. At that time it was still unclear whether this would be a PFI or publically funded procurement however in either case a clear and unambiguous set of tender documents would be needed to ensure the RCC understood the scope of the works left to complete.

3.2.2 With DHSC funding approved, the Trust re-engaged the architectural, structural and MEP designers from the Carillion era. They are engaged directly by the Trust.

3.2.3 The scope of all these engagements is to resolve the outstanding issues and produce an aligned set of design documentation to form part of the forthcoming tender. Importantly however all the engagements include an obligation to provide a wrapped collateral warranty to the Trust covering the full design including that produced during the Carillion era.

Architecture

3.2.4 HKS are the lead architects and have a number of sub-consultants (Fire engineer, acoustics, etc.)..

3.2.5 The Trusts heath care planning team have worked with HKS during July to September 2018 to resolve all remaining design issues and produce a complete and signed off set of 1:50 drawings. These will be available by mid-October.

3.2.6 Agreed variations have been incorporated.

3.2.7 They have been able to look at the known consequences of technology refresh e.g. a newer model of MRI has been released since the Trust made its original choice in 2016.

3.2.8 The purpose has been as far as possible to future proof the drawings so that the Trust makes minimal variations during the next construction stage.

3.2.9 It is envisaged that HKS and their sub-consultants will be novated to the RCC although the Trust will require some consultancy support during the bidder stage.

Mechanical and Electrical

3.2.10 Aecom are the MEP designers. There was a major dispute between Carillion and Aecom over responsibility for Midland Met delay. Given the sensitivities, it has taken much longer to re-engage with Aecom and agree suitable terms.

3.2.11 They have been working with Trust MEP staff since early September.

3.2.12 The work is following the same pattern as the architectural review – at the moment they are resolving outstanding queries.

3.2.13 Aecom have also conducted a thorough review of Trust Construction Requirements from the PFI contract to ensure the new tender documents incorporate the solutions that have been agreed as part of the design process.

3.2.14 The aim is to produce a full signed-off set and aligned set of Building Services Research Information Association (BSRIA) Stage 4A MEP drawings by 31st October 2018. The Trust has some concerns about the timescale. An acceptable alternative would be where the drawings are not produced to provide sketch drawings for the initial procurement stage and to provide the full set before issue of the ITPD.

3.2.15 Aecom will support the Trust both during the bidder and construction stages, and therefore will not be novated to the RCC.

3.2.16 The Trust will assign the wrapped collateral warranty on the entire 4A standard MEP design it receives from Aecom to the RCC.

Structural

3.2.17 The original lead structural engineers, TPS, were a Carillion company and also went into liquidation in January 2018.

3.2.18 They had subcontracted the structural design of approximately two thirds of Midland Met to a sub-consultant called Curtins.

3.2.19 The Trust has engaged Curtins to “re-design” the entire structure such that they are able to directly compare to the existing TPS design and identify any problems / develop solutions. Once any identified issues are resolved, Curtins will provide the Trust with a wrap collateral warranty. It should be noted that the structural design at Midland Met is fundamentally different to that of Royal Liverpool (noting recent well documented problems with that scheme) and no such issues are anticipated or evident at Midland Met.

3.2.20 The Trust considers it is unlikely that any RCC would take risk on the structure however it will be important for bidders to see the warranty to get comfort that the building is safe and has suitable capacity to complete the balance of works.

3.2.21 The duration of this substantial piece of work is expected to be 6 months, having commenced mid-September.

3.2.22 The Trust is receiving interim reports which so far have not raised concerns but the final warranty will not be available until early 2019, but definitely prior to the letting of any RCC contract.

3.3 Early Works Contract

3.3.1 With DHSC approval the Trust has let an Early Works Contract to Balfour Beatty to run from 8th October 2018 to 31st May 2019. The expected value is c £13m.

3.3.2 The purpose of this contract is to manage the site and prevent further dilapidation.

3.3.3 A number of packages will be completed during this period which both contribute to these aims and allow the expensive tower cranes to be removed from site at the earliest possible opportunity.

3.3.4 The EWC will employ the nominated (incumbent) suppliers to complete the packages. A pre-cursor of their nomination and subsequent appointment under the EWC is to warrant to the Trust the works done under both the original Carillion contract and the EWC.

3.4 Additional Warranties

3.4.1 A Deed of Termination of the Project Agreement was negotiated with THC by IPA supported by DHSC and the Trust. This was signed in July 2018.

3.4.2 During the course of negotiations of this Deed it became apparent that the Project Agreement did not allow warranties which were obtained by Carillion at the point of order to automatically flow through THC to the Trust.

3.4.3 The Trust has subsequently agreed with THC to pay a further [redacted] to assign 17 warranties which it enjoyed. The 17 warranties cover a number of trades where specialist design responsibility resided with the sub-contractor, notably the installers of the cladding on the outside of the building.

3.5 Planning and S278 works

3.5.1 The obligations to address the reserved matters under the planning application had largely been completed by Carillion.

3.5.2 A number of small issues remain which will pass to the RCC to manage.

3.5.3 The demise of THC has invoked the termination clauses in the Section 278 contract with Sandwell Metropolitan Borough Council (SMBC). These allow for the proceeds of a bond to be drawn down directly by SMBC to enable them to complete the works. The works mainly relate to road infrastructure improvements in the vicinity of Midland Met. There will be an interface with the RCC at the boundary of the site which will need to be managed.

4 Procurement Strategy

4.1 Introduction

4.1.1 This chapter sets out the Trust's approach for the route to contract for the Replacement Construction Contractor (RCC) procurement for Midland Met.

4.1.2 This Trust has concluded that the most appropriate contract structure is as follows:

- An NEC4 Form of Contract
- A Design and Build Type of Contract
- A Med/High level of risk transfer to the RCC

4.1.3 The Trust considered a number of options for a procurement plan. The preferred option is presented below but the option appraisal is included in Appendix 4A.

4.2 Project Risks

4.2.1 The Trust has considered the key risks associated with the RCC procurement. These are the risks that would significantly alter the risk allocation of the project given its partially constructed status, the risk appetite in the market, and the Trusts ability to manage those risks. The table below indicates where those risks might lie in different risk transfer scenarios.

Risk Description	Low level of Risk Transfer Allocations	Med/High level of Risk Transfer Allocations	High level of Risk Transfer Allocations
Design and Construction Responsibility for previously completed Carillion Works, e.g.: • Frame • Envelope • Ground	Trust	Trust	RCC
Design responsibility for MEP Engineering Works	Trust	RCC	RCC
Design responsibility for Fit Out Works	Trust	RCC	RCC

4.2.2 Risks such as programme, cost, quality, and site management etc will sit with the RCC in all scenarios, noting that the NEC4 from of contract promotes regular updating of the contract and conversely risks such as the Trust's specifications and briefing information being correct and decisions on nominated suppliers (equipment, AGVs, Bedheads, etc) will sit with the Trust.

Medium / High Level of Risk Transfer

4.2.3 The Trust considers that a Med/High level of risk transfer best meets the needs of the project (as discussed below) and is therefore the preferred approach. This will be tested with the market during early October.

4.2.4 In a Med/High level of risk transfer, the Trust is seeking to transfer the design and construction risk for the critical elements of work that remain to be completed – notably Mechanical & Electrical (MEP) and Internal Fit-out. These packages are the most important in achieving the Trust's primary objective: a hospital which functions correctly when it is opened and beyond. Given these packages are well progressed in terms of design, but not significantly progressed in terms of construction, contractors will have ample opportunity to conduct due-diligence throughout the bid process. We believe this presents the ideal opportunity to secure a 'wrap' on risk transfer at a price that is appropriate to the clear benefits to the Trust.

4.2.5 In this scenario the Trust will retain those risks relating to the previously completed Carillion works. This should ensure that the project remains attractive to the market and the Trust would rely on its warranties with designers and sub-contractors should issues arise, although there may still be programme implications. The Trust is actively reviewing its risk register of any such risks that will allow the Trust to take an informed view when contractor pricing is received, and also to allocate appropriate levels of risk funds for the risks the Trust retains. The opportunity to insure latent defects risk could be explored by the Trust, and there could be consideration given to a separate contingency pot which is set aside to cover any future risks which arise as a result of the existing works – if for example there are issues when fixing the MEP services to the existing structure which result in the contractor needing to use more / different and fixings.

Low Level of Risk Transfer

4.2.6 The Trust would retain design and construction responsibility for the previous completed Carillion Works. As detailed in Chapter 3 the Trust is securing warranties from designers and some trade contractors to mitigate this risk.

4.2.7 Similarly, for the critical (see below) MEP and Fit Out works the Trust has completed a robust level of design information to-date. Again warranties will be provided by the designers giving the Trust a level of a potential mitigation / risk coverage should issues arise.

4.2.8 However, the Low risk transfer approach means that the responsibility for final design co-ordination (e.g. between fit-out and MEP elements) would reside with the Trust. The incumbent MEP designer, AECOM, is not willing to undertake this level of design having under-performed during the original PFI contract. Whilst not ideal, this can be bought separately by the Trust and potentially via Contractor – noting that this is purely a design service, not the wholesale transfer of co-ordinated design / installation risk.

4.2.9 In this instance, should any associated issues arise during the construction, even if they can be solved, there will be programme and commercial implications. Where any such issues arise post completion the Trust would be left to identify root causes of issues e.g. was the issue a result of incorrect design (Trust responsibility) or was it due to poor quality construction and installation (RCC). This would be further complicated by the split on responsibility between works originally undertaken by CCL versus those of the RCC. This could significantly impact the operation of the hospital.

4.2.10 For these reasons a low risk transfer approach is not preferred.

High Level of risk Transfer

4.2.11 In a high risk transfer approach the RCC is responsible for the balance of all design and construction risks relating to the completion of the works, as well as the historic design and construction work already completed. This provides the Trust with a single point of responsibility should any issues arise and provides the Trust with the greatest level of confidence that risks potentially capable of impacting

the operation of the hospital sit with the party best able to manage them. Due to the single point of responsibility, this approach also gives the Trust the greatest certainty on achieving the proposed construction programme and associated build cost.

4.2.12 However, market feedback has previously been undertaken and contractors have reported that they would be unwilling to take responsibility for any risks relating to the previously completed Carillion works. They have also drawn comparisons to the PFI form which is equally unattractive to the market. In the unlikely event that the Trust is able to identify a contractor willing to take on this risk profile, there is a strong case that the associated cost would be beyond that deemed affordable and/or proportionate to the benefits.

4.2.13 For this reason this approach is not preferred.

4.3 Medium / High Risk Transfer – Mitigation of Trust Risks

4.3.1 It will be a mandate of the contract that the RCC provides 'wrapped' design and workmanship coverage to the Trust for MEP and Fit Out packages post completion given these are the elements of most significant operational risk.

4.3.2 The procurement process will also ask bidders to price a retrospective wrap for the building Envelope. Whilst this would be attractive, the cost is likely to be restrictive. Both Groundworks and Frame (both fully retrospective) will not be priced by the RCC – this having been confirmed during recent market engagement.

4.3.3 The Trust must therefore consider alternative options in order to secure full / near risk coverage on the completed building. Two options for the non-mandated packages have been considered:

- Supplier Warranty – where the consultant or sub-contractor provides a warranty for the work done / to be done. This is typically 'backed-off' to the suppliers insurers with a limit of liability mandated within the warranty (typically ranging from £5million-£20million)
- Latent Defect Insurance – market feedback has suggested that private developers have elsewhere managed to secure insurance coverage for works undertaken by a defunct former builder.

4.3.4 In the case of Latent Defect Insurance, the Trust Project Team have investigated with a number of insurers and confirmed that there would not be such a market in the case of Midland Met. This is likely to be a result of the project scale, the perceived unknowns and recent well publicised issues at Royal Liverpool (which for the avoidance of doubt, are not relative on Midland Met).

4.3.5 This therefore means the Trust must seek coverage via the warranties route.

Warranty Position

4.3.6 In mid-October 2018, the Trust has / will imminently secure:

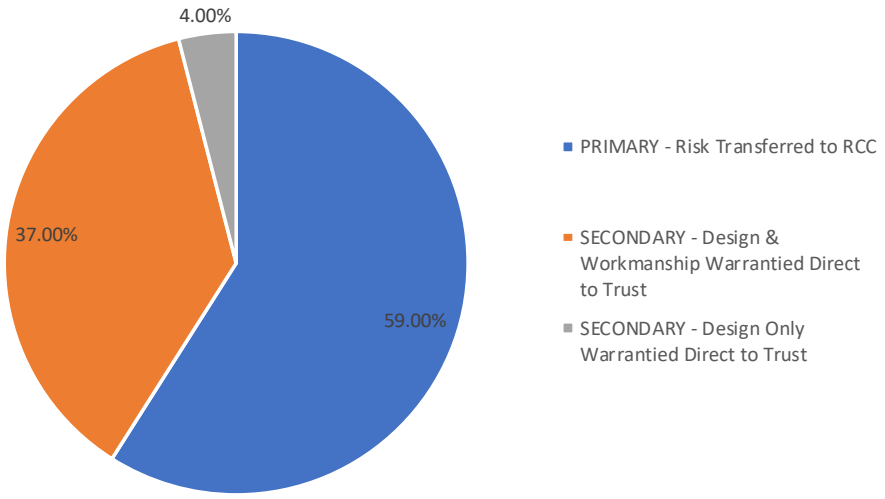
- Circa 17 former Carillion Construction warranties from THC. This includes all of the primary design consultant and key sub-contract warranties, including both primary envelope installers. The sub-contract warranties cover both design and workmanship.
- The Trust will also secure project wide design warranties from the architect (HKS), MEP Engineer (Aecom) and Structural Engineer (Curtins) as discussed in chapter 3.

- Workmanship / Design warranties from key sub-contractors not included in the THC transfer – notably concrete frame, post-tensioned slabs and piling.

4.3.7 Taking the above into account, the following matrix outlines the primary (transferred to RCC) and secondary (Trust secured warranty) risk coverage position on Midland Met:

Building Element	Percentage of Final Building by Value	Specific Sub-element	Supplier	PRIMARY - Transfer Risk to RCC	SECONDARY - Trust Secure Warranties from Trades / Designers	
					Workmanship	Design
Groundworks	9%	Piling	Ivor King	No	Yes	Yes
		Drainage	Hannafin	No	No	Yes
Frame	17%	RC Frame	MJG	No	Yes	Yes
		PT Slabs	MJG / Walsh	No	Yes	Yes
		Steelwork	Adey / Traditional	No	WIP	Yes
Envelope	15%	External Walls	Martifer	Unlikely	Yes	Yes
		Courtyards	Prater	Unlikely	Yes	Yes
		Roofs	Prater	Unlikely	Yes	Yes
MEP	36%	N/a	RCC	Yes	Yes	Yes
Fit-out	23%	N/a	RCC	Yes	Yes	Yes
Percentage Coverage of Final Building (by Value)				**59%**	**96%**	**100%**

4.3.8 Additional context – Percentage of completed building capex split by Trust risk exposure:



4.3.9 The Trust have therefore secured a position where 4% of the project (by value) may not be covered by a workmanship warranty. Focussing on these areas:

- Below Ground Drainage – Carillion's relationship with groundworks contractor Hannafin soured throughout the works, with a circa £10m claim in existence at the point of insolvency. Attempts to re-engage have proved fruitless to date. Notwithstanding, the Trust have employed the former CCL leadership team who have access to extensive quality and test records for the drainage works. These show that all of the installed drainage had been installed to a high standard (much also inspected by the Independent Certifier and Building Control Officer) with very few known issues. The Trust should therefore consider this a relatively low point of risk exposure.

- Structural Steelwork – the team have not yet secured retrospective workmanship coverage from the two former steelwork contractors – Traditional and Adey. It would be extremely unusual for workmanship issues to manifest themselves post install for steelwork elements. Again, extensive test and inspection records are held by the former CCL team and no known issues prevail. The Trust should therefore consider this a very low point of exposure.

4.3.10 It is of note that two of the building elements where the Trust will not enjoy full risk coverage via the RCC (Groundworks & Frame) are arguably not those which traditionally present risk to the operation of the live hospital. Issues traditionally manifest immediately following install or at the very latest prior to practical completion.

4.3.11 In the case of Envelope, this is clearly of greater risk (eg water ingress), but the presence of warranties with significant commercial liability (min £5million) to both sub-contractors and designers should provide the Trust with suitable comfort. [redacted]

4.4 Type of Contract

4.4.1 A Design and Build type of contract is preferred by the Trust. At the time of tender (Nov-Dec ’18) the Trust will have developed the design to include 1:50 (architectural layout) drawings that are complete and fully signed-off. Detailed design for construction will be completed by novation of the Trust’s architect, HKS, to the RCC. Certain elements of design need to be completed in conjunction with the supply chain such as Fire Cause and Effect, Equipment selection and procurement, wayfinding and specialist furniture.

4.4.2 For MEP, the Trust has developed the design to Building Services Research Information Association (BSRIA) Stage 4A. Critically, this level of design development ensures AECOM remain responsible (and warrant) the underlying engineering and that it can ‘feasibly’ be incorporated into the existing building i.e. it fits within the current shell that has been constructed by Carillion. The next stage of design involves the final co-ordination of the MEP services, this best resides with a competent MEP Sub-contractor. The Trust will therefore need the RCC to complete this design. This approach gives the RCC both the design and construction responsibility for the critical path works items.

4.4.3 A Construct only contract would align to low risk transfer approach outlined above and is therefore not preferred. It would potentially offer the lowest up front construction cost due to the low level of risk transfer but the contingency held by the Trust would need to be higher.

4.4.4 A Construction Management (CM) approach has been considered. This option would see the appointment of a Construction Manager to manage the procurement, coordination and completion of the works whilst the Trust acts as the direct employer of the Trade Contractors themselves. This option sees the main design, operational, interface and delivery risk remaining with the Trust, although individual trade contractors can still be held responsible for poor performance and errors, and can provide warranties for their work as required

4.4.5 However, a key difference to design and build contracting is that the Construction Manager does not provide a “wrap” around the individual trade contracts so a significant level of interface management and risk would be retained by the Trust. This route does enable a rapid procurement timeline however, but no early price certainty and this is likely to impact works on site being able to be progressed until such time as a robust level of price certainty is achieved for the Business Case process. It requires a high level of openness and collaboration between the Trust and the Construction Manager, and a high level of client engagement and timely decision making. This timely decision making may prove difficult to be accommodated within the constraints of the Trust’s governance processes.

4.4.6 On balance, a design and build contract is considered to better achieve the Trust's objectives than either a construct only or a construction management approach.

4.5 Form of Contract

4.5.1 An NEC4 form of contract is preferred by the Trust. It is an industry accepted standard form of contract that is recommended by the Government Construction Board. It promotes positive working relationships and appears to reduce post contract litigation compared with JCT forms.

4.5.2 Of the sub-options available a fixed price contract based upon an activity schedule is currently preferred. There is another sub-option which would provide a target cost with a pain/gain mechanism and is something we intend to explore further during market engagement.

4.5.3 The Bills of Quantity option would take significant time to develop, the Cost Reimbursable option would not provide the level of price fixity currently being sought and a management contract would not provide the level of design risk transfer that the Trust is seeking for key packages such as MEP.

4.5.4 A JCT contract was also considered however it was considered to be a more litigious form of contract supported by much case law on post completion disputes and claims. This is something that the Trust would seek to avoid, especially given the requirement to ensure the proposition remains attractive in a somewhat limited contractor market.

4.6 Procurement Process (Award Procedure) and Price Fixity

4.6.1 The Trust considered the use of the P22 framework but given the limited number of companies on the framework with experience of building major acute hospital decided that a bespoke OJEU procedure would be most appropriate.

4.6.2 A Competitive Dialogue process is considered the most appropriate award procedure. The new hospital is a highly complex undertaking and a competitive dialogue process allows the Trust the opportunity to speak directly to bidders in order to help them understand the project and to help them develop their solutions. The Restricted or Open procedures require the Trust to be able to fully define the requirement from the outset, while this could be achieved it is considered dialogue with the market through a competitive process will lead to bidders better understanding the project and the Trust's objectives and therefore offer improved submissions.

4.6.3 An initial pre-qualification Selection Questionnaire stage would reduce interested parties to 3 bidders based on their capability, capacity and experience.

4.6.4 Three options are being considered for the award procedure. Option 3 is currently preferred by the Trust as it is considered to offer the best balance of early price fixity while being attractive to the market and in line with early market feedback.

4.6.5 Option 1 – two stage competitive dialogue but with only two bidders retained through the second stage during which they provide a lump sum fixed price and firm commitment to wrap the MEP/Fit out design and installation.

4.6.6 Option 2 – two stage process but with competitive dialogue restricted to the first stage, with a preferred bidder being appointed after the first stage under a pre-construction services agreement (PCSA) to finalise their proposals.

4.6.7 Option 3 (developed after dialogue with Bidders) – two stage process in which the initial stage is conducted under Competitive Dialogue and leads to a Not to be Exceeded Price, as well as firm

commitment to wrap the MEP/Fit out design and installation. After the first stage is concluded, a preferred bidder is appointed to finalise their pricing to a Fixed Price Lump Sum(or possibly a Target Price pain/ gainshare arrangement – to be discussed in Dialogue) , concluded technical documentation and get ready for contract signature and mobilisation. The benefit of this route is that we would be able to appoint a preferred bidder at an earlier point than under Option 1 which is more attractive to the market.

4.6.8 The evaluation of these Options and the Options themselves are described in more detail in Appendix 4A.

4.6.9 The preferred Option is Option 3 described more fully in the table below.

One stage Competitive Dialogue.

The suggested procurement stages are outlined below

Period	Activity
September / October 2018	Develop procurement strategy and tender documents
November 2018	Issue OJEU
December 2018	SQ responses received and evaluated 3 bidders are shortlisted to progress to the ITPD Stage
December 2018	Issued ITPD
January 2019 – April 2019	**Competitive Dialogue** **Duration –** 4 months **Level of Price Fixity** – Target Price for full contract value In a period of 4 months bidders would focus solely on understanding and dialoguing the MEP design and would be required to confirm that they will take the design risk as an output. Quality would be assessed by the bidders detailed proposals A Not to be Exceeded Price would be submitted which bidders commit to work within during the Preferred Bidder period to fix. The Trust would cover a portion of the bidding costs for the losing bidder(s)
April 2019	Evaluation and **Preferred Bidder Appointed**
May 2019 – July 2019	**Preferred Bidder Period** **Duration** – 3 months **Level of Price Fixity** – 90-95% (remaining value is Trust contingency) In this period bidders would develop their target into a fixed price (or target price dependent on Dialogue).
August 2019	Finalisation of FBC
September 2019	Contract Signature

4.6.10 The Trust has taken advice from their legal advisers on the legality of this approach and has received assurance they are appropriate. Advice is attached at Appendix 4B.

4.7 Single Bidder Scenario

4.7.1 Given the Early Works Contract and the general state3 of the hospital building industry, there is a risk that the Market appetite for the RCC Procurement will be significantly reduced. Therefore it is import to think about a plan for a situation where there is only a single bidder.

4.7.2 Even with only a single bidder it is important that the Public Contracts Regulations are still followed and that a robust process is followed that is not subject to challenge, or illegal. It is therefore anticipated that the tender process outlined above still forms the basis of the procurement.

Key Principles to be incorporated

4.7.3 Prices do not become elevated when the bidders realises there are a single bidder:

- The Bidder agrees that they will not exceed the capex costs within their submission following the first stage of dialogue at the next stage unless specifically agreed with the Trust.
- The Bidder agrees that the Submission following the first stage of dialogue Cost Plan figures for Preliminaries, Overheads and Profit, Contingency / Risk and Design Fees will be fixed as 'not to be exceeded' values or percentages for the remainder of the procurement. Inflation will be compared to and should not exceed the BCIS tender price index at the time of submission.
- The Trust to consider development of a not to be exceeded capex figure as a target for bidders.

4.7.4 Regular Cost Checks:

- The Bidder agrees to 'Cost Check' submissions at [two-monthly intervals] during the second stage of dialogue with a requirement for the bidder to report updated costs against the agreed elemental Cost Plan, with an explanation in each report of any variances from that Cost Plan. These "Cost Check" submissions will be subject to formal review by the Trusts cost advisors.

4.7.5 Construction Cost Market testing:

- The Bidder has provided a profile of the construction spend and proposed what percentage of that spend will be market tested, tendered, benchmarked or otherwise competitively price checked by final bids.
- The definitions of each kind of competition are included in that schedule. The Bidder agrees to provide evidence that at least the percentage of the net construction cost detailed in the schedule will be market tested / tendered according to the definitions detailed in the schedule prior to final submission and that the most economically advantageous tender will transparently form the basis for the relevant section of the elemental cost plan submitted at Final Bids. It will be acceptable to increase the percentage of a higher order of competitive check e.g. full market test at the expense of a reduction of a lower order e.g. benchmarking but not vice versa.

4.7.6 Benchmarking:

- The Bidder shall provide information at each "Cost Check" point to demonstrate value for money of the MMH capital costs against those for a comparable project.

4.7.7 Maintain or Improve Quality Scores:

- The Bidder agrees to resolve all “Red” issues from the submission following the first stage of dialogue and all subsequent boot camps during second stage of dialogue to the Trusts satisfaction before the Final Bid submission.

4.7.8 Commitment to Bid Programme:

- The Bidder is deemed to accept the programme and, to the best of its ability, commits to delivering it.

5 Market Engagement

5.1 Introduction

5.1.1 The purpose of this chapter is to outline the Market Engagement which has been / will be undertaken to help inform the Replacement Construction Contractor procurement.

5.1.2 The Trust, DHSC and HMT undertook a market testing exercise in July 2018 to identify if there was appetite to let the completion of Midland Met as a new PFI. That is not described here but is available for scrutiny if required.

5.2 Market Testing

In Person Dialogue

5.2.1 The contractors who submitted bids for the Early Works Contract are considered to be the parties most likely to express an interest in the replacement construction contractor procurement.

5.2.2 For these companies face to face dialogue sessions have been planned

Contractor	Dialogue	Date
Balfour Beatty	Face to Face	26th Sep
Skanska	Face to Face	DNA
John Sisk & Son	Face to Face	27th Sep
Kier	Face to Face	27th Sep

Bidders Event

5.2.3 A bidder's event is considered a time efficient way of introducing our proposals to a wider audience of contractors and gaining their feedback and input.

5.2.4 This is planned for 11th October. A PIN advertising this and a series of targeted emails were issued on 28th September and further calls have been made to encourage attendance.

5.2.5 The targeted emails were issued to the following companies who responded to the PINs for either the EWC or PF2 re-procurement market testing:

Contractor	Dialogue
Vinci	Bidders Day
Speller Metcalfe	Bidders Day
FCC	Bidders Day
BAM Construction	Bidders Day
John Graham Construction	Bidders Day
Interserve	Bidders Day

5.2.6 Attempts will also be made to pre-warn the following companies who members of the project team consider have the capability to complete the project:

Contractor	Dialogue
Bouygues	Bidders Day
Laing O'Rourke	Bidders Day
Brookfield Multiplex	Bidders Day
Ferrovial	Bidders Day
Sir Robert McAlpine	Bidders Day
Mace	Bidders Day

5.2.7 The attendees on 11th October were as follows:

Contractor
Balfour Beatty
Kier
John Graham Construction
Sir Robert McAlpine
Laing O'Rourke

5.2.8 The PIN also offered the opportunities for companies to request a face to face session for more detailed dialogue if required. At 12th October, this opportunity had been taken up by Balfour Beatty but the Trust expects that other potential bidders will engage as well.

5.3 Purpose of Engagement

5.3.1 The public sector will receive best value for money if competition can be promoted in the RCC procurement.

5.3.2 The Trust is aware that the opportunity may appear a risky one to some contractors for a number of reasons including:

- Carillion connection
- Rumours about MEP design issues
- Incumbent EWC Contractor
- General preference for less risky construction than hospitals

5.3.3 The Trust does not believe this is a particularly risky scheme given the advanced level of aligned design which is available. It is essential to try and convince contractors that this is the case before the procurement commences

5.4 Outcomes of Engagement

5.4.1 The engagement to date indicates two things.

5.4.2 Firstly that there is an appetite to wrap MEP design and build risk into the RCC contract.

5.4.3 Secondly that the shorter the time in competition the more attractive the opportunity is to the market

6 FM Strategy

6.1 Introduction

6.1.1 Under the PF2 agreement the Hard FM maintenance and lifecycle costs of Midland Met would have been covered by the Unitary Payment for the 30 years of the operational contract.

6.1.2 In the context of the publically funded procurement of the RCC the Trust needs to form a plan to undertake these activities.

6.1.3 There is no disagreement that the Hard FM solution needs to be an outsourced solution

6.2 Methodology

6.2.1 The Trust has agreed that an outsourced Hard FM solution needs to be identified for both Midland Met and the Retained Estate.

6.2.2 We have identified two options:

Option 1 – Procure Midland Met Hard FM concurrently with RCC

6.2.3 An early appointment of the FM Contractor would enable them to provide maintainability input throughout the construction phase of the project. In the interests of the Trust they could provide challenge to the RCC concerning the all aspects of the construction.

6.2.4 The Trust currently has available a suite of FM specification documents aligned to a PF2 procurement and developed, updated, design documentation for architectural and MEP components. In order to prepare for a concurrent procurement there are a number of routes that can be considered:

- The previous PF2 documents are amended to make them suitable for a non-PFI procurement – undertaking this piece in parallel with the developing RCC procurement of work would require additional support for the Project Team. This could be achieved thorough appointment of an FM consultant or recruitment of 2-3 additional members of staff.
- A suitable FM Framework is being investigated – A framework should provide some of the required FM documentation in order to go to market. However, the Trust team would likely still need enhancing to manage the procurement process, 1-2 people is suggested.

6.2.5 The work required for both of the above options would result in the Hard FM procurement being launched after the start of the RCC procurement. The Hard FM procurement would then need to be planned to align with the completion of the RCC procurement.

6.2.6 How the Retained Estate could be bolted onto this contract at a later date needs to be investigated. Previous market engagement has suggested that the tender documentation for the Retained Estate would need to include; Type 2 Asbestos Survey, Condition Survey, Full Asset data schedule, Full Compliance Data schedule, Existing Backlog Maintenance Information. A condition survey would need to be undertaken by an external consultant and the estimated timescales for this are 10weeks. If the Retained Estate is not competitively tendered at the same time as Midland Met, and is simply a variation to the Midland Met contract at a later date, then there is a risk that the lack of competitive tension elevates the price. The procurement documents and OJEU notice etc. would need to make clear that this variation approach was likely from the outset.

Option 2 – Procure Midland Met and Retained Estate Hard FM following the RCC Procurement

6.2.7 The work required to develop the tender documents is the same as Option 1. However, it is considered that there would be capacity within the project team to both develop the tender documents and manage the procurement post RCC procurement. An additional member of staff (or consultant support) would be required in the interim to provide FM input into the developing construction design and subsequent installation.

6.2.8 In this approach the FM Contractor would not be on site for the initial stages of construction but they would be in place part way through the construction and importantly for the commissioning phase of the construction.

6.2.9 This option allows the time to include the Retained Estate specification within the tender documents such that it is competed at the same time as the Midland Met procurement.

6.3 Conclusion

6.3.1 On balance the Trust has concluded that the advantage of an early appointment of a Hard FM Contractor to input during the construction period outweighs the resource implications of conducting both procurements in parallel.

6.3.2 A Framework approach is preferred and a following plan is being worked up to deliver the Hard FM procurement in the required timescales.

6.3.3 The Trust will appoint an FM advisor as soon as practicable to manage this procurement and to assist in dialogue with the bidders for the Construction Contract.

7 Programme

7.1 Introduction

7.1.1 The procurement stage programme in this chapter is based on procurement option 3 described in section 4.6.9.ie a relatively short competitive dialogue (achieving MEP wrap and a not to be exceeded price) with a light touch approvals check prior to closure of dialogue and an extended Preferred Bidder stage during which a final fixed price, contract documentation and FBC approval process would be achieved.

7.1.2 DHSC normal process would be to ask for an approvals business case before closure of dialogue. Section 7.3 demonstrates what the effect of this would be and indicates why this would not be the Trusts preferred option.

7.1.3 For the construction stage, the Trust intends to indicate to bidders that the latest possible practical completion date should be 31st December 21.This is a build period of 27 months from 30th September 2019. Bidders may in competition shorten this period. They will be required to be transparent about construction float.

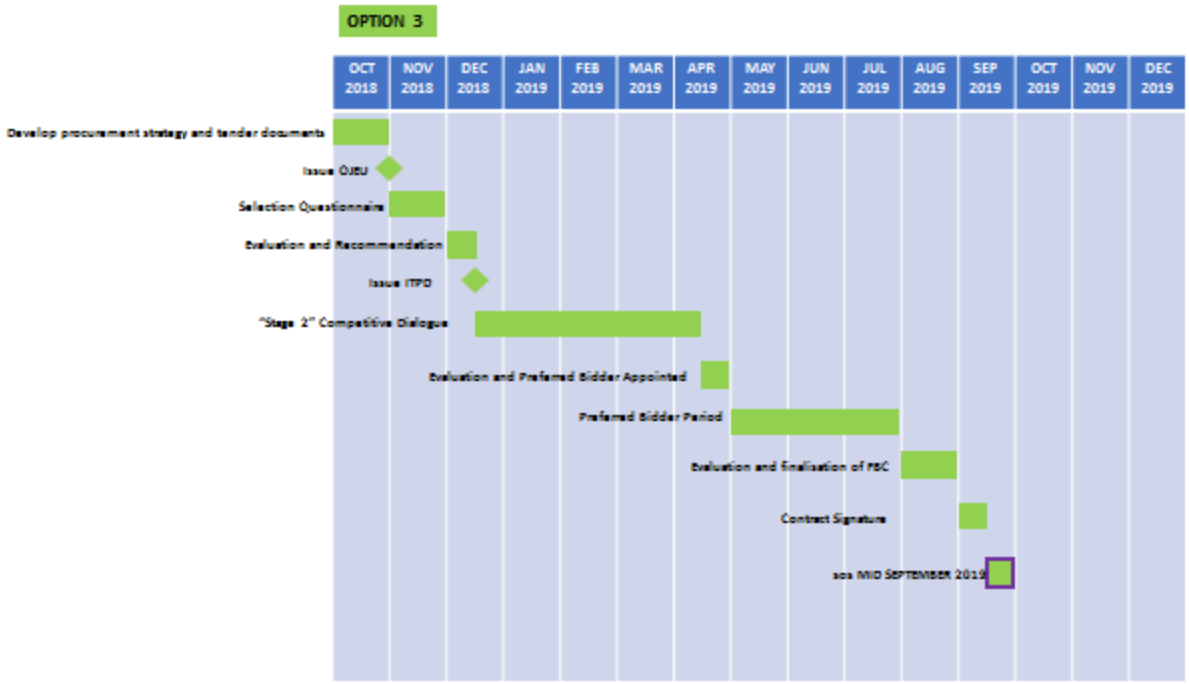
7.1.4 The way the NEC contract works the Trust also needs to hold a time float to absorb the consequence of any accepted Early Warning Events which are the Trusts responsibility. It is suggested that we hold a six month period to opening in June 2022. This covers both the float and the Trust commissioning period.

7.1.5 As the contract proceeds, the constructors float may be released and /or the Trust may find it does not require its own float enabling the opening date to be safely brought forwards.

7.1.6 This will require beneficial access for diagnostic equipment to be programmed in late 2021 to allow for an earlier than planned opening date but this should not cause a practical issue provided Bidders know this up front.

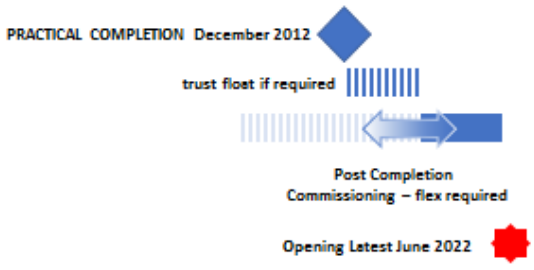
7.2 Programme Option 3A- Trust Preferred Option

Procurement



Construction

Construction Period TO BE ADVISED by BIDDER to include contractors time risk allowance BUT anticipated not to exceed 27 months



7.3 Procurement Programme Options

7.3.1 This section compares the Trusts preferred procurement option with one where the main FBC approval process happens prior to Closure of Dialogue (Option 3B).

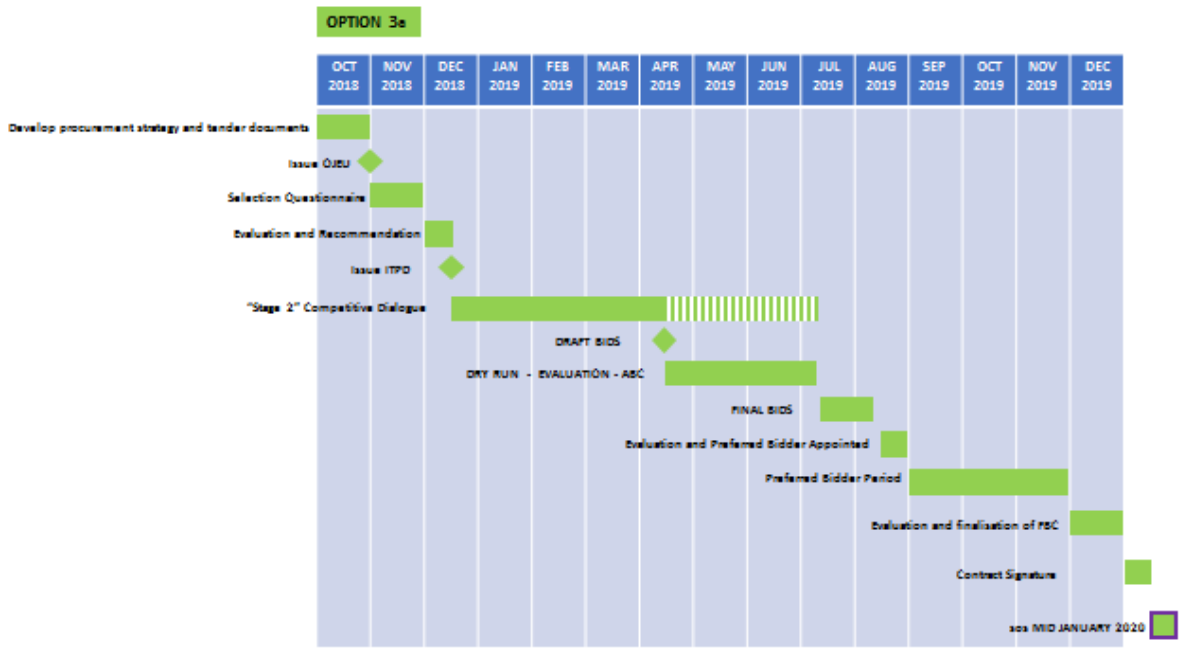
7.3.2 In Option 3B, in mid-April 2019, the Trust would call for Draft Bids and evaluate them as if they were final bids. At the same time the Trust would complete an Approvals Business Case (ABC) which would have all the contents that otherwise would go into an FBC (Long Term Financial Model, Economic Appraisal, Commercial Appraisal etc]. This document would then become the main focus for NHSI, DHSC and HMT to approve the case. All the approving bodies (and the Trust) would need to take this through due process i.e. relevant Boards and Committees.

7.3.3 In the Trust's experience , even if the ABC is largely prepared prior to draft bid submission, completing it , taking it through NHSI and DHSC scrutiny , agreeing approval conditions and taking it through all the relevant Boards and Committees adds two to three months to the process.

7.3.4 In a normal procurement Bidders will normally carry on working on their bids following Trust feedback during this period. In this procurement the scope of Dialogue is so narrow that there will be nothing for Bidders to do at this stage so they will in all likelihood stand down completely.

7.3.5 Once the ABC is approved the Trust will call for Final Bids and evaluate these, appoint a Preferred Bidder and proceed as per Option 3A.

7.3.6 The following table indicates the effect on the programme of following the DHSC "normal" route:



7.3.7 In essence start on site is moved from October 2019 to January 2020 with a consequent effect on the opening date of the hospital to September 2022.

7.3.8 The extended procurement period, including a three month period where all bidders will need to stand down the resources dedicated to the Project before submitting a Final Bid, is likely to further deter Bidders from participating even if the Project pays a bid cost contribution to the losing bidder.

7.3.9 The Early Works Contract will need to be extended through another winter and works which are currently anticipated to be the responsibility of the RCC may need to be transferred to the EWC to keep the site live.

7.3.10 Building Inflation in the cost to complete will be increased by a further 3 month delay.

7.3.11 The additional security that DHSC receives by following this approval procedure is arguably quite minimal since the only parameters to be evaluated at closure of dialogue are price (which will need to be within previously stated parameters to be compliant), programme and full risk transfer on MEP design/ installation and Fit Out.

7.3.12 The strategic case is agreed and the financial and economic cases can equally well be reviewed during the Preferred Bidder stage.

7.3.13 Therefore the Trust prefers Option 3A.

8 Financial Case Financial Case

8.1 Introduction

8.1.1 This chapter:

- Sets out the background and context of the PF2 arrangement and where the Trust was in relation to Midland Met when Carillion collapsed.
- Explains the accounting treatment proposed to recognise the existing Midland Met asset within the Trust's Balance Sheet in 2018/19.
- Sets out the total capital expenditure profile of the Trust through to 2023/24 and changes identified to the Trust's extant capital programme following the delay to Midland Met completion.
- Sets out capital expenditure requirements out with the Trust's capital programme and construction costs to complete.
- Considers the revenue impact of the deferred timescale to complete Midland Met following the collapse of Carillion.
- Compares the affordability picture on completion – publically funded proposal versus avoided Unitary Payment under PF2.
- Sets out the expected budgetary impact of bringing the project on Trust balance sheet from recognition to completion.

8.2 Background of the PF2

8.2.1 The Trust reached Financial Close in December 2015. At that point, THC signed a contract for Carillion Construction to build Midland Met, at an outturn construction cost of c£297m.

8.2.2 The public purse contributed c£97m of PDC to the construction cost, the remaining value being financed via THC, being the PF2 model.

8.2.3 Construction went well during the first year, but it became apparent in 2017 that progress on MEP design and related construction had stalled. As a result a reduced monthly construction cost drawdown was approved by the Funders TA and subsequently the Trust drew down less support than planned.

8.2.4 Carillion issued profit warnings in 2017, and the company went into liquidation in January 2018.

8.2.5 At the 31st March 2018, the Trust had a prepayment of £62.9m (out of the agreed £97m) in relation to PDC drawn from DHSC in respect of Midland Met on its SOFP. The treatment and valuation of this was tested during the FY18 external audit process. This position is set out below.

Complete Asset		
Valuation at 31st December, 2018.		£'s
Value of Works Proposed by Carillion for December,2017		211,641,501.00
Less, Retentions based upon Contract		- 6,349,245.03
Payment Valuation Submitted & Approved		**205,292,255.97**
Trust Payments- (ex Vat)		
To End of November,2017		60,096,619.04
Payment for December,2017		2,778,237.53
Total Trust Payment (at Carillion Insolvency)		**62,874,856.57**
Check....		
ie 40% of post buffer value	205,292,255.97	
	-48,105,114.55	
	157,187,141.42	
	40%	**62,874,856.57**

8.2.6 Appendices 8D and 8E present the signed off cost schedule and approval for cost drawdown as evidence to demonstrate both a view of the valuation of Midland Met at that point and the level of prepayment carried in the Trust accounts by that point.

8.2.7 THC attempted to source an alternative construction partner but were unable to offer a proposal that kept within the boundaries of the existing Project Agreement. As a result at Deed of Termination was negotiated and signed in July 2018.

8.2.8 Selective warranties were subsequently obtained from THC in favour of the Trust.

8.2.9 Thereafter, the Trust has taken responsibility for the full Midland Met site and associated activities.

8.2.10 In September 2018, the Trust received confirmation that the project would be completed via a publically funded model.

8.3 Proposed Accounting Recognition of Midland Met Asset in 2018-19

8.3.1 At the time of Carillion's insolvency, the approved value of Midland Met construction amounted to £211.6m, of which the public sector had contributed c£62.9m see section 1.2.

8.3.2 When the Trust took on legal title of the asset on 23rd July 2018, and public funding to complete was confirmed in September 2018, it became necessary for the Trust to reflect the asset on the SOFP.

8.3.3 As the Trust already held £62.9m of value in relation to the asset, alongside a certified construction cost of £211.6m to date (which DHSC representatives agreed was a reasonable overall method of valuation as the certification had happened close to the time of Carillion's liquidation), the agreements focused around what to do with the difference, being £148.7m. It is important to note that this is a

highly unusual situation for which there is no single standard or guidance to deal with accounting treatment and therefore a variety of options have been explored to find the most appropriate treatment under the circumstances.

8.3.4 Following consultation with DHSC, NHSI and GT, options around a capital grant and business combinations were explored. Ultimately these options were ruled out, and, with reference to the DH Group Accounting Manual, and taking into account the substance of the transaction, the proposed accounting treatment is that the £148.7m represents a non-cash backed donated non-current asset. Appendix 8J contains email extracts with NHSI and DHSC colleagues confirming their agreement of treatment.

8.3.5 The required double entry will be to recognise income in the SOCI. The income will not count against the Trust's control total as DH remove the impact of Donated Asset, income from donations and any related depreciation charges. The transaction is likely to be reflected in 2018/19 Month 7 reporting, back dated to the date at which the Trust took on the legal title of the asset and site, being 23rd July 2018. This has been agreed with NHSI.

8.3.6 Proposed Accounting entries are as follows, recognising the asset at the certificated value of £211.6m;

	Dr £m	Cr £m
Non-Current Assets – New PPE – moving prepayment to	62.9	
Expenditure – New PPE Capital Asset – taking prepayment through I&E		62.9
Expenditure – new PPE Capital Asset – taking prepayment through I&E	62.9	
Non-Current Assets – Prepayment – removing prepayment		62.9
Non-Current Assets – New PPE Donated Asset	148.7	
Income		148.7

8.3.7 The Trust has taken a paper through its Audit Committee, reflecting this treatment. The approach has been shared with GT who are not challenging the proposed treatment. As part of their audit of the 1819 accounts, the auditors will want to;

- Review the legal transfer documentation
- Test the valuation of the asset at cost and confirm requirement for impairment (the trust is not expecting to impair the asset at 31.3.19 but this will be subject to further work)

- Confirm disclosures, currently scoped as being SOCI (amount in donated income), Accounting Policies (critical judgement relating to transfer and donated asset treatment), and PPE (not and reference to policy note, PFI, change to prior year)

8.3.8 The resultant asset will be categorised as an "Asset under construction" and will therefore not be subject to depreciation until it is complete. It will form part of the net asset value of the Trust however and will therefore generate a PDC dividend cost of capital. This is dealt with in the next section.

8.4 SWBH Total Capital Programme, 18/19-23/24

Redacted

8.4.1 The above table sets out the expected total capital expenditure of the Trust associated with completing Midland Met. The bottom three lines represent the complementary internally funded capital programme of the Trust. The delay to Midland Met completion has implications for the capital programme, and these are set out below.

8.4.2 The Trust has a robust control process for monitoring its Capital Programme. A steering group meets regularly to review progress at Programme and Scheme level and outputs are assured by the Trust's MPA (Major Projects Authority) Committee.

8.4.3 The base programme is split into four sub-programmes,

- Estates & Midland Met.
- IT (including Unity).
- Equipping.
- Technical (typically IFRIC 12 schemes, PFI and MES).

8.4.4 The base plan assumed a Midland Met delivery of Summer 2019. It therefore excludes any Early Works, extended project costs, delay costs and reconfiguration Investment.

8.4.5 The table below summarise the Approved Baseline Capital Programme for the period to 2023/24.

Sandwell & West Birmingham Hospitals NHS Trust

Review of 6 Year Capital Programme : 2018/19 - 2023/24

BASE CASE HEADLINES by PROGRAMME	CAPITAL PROGRAMME						TIMELINE
	18-19 £000's	19-20 £000's	20-21 £000's	21-22 £000's	22-23 £000's	23-24 £000's	TOTAL £000's
APPROVED PLANS							
ESTATES CAPITAL PROGRAMME	£18,336	£13,240	£1,050	£1,904	£3,120	£3,120	£40,770
IT CAPITAL PROGRAMME	£8,442	£1,766	£2,485	£2,513	£1,900	£1,900	£19,005
EQUIPMENT CAPITAL PROGRAMME	£3,533	£5,989	£1,772	£4,122	£3,500	£3,500	£22,416
TECHNICAL CAPITAL PROGRAMME	£4,361	£10,565	£1,714	£2,136	£2,141	£2,141	£23,058
TOTAL CAPITAL PROGRAMME	£34,671	£31,560	£7,021	£10,675	£10,661	£10,661	£105,249

8.4.6 Revised Forecast Baseline Programme

BASE CASE HEADLINES by PROGRAMME	CAPITAL PROGRAMME						TIMELINE
	18-19 £000's	19-20 £000's	20-21 £000's	21-22 £000's	22-23 £000's	23-24 £000's	TOTAL £000's
REVISED NEED - OCTOBER,2018							
ESTATES CAPITAL PROGRAMME	£15,191	£8,920	£3,150	£4,654	£14,247	£3,120	£49,282
IT CAPITAL PROGRAMME	£9,480	£2,826	£2,485	£3,513	£1,900	£1,900	£22,103
EQUIPMENT CAPITAL PROGRAMME	£3,535	£4,163	£1,772	£6,996	£3,499	£3,500	£23,466
TECHNICAL CAPITAL PROGRAMME	£5,942	£1,831	£1,798	£2,184	£9,401	£2,141	£23,298
TOTAL CAPITAL PROGRAMME	£34,148	£17,741	£9,205	£17,347	£29,047	£10,661	£118,149

Variances are set out below;

BASE CASE HEADLINES by PROGRAMME	CAPITAL PROGRAMME						TIMELINE
	18-19 £000's	19-20 £000's	20-21 £000's	21-22 £000's	22-23 £000's	23-24 £000's	TOTAL £000's
VARIANCE by PROGRAMME							
ESTATES CAPITAL PROGRAMME	-£3,145	-£4,320	£2,100	£2,750	£11,127	£0	£8,512
IT CAPITAL PROGRAMME	£1,038	£1,060	£0	£1,000	£0	£0	£3,098
EQUIPMENT CAPITAL PROGRAMME	£2	-£1,825	£0	£2,874	-£1	£0	£1,050
TECHNICAL CAPITAL PROGRAMME	£1,582	-£8,734	£84	£48	£7,260	£0	£240
TOTAL CAPITAL PROGRAMME	-£523	-£13,819	£2,184	£6,672	£18,386	£0	£12,900

Estates Programme

8.4.7 The programme has grown over the term by of £8.5m, due to;

- A review of scheme timelines, recognising Midland Met's revised target opening in spring 2022.
- Sandwell Treatment Centre schemes targeted for 2019-20 cannot now proceed until 2022-23, moving c£8.6m to that year.
- Provision for Midland Met variation has been reduced assuming incorporation into the cost to complete Midland Met.
- Midland Met Project Team is extended to mid-2022, c£5.1m.
- A loss of opportunity to ensure an ongoing taxable supply for Midland Met exposes the Trust to an HMRC reclaim of VAT previously claimed on remediation of the Grove Lane site. Risk exposure of £1.5m.

IT Programme

- This Programme is forecast to grow by £3.1m over the term.
- The programme includes the requirements of achieving a resilient network and rescheduling the commencement of the Unity Project.
- Midland Met networking and telephony resources have been re-profiled in line with revised Midland Met timelines.

Equipment Programme

- This programme is forecast to grow by c£0.8m.
- Of this, c£0.3m is linked to the reconfiguration of surgical services and the need for additional medical equipment to maximise capacity.
- The routine replacement programme carries additional costs of c£0.6m which reflects pressures caused by Midland Met delay, recognising some equipment was due to be sourced via the Midland Met, UP, which will now be significantly delayed.

Technical Programme

- The net change within this programme is £0.2m.
- This represents the inclusion into the MES of cardiac ultrasound and Endoscopy equipment offset by timing of Midland met need and removing the mobile MRI need. These proposals are affordable within the extant MES Unitary Payment and resolve significant pressures previously considered within the Equipping Programme.

8.4.8 Appendix 8A- Capital Programme presents each Programme by scheme showing the base programme and revised forecast programme side by side.

8.4.9 The revised forecast Baseline Capital Programme is to be funded largely from the Trust's internal resources, with some assumed support from taper relief.

8.5 Base Programme Exclusions

8.5.1 This section deals with the following lines on the table of capital expenditure at 8.4, being;

- Reconfiguration schemes, £15.439m
- Support to The Hospital Company for Deed of Termination, £2.282m and;
- Early Works Programme, £27.159m

Reconfiguration schemes

8.5.2 The Trust has submitted a bid via the STP Capital process for support to enable service reconfiguration and support maintaining the Non Retained Estate for a longer period. The table below summarises the anticipated funds bid via the STP.

Sandwell & West Birmingham Hospitals NHS Trust DRAFT - Estimation of MMH Related Costs of Completion and Internal Reconfiguration	MMH- OPTION B - Timeline to MMH Opening- March 2022						
	18-19	19-20	20-21	21-22	22-23	23-24	Timeline
Bid Summary- STP Capital	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Reconfiguration Consequences							
Statutory Standards implications	-£1,050	-£1,750	-£950	-£500	£0	£0	-£4,250
IT Network Infrastructure	-£1,825	-£659	£0	£0	£0	£0	-£2,484
IT-Enabling Cabinets Works (Estates)	-£500	£0	£0	£0	£0	£0	-£500
Critical care Floor & Decant	£0	-£750	£0	£0	£0	£0	-£750
Enhance ED Function at City	-£250	-£1,250	£0	£0	£0	£0	-£1,500
Refurbishment of City Wards	-£205	-£5,150	£0	£0	£0	£0	-£5,355
Project Management - Clinical Consolidation	-£100	-£250	-£250	£0	£0	£0	-£600
Total Capital Expenditure	**-£3,930**	**-£9,809**	**-£1,200**	**-£500**	**£0**	**£0**	**-£15,439**

8.5.3 The Trust anticipates approval of its bid and will seek to draw down funds accordingly.

8.5.4 Priorities will include ensuring a resilient site for Estate and IT purposes for a longer time period and limited reconfiguration of selective clinical services to support and enable service provision effectively.

Consensual Termination -

8.5.5 This category of cost covers the timeline required to negotiate the Midland Met Deed of Termination and the cancellation of the PF2 Project Agreement and associated obligations. During this period, the Trust secured approval from DHSC to provide financial assistance to THC Sandwell, to cover site costs and THC obligations whilst negotiations concluded. Subsequently agreement has been reached to secure the passing of c17 warranties from THC to the Trust.

8.5.6 In parallel with this, the Trust secured access to critical IT project data and incurred adviser costs in respect of legal, specialist finance and Midland Met site management. The table below demonstrates a cost of c£2.28m was incurred in pursuit of these requirements.

8.5.7 This cost is incorporated within the MOU agreed with DHSC which also covers the EWP.

redacted

Early Works Programme

8.5.8 The Early Works Programme, (EWP) covers the following headings:

- Site and Advisor costs
- the Early Works Contract
- Finalising Design for the RCC procurement.
- Right of Title Settlements.

EWP Cost Summary

8.5.9 Total Investment required to support the Early Works Programme is outlined in the table below and explained in more depth in subsequent sections.

Midland Met EWP & Associated Issues			
	EWP Cost Profile		
	18-19	19-20	Total
	£000's	£000's	£000's
Cost Headings			
EWP Programme			
EWC- Programme & Prelims	-£2,917.1	-£962.8	-£3,879.8
EWC- Packages	-£8,480.0	£0.0	-£8,480.0
EWC-Ovhd & Profit	-£1,709.6	-£144.4	-£1,854.0
EWC Sub Total	**-£13,106.6**	**-£1,107.2**	**-£14,213.8**
Site & Adviser Costs	-£6,085.5	-£833.7	-£6,919.3
Design Completion	-£2,743.0	-£191.4	-£2,934.4
Right of Title Issues	-£2,671.2	£0.0	-£2,671.2
Warranties (Relating to EWC Packages)	-£420.0	£0.0	-£420.0
EWP Programme Total	**-£25,026.3**	**-£2,132.3**	**-£27,158.6**

Early Works Contract (EWC)

8.5.10 The EWC identifies ten specific works packages, associated prelims, overhead and profit. Details are covered elsewhere in the case.

8.5.11 Procurement has been successful within the cost envelope identified of c£14.2m across the period to May 2019.

The indicative breakdown of EWC planned costs is shown below,

				Ex Vat £000's	Vat £000's	Total £000's
CATEGORY A						
	Initial Schemes					
	Expressed Ex VAT					
	A1	Completion of the Ramps		£400	£80	£480
	A2	Winter Garden Roof & Extract Flues		£3,100	£620	£3,720
	A3	General Envelope Work		£688	£138	£825
	A4	Permanent Balustrading		£987	£197	£1,184
	A5	Environmental Stabilisation Measures		£173	£35	£208
	A6	Dry Lining Remedial Works		£750	£150	£900
	A7	MEP Minor Works		£250	£50	£300
	A8	Concrete Spraying to Grove Lane Retaining Wall		£100	£20	£120
	Initial	Sub Total		£6,448	£1,290	£7,737
	Appendix 10 Issues					
	A9	Winter Garden Gable Glazing		£431	£86	£518
	A10	Plantroom Cladding		£188	£38	£225
	App 10	Sub Total		£619	£124	£743
	Total			**£7,067**	**£1,413**	**£8,480**
CATEGORY B						
	Programme Management & Prelims					
		18-19		£2,431	£486	£2,917
		19-20		£802	£160	£963
			Sub Total	**£3,233**	**£647**	**£3,880**
CATEGORY C						
	Ovhd & Profit Contingency					
		18-19		£1,425	£285	£1,710
		19-20		£120	£24	£144
			Sub Total	**£1,545**	**£309**	**£1,854**
	Procurement Control total			**£11,845**	**£2,369**	**£14,214**
	Represented by					
		18-19		£10,922	£2,184	£13,107
		19-20		£923	£185	£1,107
			Sub Total	**£11,845**	**£2,369**	**£14,214**

Site Costs

8.5.12 At this point, many of the existing commercial arrangements for suppliers of services to Midland Met site have been transferred to the Trust on essentially the same, or similar, terms as enjoyed by THC. Arrangements include placing orders until the end of this financial year for;

- Security,
- Insurance,
- Site inspections eg scaffolding, electrical services, ramps.
- Cleaning services,
- Logistics and site Health & Safety management,
- Crane hire and mobilisation,
- Utilities,
- Access to information and data warehouse
- Legal and finance adviser fees.

8.5.13 Forecast expenditure of c£6.9m is forecast for the period.

Design Costs

8.5.14 It is essential to the RCC procurement that design matters are resolved for inclusion within that procurement and beyond. (See chapter 3 for details.) To enable this, three separate arrangements are required with existing design partners.

8.5.15 Forecast expenditure of c£3m is expected in the period.

Right of Title Issues

8.5.16 The Right of Title Issues were originally expected to be resolved in the pre THC liquidation period but this proved impossible due to reasons of complexity and governance, and so the Trust requested this funding was carried forward to the EWP period.

8.5.17 Original estimates in excess of £7m have been reduced to a specific list of items amounting to c£2.7m. Legal advice has led to selective negotiations to develop agreement to resolve specific title issues. The Trust assumes this quantum will be sufficient but will advise on the finalised consequences in due course.

Conclusion

8.5.18 Appendix 8B provides a cost draw down plan which supports both consensual termination and the Early Works Programme. It is proposed this forms the basis for draw down under the MOU for access to PDC support.

8.6 Consolidated Capital Programme

8.6.1 The table below consolidates all capital related matters outlined in the report together in one summary with the exception of the donated asset treatment and construction cost to complete Midland Met.

8.6.2 redacted

8.6.3 In particular, significant capital expenditure / recognition occurs in financial year 2018-2019. The table below demonstrates the impact of the above consolidated programme on this financial year.

redacted

8.6.4 Appropriate CDEL coverage is being sought to recognise this position.

8.6.5 Appendix 8C provides a detailed analysis of movements within the Capital Programme covering all “buckets” of cost support.

8.7 Cost to Complete Midland Met

8.7.1 An assessment of the cost to complete Midland Met was undertaken some months ago as part of re-examining the best procurement route to deliver a value for money solution.

8.7.2 At that point, the Trust used a detailed ex-Carillion analysis of remaining cost to complete, supported and amended by an informed third party assessment to develop a Trust view of cost to complete.

8.7.3 The working papers had previously been reviewed in some detail by THC and potential replacement construction contractors and were felt to be a reliable basis to make an assessment.

8.7.4 The cost plan broke down costs over relevant construction headings and formed a timing view of likely occurrence. The analysis was prepared for VfM purposes and therefore excluded VAT.

8.7.5 In returning to this analysis, a small amendment has been made to timeline and VAT has been added, as any recovery is assumed to be minimal. Initial clarification with Trust advisers confirms this position.

8.7.6 Cost inflation has been applied at 5.5% per annum in line with previous assumption shared by DHSC earlier in the year.

8.7.7 The headline cost to complete, including VAT and timing across years is presented below,

redacted

8.7.8 The above value excludes an allowance for supporting unsuccessful bidder cost through procurement. To accommodate these costs a contingency of c£0.5m per bidder may be required.

8.7.9 Appendix 8F provides a breakdown of forecast cost to complete construction by construction headings, excluding bidder cost support.

8.8 Revenue Implications

8.8.1 This section is split in to two;

- Revised taper relief assessment and statement of need;
- Public dividend implications from a PDC funding route and its impact upon the “Net Asset” calculation for dividend assessment

And a revenue affordability comparison;

- The cancellation of the Midland Met Unitary Payment and comparison to relevant replacement costs.
- Indicative Hard FM cost based upon updated sqm metrics.
- Indicative Lifecycle costs, previously included in revenue in the PF2 model, but likely to be capitalised under a publically funded model.

8.9 Taper Relief Support

8.9.1 The Trust has re-assessed its support requirements from taper relief in light of the timeline prolongation caused by Carillion’s insolvency. Existing categories of cost have been extended and re-profiled to occur from 2021-22 onwards.

8.9.2 However, the prolongation also creates new category pressures with maintaining, or sustaining clinical service models, particularly in Pathology, and Imaging. Midland Met Project cost extends for a longer period and estate costs (originally anticipated to be avoided) are also extended.

8.9.3 The table below summarises the revised needs in comparison to the remaining taper relief funding available from the original case. The table shows,

- Prolongation of approved categories of taper relief spend amount to £24.2m
- New categories of spend, introduced due to the cessation of the PF2 position amount to £15.7m
- Remaining agreed funds available and to be drawn down from NHSE (including 2018/19), are £12.3m, therefore additional funding support is required of £27.6m (£24.2m + £15.7m less £12.3m already agreed.

Sandwell & West Birmingham Hospitals NHS Trust

Taper Relief Support Forecast Funding & Cost Schedule

Public Funded Construction	MMH- OPTION C - Timeline to MMH Opening- Fin Yr 22-23						
	18-19	19-20	20-21	21-22	22-23	23-24	Timeline
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Remaining Original Taper Relief Support	£7,900	£4,400	£0	£0	£0	£0	£12,300
Total Potential funding Streams	**£7,900**	**£4,400**	**£0**	**£0**	**£0**	**£0**	**£12,300**
Taper Relief - Baseline- Re-Timelined							
Brf Fwd Over commitment from 17-18	-£586						-£586
De-commissioning Site related	-£496	-£425	-£443	-£919	-£720	£0	-£3,003
Commissioning Midland Met	-£400	-£275	-£311	-£4,845	-£1,920	£0	-£7,751
Dual Running Consequences	£0	£0	-£158	-£2,014	-£2,938	£0	-£5,110
Contribution to Capital Schemes - Non MMH	-£2,592	£590	-£400	£0	£0	£0	-£2,402
Contribution to Capital Schemes - MMH	-£3,826	-£1,488	£0	£0	£0	£0	-£5,314
Total Cost Indentified	**-£7,900**	**-£1,597**	**-£1,313**	**-£7,778**	**-£5,578**	**£0**	**-£24,166**
Taper Relief - Post Carillion							
Impact on Taper Relief - Carillion Insolvency	-£454	-£2,745	-£5,553	-£5,561	-£1,082	-£305	-£15,700
Total Net Additional Resource Position	**-£454**	**£57**	**-£6,865**	**-£13,339**	**-£6,660**	**-£305**	**-£27,566**
In Summary							
Remaining Original Taper Relief Support	**£7,900**	**£4,400**	**£0**	**£0**	**£0**	**£0**	£12,300
Baseline Taper relief - re tmelined	-£7,900	-£1,597	-£1,313	-£7,778	-£5,578	£0	-£24,166
Taper relief - Post Carillion Insolvency event	-£454	-£2,745	-£5,553	-£5,561	-£1,082	-£305	-£15,700
Total Relevant Costs	**-£8,354**	**-£4,343**	**-£6,865**	**-£13,339**	**-£6,660**	**-£305**	**-£39,866**
Additional Funding Support Sought	**-£454**	**£57**	**-£6,865**	**-£13,339**	**-£6,660**	**-£305**	**-£27,566**

8.9.4 Appendix 8H provides an analysis of the needs summarised above at scheme / category level.

8.10 Public Dividend Implications

8.10.1 The Trust is expecting to drawdown PDC support for the EWP and the cost to complete Midland Met. Under existing accounting treatment, these costs will form an asset under construction which will add to the Trust's Net Assets calculation, thus increasing the cost of PDC dividend significantly over the period to 22-23.

8.10.2 The net impact of the increased annual dividend charge is identified in the table below, and would impact I&E and cash over the term.

	Forecast Mar - 19 £000's	Forecast Mar - 20 £000's	Forecast Mar - 21 £000's	Forecast Mar - 22 £000's
PDC Dividend				
Latest Trust Plans	-£8,701	-£9,000	-£9,000	-£9,000
Impact post Drawdown of Cost to Complete & EWP	-£9,178	-£11,978	-£16,519	-£20,806
Annual Variance	**-£478**	**-£2,979**	**-£7,520**	**-£11,807**
Cummulative Variance	**-£478**	**-£3,457**	**-£10,976**	**-£22,783**

8.10.3

8.10.4 Detailed workings are available in appendix 8G.

8.10.5 Proposed funding solutions for this would include,

- A further category of support from taper relief to match income to the additional cost and provide the necessary cash to enable payment.
- Alternatively, a mechanism which would allow the PDC funding support to be excluded from the Trust's Net Asset annual calculation, nullifying the increased dividend exposure. *This is the Trust's preferred approach.*

8.11 UP V New Revenue Costs – P&L Consequences

8.11.1 The table below summarises a comparison of the anticipated costs of Midland Met, under the PF2 scheme, in 2022-23 compared with a publically funded scheme.

redacted

8.11.2 The table demonstrates the breakdown of the Unitary Payment (shaded), in revenue and PF2 creditor repayment. The Unitary Payment by 22-23 was estimated to be £20.2m.

8.11.3 The revenue components of the unitary payment would have amounted to £13.2m and creditor, £7m.

8.11.4 Additionally the trust would be liable for public divided (taking latest forecast excluding Midland Met impact) of £9m and depreciation of c£4.9m.

8.11.5 In total a revenue charge of £27.1m would have been expected.

Affordability under a Public Funded Route

8.11.6 The Midland Met asset cost of construction will be impaired recognising the Trust already adopts an MEA asset valuation approach. In this case, it is assumed 90% of relevant construction cost will be impaired once the hospital is operational.

8.11.7 Under a publically funded route, PF2 interest will be replaced by an increased public dividend. In this scenario it is assumed a significant technical impairment to the Midland Met asset will be generated. Early discussions have commenced with the District Valuer, to confirm this position.

8.11.8 Assuming the technical impairment is adopted, public dividend capital cost is estimated to grow by c£6.5m to £15.5m.

8.11.9 Depreciation is estimated to grow reflecting an assumption that the MEA assessment will be marginally affected by the Midland Met construction cost.

8.11.10 Hard FM services will be subject to procurement / competition. Costs provided are based upon average benchmark costs. This will be covered in the section below in more depth.

8.11.11 An I&E charge of c£25.4m is forecast in 22-23.

8.11.12 However, the current cost forecast excludes an assessment of insurance provision (an attempt to insure against risk that cannot be passed to the Replacement Construction Contractor) which will reduce any beneficial impact upon I&E once known.

8.11.13 A net benefit of c£1.8m excluding insurance cost impact is thus forecast in 22-23

8.11.14 The Trust will need to provide for lifecycle cost within its future Capital Programme, post 22-23.

8.11.15 Average lifecycle cost per annum is estimated at c£2.5m per annum, but further work is required to review need in preparation for procurement and recognising that lifecycle , by its nature is lumpy and likely to be low in the first few years of operation.

8.12 Indicative FM Costs

8.12.1 The table below summarises a benchmark review of hard FM cost included in the Business Case. Cost's per Sqm have been uplifted for inflation to 18/19 prices and indicative 22/23 prices.

		MAMG Benchmark Costs		
Hard FM Service	**Carillion Cost**	**Low**	**Mean**	**High**
Facilities Management Servic	8.51	5.61	9.46	14.21
Estates and Maintenance	23.99	16.91	27.36	33.47
Grounds Maintenance	0.79	0.34	1.46	3.6
Pest Control	0.16	0.3	0.58	0.84
Helpdesk	1.2	0.98	2.89	4.61
Total (£/m2/yr)	**34.65**	**24.14**	**41.75**	**56.73**
Total (£/yr)	**2,850,272**	**1,985,684**	**3,434,230**	**4,666,440**
Hard FM				
Equivalent Prices				
18-19 Price Base				
Total (£/m2/yr)	£38.2		£46.1	£62.6
22-23 Equiv Price Base				
Total (£/m2/yr)	£42.2		£50.9	£69.1
% change			120%	164%

8.12.2 The PF2 position assumed a cost per Sqm of £34.65 at 14-15 prices; this is c£38.2 at today's prices and estimated to be £42.2 by 22/23.

8.12.3 Historic benchmarks suggest the metric used in the PF2 arrangement is low and average prices need to increase by a range of 20%-64%.

8.12.4 For the purposes of this affordability review the mean cost per Sqm has been used for the public sector comparison position.

8.12.5 This consideration has only been applied to Midland Met. No consideration of the Retained Estate has been included at this point.

8.12.6 For the purposes of affordability the mean position has been used updated to a forecast 22-23 price base.

8.12.7 This is also consistent with "Model Hospital" benchmarks.

8.12.8 The Trust proposes to procure its Hard FM service in parallel with is replacement construction contractor procurement. The procurement will also consider inclusion of its Retained Estate in that procurement.

8.13 Indicative Lifecycle Costs

8.13.1 The Midland Met Pf2 scheme averaged an annual investment of c£1.9m per annum.. The table below updates an assessment of the cost per sqm based upon a GIFA of 82,259 sqm's..

8.13.2 Updated metrics, based upon the higher rate of cost per sqm suggest an average annual investment of c£2.5m may be required and would be included in the Trust's future Capital Programme modelling.

		MAMG Benchmark Costs		
Lifecycle Replacement Services*	**Carillion Cost**	**Low**	**Mean**	**High**
Lifecycle Replacement Services*	22.13	22.06	23.22	24.98
Total (30yr Fund Value)	**54,607,168**	**54,437,683**	**57,300,226**	**61,643,396**
* Note - excludes area for rooftop plant				
18-19 Price Base				
Total (£/m2/yr)	24.4		25.6	27.6
22-23 Equiv Price Base				
Total (£/m2/yr)	27.0		28.3	30.4
Ave Annual investment @ 22-23 prices- £000's			2,108.34	**2,503.61**

8.14 Budgetary Impact of Bringing the Project on Balance Sheet

8.14.1 In 2015/16, the Trust adopted an Existing Use Value alternative MEA approach, which assumes assets would be replaced with a modern equivalent, i.e. not a building of identical design - but with the same service potential as the existing assets. The approach determines that the alternative modern equivalent asset may well be smaller (reduced Gross Internal Area) than existing assets which reflects the challenges Healthcare Providers face when utilising historical NHS Estate.

8.14.2 The Trust has considered the accounting treatment and proposed accounting entries to transact the recognition of the new asset in accordance with IAS16. At 31/3/19 the Trust will carry the asset value, classified as an 'Asset Under Construction', adding to the value with any subsequent expenditure incurred in 2018/19. Treatment will continue, recognizing the additional construction costs until it is operational (expected to be 2022/23). At the point of becoming operational the Trust will revalue its estate and there will an expectation that the optimized MEA Building asset* will need to be reassessed to reflect the required service potential that exists in Midland Met combined with the residual estate – on an alternate site MEA basis. The Trust is in discussion with District Valuer Services to gain an indicative impact on the MEA asset valuation in order that potential impairments and ongoing costs can be forecast.

8.14.3 In summary, the trust will recognise the existing costs incurred on Midland Met, to create an asset under construction in the Trust's accounts. This transaction will form two parts,

- Unwinding the prepayment of PDC paid to THC, creating an Asset under Construction of c£62.9m.
- Recognising the donated asset value of c£148.7m, being the difference between the total approved construction cost, at Carillion's insolvency, less the payment made by the public sector.

8.14.4 Thereafter cost associated with the EWP and the cost to complete Midland Met will increase the asset under construction, until completion in 2022.

8.14.5 At that point, a judgment of impairment will occur, recognising the impact of MEA accounting.

8.14.6 The table below summarises the total construction cost of Midland Met and identifies the impact of a significant impairment value, recognising the Trust has already adopted an MEA approach to its asset accounting treatment. The analysis also identifies the value of donated asset post impairment.

Redacted.

8.14.7 The total construction cost of Midland Met has increased from c£297m to c£600m. A number of factors have influenced this position including,

- Carillion's initial construction cost was under estimated.
- Delay caused by not securing the MEP design to timetable.
- Significant construction inflation to financial year 22-23.
- Moving to a publically funded solution means VAT on construction will not be recoverable for the Trust and would have been for Carillion/ THC.

8.15 Mechanism for Funding

8.15.1 Midland Met construction and the EWP - it is anticipated the Trust will periodically drawdown PDC to pay over to relevant contractors based upon milestone delivery checkpoints.

8.15.2 The EWP cost plan is shared in Appendix 8B and an MOU has been signed for the EWP. This model mechanism is proposed for adoption with the RCC procurement (Replacement Construction Contractor.)

8.15.3 For clarity, it is assumed the remaining PDC drawdown, from the originally approved £97m, may be repurposed as a mechanism for supporting the EWP.

8.16 Conclusion

8.16.1 The accounting treatment for incorporating the Midland Met asset into the Trust accounts has been agreed with DHSC and has proceeded through the Trust's Audit Committee. External auditors are in agreement with the proposed treatment, subject to confirming legal title, valuation, and disclosures at the 2018/19 audit.

8.16.2 The Trust's approved base capital programme has increased by £12.9m over the period 2018/19-2023/24 as a result of the delay. The current assumption is that the Trust will continue to fund the programme through internally generated funds with some support from Taper Relief where necessary.

8.16.3 The base capital programme excludes the cost of required reconfiguration schemes (assumed funded by STP capital at £15.439m), support to The Hospital company for Deed of Termination (assumed funded by PDC £2.282m), and the Early Works Programme (assumed funded by PDC, £27.159m).

8.16.4 Costs to complete Midland Met are £358,434,808 over the period 2019/20-2021/22. The assumed mechanism for funding is draw down of PDC to reflect milestone and certified cost checkpoints.

8.16.5 Revenue implications are split into two sections, Revised taper relief assessment and statement of need (this stands at £27.6m), and Public dividend implications from a PDC funding route and its impact upon the "Net Asset" calculation for dividend assessment. This stands at £22.8m over the period to complete the project. The Trust needs to confirm the methodology to manage the implications of this on the I&E position. The Trust's preferred method is to seek to agree exclusion of the hospital and its costs to complete from the net asset calculation.

8.16.6 The case then considers the affordability position of the public funding route versus PF2. This shows that in the first year there is negligible difference between the two funding approaches. For the public funding method, this assumes;

- As the Trust already adopts MEA accounting treatment it is likely a significant impairment of the Midland Met asset will occur in 2022, the year of Midland Met becoming operational, and the modelling assumes this.

- Hard FM will be subject to a procurement which will deliver best value. At this point, an increased cost, compared to the PF2 position is forecast.

- Lifecycle costs were expensed in the Midland Met UP and did not occur in the first five years of the concession. The Trust intends to make provision in its Capital Programme to manage lifecycle once Midland Met is operational.

- Current cost forecast excludes an assessment of insurance provision (an attempt to insure against risk that cannot be passed to the Replacement Construction Contractor) which will reduce any beneficial impact upon I&E once known.

8.16.7 A summary of the budgetary position sets out the proposed accounting treatment, the impact of costs to complete, and the proposed impairment on completion. This section also sets out the main reasons for the increase in overall construction costs.

8.16.8 The expected mechanism for funding is to drawdown PDC in accordance with milestone cost certification checkpoints.

9 Delivery of Acute Clinical Service during Extended Construction Period

9.1 Introduction

9.1.1 Following the liquidation of Carillion in January 2018, it became apparent that there would be a significant delay to opening the Midland Metropolitan Hospital and therefore a need to run acute clinical services on 2 sites (City and Sandwell Hospitals) for an extended period i.e. until 2022.

9.1.2 The most significant risks identified in relation to safely sustaining acute services on 2 sites for this extended period primarily relate to maintaining a senior medical workforce at the 'emergency front door' (i.e. Emergency Departments and Acute Medical Units). This chapter presents the work the Trust has undertaken to identify key actions to mitigate the most significant clinical risks.

9.1.3 In particular 3 acute medical specialty reconfiguration options are proposed for further development and appraisal ahead of agreeing which option/s should be the subject of public engagement from December 2018 in order to agree a preferred option in April 2019 for delivery by the end of October 2019.

9.2 Process

9.2.1 Following the liquidation of Carillion in January 2018, the senior clinical leadership of the Trust identified key clinical risks associated with the need to run acute clinical services on 2 sites for the extended period until Midland Met opens i.e. 2022. The potential need to consolidate some acute services onto a single site in order to mitigate the most significant risks was recognised and a number of reconfiguration options identified.

9.2.2 The Trust has established an executive led fortnightly clinical group, the Midland Met Quality & Sustainability Committee to develop and review the reconfiguration options. This committee identified the following planning assumptions relating to any acute service reconfiguration/ consolidation ahead of Midland Met opening:

- Current 2 site service working is safe but increasingly challenging to sustain
- Reducing to a single Emergency Department (ED) would be a last resort and if required the ED would be based at City Hospital (given its close proximity to Midland Met) and available real estate to create additional clinical space if required (Sandwell Hospital does not have this expansion opportunity within its real estate).
- Any acute service reconfiguration/consolidation to a single site would require some form of public engagement with time allowed for this (typically minimum 12 weeks)
- Until Midland Met opens:
  - Critical Care will need to remain on both City & Sandwell sites
  - Cardiology specialist inpatient facilities will remain at City Hospital
  - Paediatric inpatient facilities will remain at Sandwell Hospital
  - Maternity & Neonatal inpatient and high risk outpatient facilities will remain at City Hospital
  - Day case & 23 hour stay surgery will continue on both sites
  - Ideally clinical haematology/oncology inpatients & chemotherapy to remain at Sandwell Hospital
  - Ideally stroke unit to remain at Sandwell Hospital.

9.2.3 Appendix 9A provides details of the process followed, risks identified and the long list of options considered.

9.3 Options

9.3.1 The aspiration is to maintain a 24/7 Emergency Department on each of the City and Sandwell Hospital sites up until Midland Met opens. The most significant risk identified in terms of sustaining this aspiration relates to maintaining a senior acute medicine workforce that enables medical patients admitted as an emergency to have a senior medical/consultant review within 14 hours of admission to the Acute Medical Unit (AMU), 7 days a week. Mitigating this risk is likely to require further consolidation (reconfiguration) of medical specialties onto a single site in order to release senior medical capacity to support front door acute medicine. From the long list of options three have been identified for further development:

Option 1: Do Nothing - Acute service configuration to remain as now.

9.3.2 The table below summarises the current distribution of clinical services by site.

Service	City Hospital (inc. BTC & BMEC)	Sandwell Hospital
24/7 Emergency Department	✓	✓
Acute Medical Unit (AMU & AMAA)	✓	✓
Critical Care Unit	✓	✓
Day Case & 23 hour stay planned surgery	✓	✓
Diagnostic Services	✓	✓
Outpatient Clinics (including antenatal clinic)	✓	✓
Children's Inpatient Unit	-	✓
Paediatric Assessment Unit	✓	✓
Maternity services	✓	-
Surgical Assessment Unit	-	✓
General Surgery beds	-	✓
Trauma & Orthopaedic beds	-	✓
Gynaecology beds & emergency assessment unit	✓	-
ENT & Urology beds	✓	-
Stroke Unit	-	✓
Cardiology beds & cardiac cath. Labs	✓	-
Older People Assessment Unit (OPAU)	-	✓
General medical beds	✓	✓
Respiratory medicine beds	✓	✓
Gastroenterology beds	✓	✓
Haematology beds	✓	✓
Elderly Care beds	✓	✓

9.3.3 In this option the mitigating actions for the significant risks identified would include:

- Expanded AMAA on both sites (to reduce admission to AMU)
- A revised consultant workforce provision with time released from fully established medical speciality rotas to support the acute physician rota covering AMU and AMAA or

- Acute medicine consultant rota (covering AMAA and AMU) on one site to be filled by acute physicians whilst on the rota on the other site is filled by consultants from other medical specialties (primarily respiratory medicine, elderly care, with some support from gastroenterology and cardiology).

Option 2: Reconfigure Respiratory Medicine inpatient beds to City Hospital

9.3.4 The table below summarises the distribution of clinical services by site under this option. The change from the current distribution is highlighted.

Service	City Hospital (inc. BTC & BMEC)	Sandwell Hospital
24/7 Emergency Department	✓	✓
Acute Medical Unit (AMU & AMAA)	✓	✓
Critical Care Unit	✓	✓
Day Case & 23 hour stay planned surgery	✓	✓
Diagnostic Services	✓	✓
Outpatient Clinics (including antenatal clinic)	✓	✓
Children's Inpatient Unit	-	✓
Paediatric Assessment Unit	✓	✓
Maternity services	✓	-
Surgical Assessment Unit	-	✓
General Surgery beds	-	✓
Trauma & Orthopaedic beds	-	✓
Gynaecology beds & emergency assessment unit	✓	-
ENT & Urology beds	✓	-
Stroke Unit	-	✓
Cardiology beds & cardiac cath. Labs	✓	-
Older People Assessment Unit (OPAU)	-	✓
General medical beds	✓	✓
Respiratory medicine beds	**✓**	**-**
Gastroenterology beds	✓	✓
Haematology beds	✓	✓
Elderly Care beds	✓	✓

9.3.5 In this option the main mitigating actions for the significant risks identified would be;

- Consolidation of respiratory medicine beds, including non-invasive ventilation unit (NIV), onto the City Hospital site alongside Cardiology beds. This would create efficiencies in senior clinical cover & patient pathways for patients admitted with chest conditions, enabling,
- Release of senior medical time from respiratory medicine & possibly Cardiology to support Acute Medicine (AMU & AMAA) cover at City possibly to the extent that acute medicine consultants could primarily be focused at Sandwell.

Option 3: Reconfigure Respiratory Medicine inpatient beds to City Hospital & Elderly Care inpatient beds to Sandwell Hospital

9.3.6 The table below summarises the distribution of clinical services by site under this option. The changes from current distribution are highlighted.

Service	City Hospital (inc. BTC & BMEC)	Sandwell Hospital
24/7 Emergency Department	✓	✓
Acute Medical Unit (AMU & AMAA)	✓	✓
Critical Care Unit	✓	✓
Day Case & 23 hour stay planned surgery	✓	✓
Diagnostic Services	✓	✓
Outpatient Clinics (including antenatal clinic)	✓	✓
Children's Inpatient Unit	-	✓
Paediatric Assessment Unit	✓	✓
Maternity services	✓	-
Surgical Assessment Unit	-	✓
General Surgery beds	-	✓
Trauma & Orthopaedic beds	-	✓
Gynaecology beds & emergency assessment unit	✓	-
ENT & Urology beds	✓	-
Stroke Unit	-	✓
Cardiology beds & cardiac cath. Labs	✓	-
Older People Assessment Unit (OPAU)	-	✓
General medical beds	✓	✓
Respiratory medicine beds	**✓**	**-**
Gastroenterology beds	✓	✓
Haematology beds	✓	✓
Elderly Care beds	**-**	**✓**

9.3.7 In addition to the mitigating actions identified in option 2, this option would:

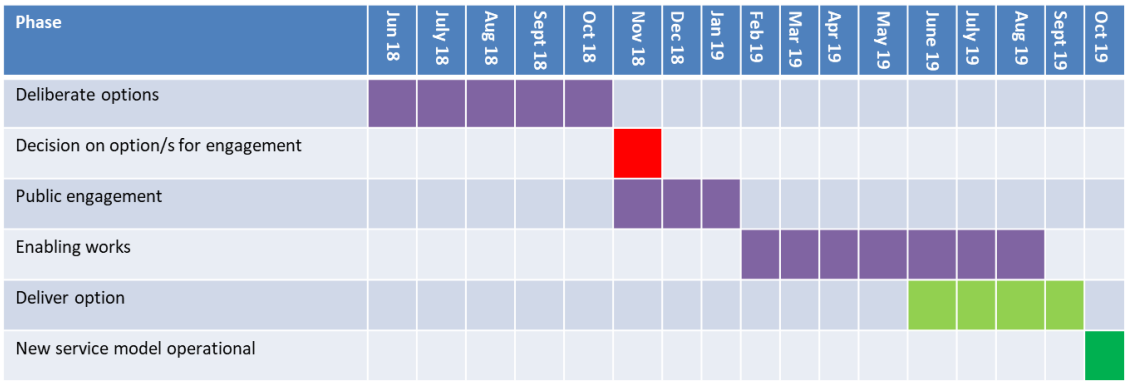
- Consolidate elderly care inpatient medicine at Sandwell (where the demand is greatest & alongside the stroke unit) creating efficiencies in senior clinical cover & patient pathways which would enable release of senior medical time from elderly care medicine to support Acute Medicine (AMU & AMAA) at Sandwell;
- Facilitate acute medicine consultant rotas to enable these consultants to provide input and in particular leadership to the AMUs at both sites.

9.4 Evaluation

9.4.1 The options will be developed further (including activity & capacity changes, estate expansion, cost implications, risks etc). The Midland Met Quality & Sustainability Committee will the evaluate them and decide on a course of action.

9.5 Timeline & Next Steps

9.5.1 The key date for implementation of any required acute service reconfiguration and the related new service model becoming operational is the end of October 2019 i.e. before the onset of increased winter related demand in acute medicine. The diagram below summarises key actions and timelines to meet this date.



10 Summary of Risks

10.1 Introduction

10.1.1 The Midland Met project is very unusual. The Trust is not aware of any major Acute Hospital where the construction contractor has gone into liquidation with the Hospital half built. This means that there are some very specific risks which the Trust faces. This chapter attempts to draw out those risks and explain the mitigations which have been put in place.

10.1.2 The project has a full risk register (including those normally faced by a project of this type). This is included at appendix 10A for information

10.2 Risks

	Risk	Mitigation
1	Clinical Risk to sustainability of Hospital Services caused by delay to opening of Midland Met / need to keep two Acute Hospitals open for longer than planned	The Trust is planning some Reconfiguration of services to mitigate the sustainability issues as far as possible – see chapter 9.
2	There may be limited interest in bidding for the scheme resulting in a lack of competition / single bidder situation. If this occurs it will be more difficult to prove VFM.	The Trust is actively encouraging suitable bidders to come to a market engagement event. We believe that if we explain the actual risks clearly more bidders may be interested in competing the opportunity. If a single bidder situation occurs, the price is unlikely to be far below the compliance ceiling , however it may be possible if all parties agree to move forwards to start on site sooner.
3	The building is part built and the RCC is unlikely to take risk on Carillion works.	The Trust is looking for a full risk transfer on MEP design / installation and fitout. Groundworks, frame and envelope risk will remain with the Trust. A full explanation is included section 4.3
4	Carillion Construction warranties did not flow to the Trust on termination due to issues with the standard form Project agreement.	The Trust has procured design warranties through separate contracts with the design team and has separately paid THC for the warranties they held. A full explanation is included in chapters 3 and 4
5	The design is not “complete”	The Midland Met design is as complete as any project at this stage of build. The teams have worked to produce a set of aligned design documents for the tender which resolve the majority of the historic issues. This is a far better position than a “normal” project

	Risk	Mitigation
		which goes to Financial Close with a significant proportion of the design to be completed as RDD.
6	The team may not have the capacity / capability to complete the procurement.	The team has largely remained stable since 2014. They have significant complex PFI procurement experience. They have been augmented by 5 senior ex Carillion employees. They have experienced legal and commercial advisers. For more information please see chapter 12.

11 Opportunities

11.1 Introduction

11.1.1 This chapter summarises the:

- Commercial opportunities potentially available at Midland Met and the wider Grove Lane site.
- A draft timetable and scoring matrix based on financial and non-financial criteria to enable opportunities to be identified, evaluated and prioritised.
- Key assumptions made including that Midland Met will open in summer 2022, and that stakeholders will work together to secure the maximum benefit for the local communities. e.g. conditions attached to any planning approval will not be so onerous to render a development unaffordable.

11.2 Context

11.2.1 Work undertaken in 2015 estimated the level of foot traffic from staff and visitors at Midland Met to be high and that this would be attractive to Local, Regional and National retail operators.

11.2.2 In 2017/18 work was undertaken to consider the potential uses for the remaining 2 development plots on the wider Grove Lane site. This indicated that certain sized and or niche developers may be interested in developing the plots, and that a development could include:

- Hotel, Premier Inn or Travelodge
- Business services, offices, meeting and conference facilities.
- Gymnasium/Studio.
- Nursery Facilities.
- Healthcare facilities. (e.g GP Practice, future expansion space, Pathology services).
- Petrol station and car wash.

11.2.3 It is also worth noting that the adjacent Aurora residential site is expected to be completed before Midland Met opens.

11.3 Midland Met - Retail Units & Advertising Space – Current Position

11.3.1 It is currently assumed that the Trusts catering functions will manage the most of the retail spaces, and servery/restaurant services. All of the Trusts catering services are provided via a cook chill arrangement located at Rowley.

11.3.2 The main entrance into Midland Met is at level 0 it incorporates 2 retail shop units,one of which is designated as a coffee shop. Each unit provides a floor area of circa 63/m2.

11.3.3 Level 2 provides a small circa 16/m2 servery

11.3.4 Level 5 will provide 3 retail shop units, one designated as a coffee shop, which have a combined floor area of circa 250/m2.

11.3.5 A servery and staff /visitor restaurant is also located on level 5 with a floor area of circa 372/m2.

11.3.6 There are two designated areas in the Winter Garden (also located on level 5 where temporary stalls (or other exhibits) can stand. These could be rented on an ad hoc basis.

11.3.7 WH Smith, Tesco's, Waitrose M&S and Boots have expressed interest in operating 1 or more of the retail units. Local interest has also been shown.

11.3.8 National operators are extending product ranges, space permitting (to create barriers to entry), enabling them to maintain and grow the scale of their business. They are also prepared to work with partner retailers who offer complementary services.

11.3.9 Advice will be taken whether a formal or informal competitive procurement process should be undertaken and the scope of any service / performance specification. This work is planned to commence in October 2019 to enable any procurement process including negotiations, execution of leases, and any fit out and commissioning to be undertaken and completed prior to Midland Met opening.

11.4 Internal and External Advertising (specialist billboard companies).

11.4.1 Contact has been made with J C Decaux, and Primesight and brief discussions made re the potential for Internal and External advertising on the periphery of the Midland Met and wider Grove Lane site. Both companies indicated that it was too early for them to provide forecasts of any income the Trust may secure/receive, but did confirm they would respond to a request made with 6-9 months before the Midland Met opened.

11.5 Outline Programme for Midland Met Commercials April 2020 – July 2022.

April 2020 – December 2020

11.5.1 Appoint advisors, develop and confirm scope and specification of services to be provided. Secure statutory approvals if required

January 2021 – August 2021

11.5.2 Undertake procurement process and identify preferred partners.

September 2021 – December 2021

11.5.3 Negotiate and agree lease arrangements, terms and conditions and award contracts.

January 2022 – July 2022.

11.5.4 Lessors undertake works to fit out units and commission outlets prior to opening in July 2022. Any programme will be dependent upon whether the Midland Met and wider Grove Lane site can be developed in parallel. Further work needs to be undertaken to confirm the outline programme this work should be completed by December 2018.

11.6 Black Country Consortium Ltd

11.6.1 The Project Director attended a meeting with the Black Country Consortium Ltd. (Black Country Local Enterprise Partnership LEP) on the 18th September 2018. This is a public/private organisation (1 of 16 around the UK) charged with promoting economic progress in the Black Country region covering Sandwell, Dudley, Walsall and Wolverhampton. Birmingham has its own LEP. The aim is to seek

options through which alternative funding routes may be identified e.g. to undertake infrastructure repairs to the Canal on site and Highways surrounding the site.

11.6.2 The LEP has a Local Partnership Investment Fund (LPIF) of £53m to be spent by 2021, and a further £97m to be spent by 2026. The LPIF can provide grants of up to 30% of project costs (grant not a loan) on the basis that specific outputs are achieved. If outputs not achieved they can be clawed back.

11.6.3 Projects need to deliver certain outputs including housing (can be for key workers, rent or sale). Jobs, Commercial Space, Education, Demolition and site remediation works.

11.6.4 LPIF can support local authority projects but cannot directly support NHS projects (state aid prevents this). However if a project can be structured such that a private developer, Council or University identify a project the NHS may be able to part of the structure by granting or taking a long lease for example. In doing so S&WB, may be able to work with Sandwell Council and share/benefit from the project.

11.6.5 The Project Team will continue to pursue this source of funds.

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12 Resources

12.1 Introduction

12.1.1 The Project Team have been challenged to demonstrate they have the capability and capacity to conduct the publically funded procurement in the timescales envisaged in this OBC.

12.1.2 The purpose of this chapter is to demonstrate that they have subject to appointments being made to support MEP design development and potentially Hard FM procurement. In addition The Trust recognises the need for Project Management expertise from a third party to support NEC contract administration.

12.1.3 The work of the project team can be categorised into four work streams:

12.2 Early Works Phase

Main Work Streams:

- The procurement and subsequent management of an 'Early Works Contractor' (EWC) to undertake construction works to protect the asset throughout the winter, progress construction works that ease ongoing financial burden on the Trust (eg Crane Hire) and fulfil the statutory obligations of the Main Contractor.
- The Trust continuing to oversee a number of matters outside of the scope of the EWC, namely design, utilities, plant hire, insurance and security provision.

12.2.1 Leads: Alan Kenny (Project Director), David Hollywood, Richard Molloy and Austin Bell (Construction Advice), Ian Simmonds (Commercial Advice), Pete Turfrey (Programme Advice), Kevin Reynolds, Warren Grigg supporting Trust interface.

Comments on Capacity and Capability:

12.2.2 Capacity and capability within the Project Team for the management of the Early Works Phase is considered appropriate.

12.2.3 Balfour Beatty are in the process of being appointed as the EWC contractor under the JCT Measured Term 2016 form of contract. The processes of valuation and management of change are not as contractually onerous as in the NEC forms, but will need to be managed robustly and contemporaneously in order to ensure effective forecasting for the Trust.

12.2.4 The Trust has employed four former CCL managers as advisors who will preside over all of the above matters and ensure a Trust presence is maintained on site. The former CCL managers will report directly to the Trust project team and ensure that all necessary Trust procedures and governance are correctly deployed.

12.2.5 The former CCL managers already have robust project knowledge, experience of managing construction projects on a day to day basis, H&S etc. thus are competent in this regard. Warren has consistency of knowledge from a procurement point of view and will support the Trust interface.

12.3 Replacement Construction Contractor

Overview of the Work stream:

- RCC Procurement – including mobilisation of advisors, commencing design, developing the strategy, undertaking the procurement.
- Internal Governance – A "light touch" OBC will be required for approval prior to commencement of procurement. An FBC will be required prior to contract signature.
- Stakeholder Engagement – The team will be the focal point of communication with DHSC / NHSI throughout the approvals process.
- Midland Met clinical design – remobilisation with HKS & Aecom; dialogue with RCC bidders during tender & procurement process; responding to clinical design queries, issues & clarifications in liaison with clinical leads.

12.3.1 Project Lead: Daphne Lewsley

12.3.2 Supporting Team: Warren Grigg (procurement and strategy), David Hollywood, Richard Molloy (Strategy, Design and Construction), Austin Bell (Trust Advice), Emma Loosley & Paul Hazel (Midland Met clinical design), Rod Knight (Commercial and Financial support).

Comments on Capacity and Capability:

12.3.3 For the procurement phase of the RCC work stream the Trust team is considered appropriate.

12.3.4 The Trust will however need to identify suitable resource to support the works phase where the NEC4 form of contract is planned to be used. This form is more onerous than other contract forms such as JCT from a project management viewpoint and is generally administered by a Project Manager who traditionally relies on a team of disciplinary specialists (cost, programme and technical). It is therefore likely that the Trust needs to plan for the future recruitment of 2-3 staff including and experienced NEC4 project manager and specialist support. A plan will be developed for the recruitment of these personnel by the end of October 2018.

12.4 Reconfiguration and City Site

Main Work Streams:

- Decommissioning of non-retained estate - decommissioning of vacated non-retained estate with correct & appropriate disposal of items (dispose, sell, store, reuse); ongoing surveillance of vacated building to ensure security maintained.
- Reconfiguration – supporting the COO in developing/co-ordinating the process; option development; case for change; option appraisal & delivery plan.
- City site retained estate schemes – progressing schemes and service moves to relocate services that will remain on City site post Midland Met into agreed retained estate locations. See Appendix 4 for details.
- City site non-retained estate – ensuring non-retained estate accommodating clinical services is safe & functional for the extended period until Midland Met opens.

12.4.1 Leads: Jayne Dunn (Director of Commissioning), Kevin Reynolds (Head of Estates), Malcolm Partridge (Deputy Head of Estates), Tim Nash (Capital Projects Manager), Martin Lynch (IM&T Service Manager)

Comments on Capacity and Capability:

12.4.2 Capacity and capability within the Project Team for the Reconfiguration and City Site activities is considered appropriate.

12.5 Estates and Capital Programmes

Main Work Streams:

- Day-to-day management of the Trusts estate
- Managing the Capital Projects
- Equipment - audit, review & procurement of clinical and non-clinical equipment
- Managing the MES Imaging equipment contract.
- Facilities Management Procurement – setting the strategy, development of the tender documents and management of a procurement process.

12.5.1 Leads: Kevin Reynolds (Head of Estates), Tim Nash (Capital Projects Manager), Rod Knight (Commercial Accountant), Daphne Lewsley (Commercial Manager), Jayne Dunn (Director of Commissioning).

12.5.2 Equipment Advisor: MTS continues to support the Trust in preparation and maintenance of equipment databases which will form the basis of procurement and transfer schedules.

Comments on Capacity and Capability:

12.5.3 Management of the Trust's existing estate is considered a full time job and therefore recruitment of an additional member of staff is recommended to support the Midland Met Engineering design activities.

12.5.4 An outsourced Hard FM solution for Midland Met needs to be procured and the working assumption is that this procurement will be concurrent to the RCC procurement. Additional support to the Trust team is therefore considered necessary. Two additional team members are recommended to develop the tender documentation and manage the procurement process. Consultant support is also considered necessary to provide a level of challenge to the Engineering design and installation until the FM Contractor is appointed. These additional resources would be partially mitigated by undertaking the procurement sequentially following the RCC procurement (see separate Hard FM paper. The FM Strategy and any additional resource requirements will be developed during October 2018.