

Report Title	Midland Met completion: Trust Board Approval of Preferred Bidder		
Sponsoring Executive	Toby Lewis, Chief Executive		
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Meeting	Trust Board	Date	6 th June 2019

1. Suggested discussion points *[two or three issues you consider the Trust Board should focus on]*

The last Board received a detailed briefing on progress with the Midland Met FBC. Early drafts of the document have been shared with Board members and a seminar session held. In addition, the key financial issues have been considered by the FIC. The paper outlines key changes since the Outline Business Case and highlights residual issues to be addressed before contract close. Having completed dialogue on May 23rd we expect to receive a formal submission on June 5th.

Notwithstanding that the draft case is circulated with the private Board papers for commercial reasons (and will be published within 30 days of HMG approval of commercial close) we will discuss residual financial risk both to the bidder and to the exchequer, as well as well as programme and performance. We remain on track to appoint a Hard FM supplier concurrently with commercial close on the final contractor.

2. Alignment to 2020 Vision *[indicate with an 'X' which Plan this paper supports]*

Safety Plan		Public Health Plan		People Plan & Education Plan	
Quality Plan	X	Research and Development		Estates Plan	X
Financial Plan	X	Digital Plan		Other <i>[specify in the paper]</i>	

3. Previous consideration *[where has this paper been previously discussed?]*

Trust Board May 2nd, Finance and Investment Committee May 24th

4. Recommendation(s)

The Trust Board is asked to:

- a. **APPROVE** the appointment of Preferred Bidder for the Midland Met procurement, subject to regulatory bodies' authorisation
- b. **NOTE** that the FBC provides for progress of the scheme consistent with the Outline Business Case

5. Impact *[indicate with an 'X' which governance initiatives this matter relates to and where shown elaborate]*

Trust Risk Register	x	3020 and 3021				
Board Assurance Framework	x	BAF 5 and 10				
Equality Impact Assessment	Is this required?	Y		N	X	If 'Y' date completed
Quality Impact Assessment	Is this required?	Y		N	X	If 'Y' date completed

SANDWELL AND WEST BIRMINGHAM NHS TRUST

Report to the Trust Board: 6th June 2019

Midland Met Full Business Case for Preferred Bidder

1. Introduction

- 1.1 Having agreed the Outline Business Case to complete the new hospital, the Board is now requested to agree a Preferred Bidder appointment which is expected to lead to commercial close in September 2019.
- 1.2 In July 2018 notice was duly given on the PF2 contract after Government declined to re-finance that vehicle, with Carillion having been unable to fulfil their obligations to the SPV from January 2018. Between that date and the OBC approval an expected and a maximum financial exposure were developed, and the bid as it stands is within the expected threshold.

2. Considerations

- 2.1 The FBC has been revised from the previous Midland Met FBC (January 2016) with the following key changes:
 - A revised strategic and national policy context e.g. the Long Term Plan;
 - PF2 procurement superseded with public funded procurement;
 - Hard FM being procured separately and in parallel with the RCC procurement for the whole Trust;
 - The LTFM has been refreshed to reflect, inter alia, a revised starting point, projections and the specific parameters of the RCC procurement;
 - The workforce model has been refreshed to reflect changes in national funding and the Trust's workforce strategy.
- 2.2 The effect of this update is a revised financial phasing and workforce change profile, which was presented to the May meeting of the Board. All of the financing treatment issues were resolved at OBC with the exception of the treatment of the PDC interest payment during construction. The FBC addresses this through a financing facility in anticipation of a write down at opening. The latter assumption is more modest than the OBC. Suitable advice and due diligence has been undertaken on those assumptions, albeit it will be a matter for the audit committee and auditors in 2022-23 to finalise those arrangements.
- 2.3 Cost improvement expectations within this FBC are considerably more modest than in the PF2 approved scheme. They are above a 1.1% threshold outlined in planning guidance, reflecting the opportunity for efficiency generated by single site working. The FM costs used are higher than under the PF2 FBC. Rather than creating a Right Care, Right Here reserve for costs in advance of opening, as in the 2015-16 case, this FBC

provides for the release of a savings dividend after opening which we would expect to invest with Alliance partners in primary care and mental health services.

- 2.4 A range of sensitivities have been modelled, including delay, and the impact of commissioning disintegration (the west birmingham scenario). None of the main sensitivities prevent the Trust delivering the scheme or meeting its break even duty. Under the base case our underlying deficit is removed from April 2021, absent the financing costs outlined under 2.2 above.
- 2.5 The project provides for fractionally more beds (46) than in the earlier scheme. This reflects intervening activity profiles, but also raised expectations around reduced occupancy. The base case now uses half of the ninth floor of the building, which does reduce our 2030 flexibility. In simple terms we need to achieve high levels of productivity and vertical system working to allow us to manage rising demand in the coming decade within this estate. We do expect changes in care pathway length of stay arising from a consultant delivered model of care, as well as ring-fenced diagnostic and treatment capacity for emergencies. This is why the Birmingham Treatment Centre and Sandwell Treatment Centre are crucial, as they provide the 'cold site' capacity for the acute 'hot site' to function.
- 2.6 The activity profiling for the scheme, which also drives our income and workforce assumptions, still anticipates a material reduction in outpatient contacts delivered in hospital settings. However, the base volume for that assumption reflects the rising demand seen since 2014-15. These changes though are not only now national policy, where previously they were a local intention, but they are also central to releasing medical resource to support acute care.
- 2.7 The Board, and HMG, agreed the contractual model for progressing the public finance option in August 2018. That contract form has been adopted and enacted, and is accepted by Balfour Beatty. The form provides for some gain share below the bid price due to be submitted, and provides for a contingency held by the Trust for future issues during construction. However, material risk is transferred, not least around inflation, and the packages requested by the Board to be borne by our contractor as a risk are contracted that way. That includes MEP provision, and a specialist contractor, H&K, have been engaged by Balfour Beatty to undertake leadership of that work. Cladding testing continues, as outlined to the Estate MPA, and bar one facet is contained within the bid price.
- 2.8 For the avoidance of doubt, no assumptions are made within the bid or business case around wider tie-ins with the Hard FM model, nor with development sites that the Trust and its partners are progressing at Midland Met or elsewhere. The contract proposal is simple and direct.

2.9 The capacity and capability of the bid team, and the underlying viability of Balfour Beatty have of course been assessed, and that matter is discussed within the private Board papers. The recommendation to proceed is not made contingent on any prevailing concerns in either area. Strong joint working relationships are developing alongside the Trust's expert team and the NEC4 project management team. It is very clear that this project is important to Balfour Beatty, who recognise the regeneration of the wider West Midlands and the centrality of this project to the future of the NHS in both Birmingham and the Black Country.

3. Regulatory approval

3.1 The FBC in 2015-16 was specifically approved by the Board of then-Trust Development Authority, and passed all stages of civil service scrutiny. In late June, this FBC would expect to be considered through the relevant joint committee of NHS England and NHS Improvement, prior to sequential consideration by DHSC and HMT in late June and through July. Approval during July is essential to maintaining an assertive programme of both purchasing and site commencement.

3.2 The criteria for FBC progression set at OBC and shared with the Board in May are all passed and the FBC document itself outlines how that is achieved. Whilst no further commissioner support is requested for this case, it is clear that the strategic need for the Midland Met is agreed by all parties, with Birmingham and Solihull CCG restating its support for the scheme, and the project is one of the key pillars for the Black Country and West Birmingham STP five year plan.

3.3 The Trust has always been explicit that the Midland Met maintains existing emergency and ambulance flows within the city of Birmingham, but that we might expect some changed flows in Wednesbury into Manor, and, to a lesser extent into Russell's Hall. A major urgent care centre will remain at Sandwell. Notwithstanding that the proposed opening of the refurbished and expanded Manor A&E department in April 2022 is a dependency for the scheme, and that project has wave 4 STP capital approval.

3.4 The Board will be aware of pressure on the capital resources of the NHS, not least in 2019-20. The capital arrangements for all of our estate and our IT should be viewed as inter-dependent, and as our cash and capital plans have demonstrated the vast majority of such spend is pre-contracted. Our Hard FM partner, in accepting some lifecycle obligations, will add to that proportionality. However, cashflow forecasting has allowed us to release around £65m from expected spend in 2019-20 into future years in response to a request for flexibility from DHSC finance.

3.5 It is worth confirming and restating that the financial burden placed by the scheme on the local NHS budget is the same or less than under the approved PF2 FBC.

3.6 Discussions continue with approving bodies about how scrutiny of commercial close will be provided, under the expected scenario that the final proposal later in the summer is as per the bid made now. The leaner this process the less risk of delay arises.

4. Recommendations

4.1 The Trust Board is asked to:

- a. **APPROVE** the appointment of Preferred Bidder for the Midland Met procurement, subject to regulatory bodies' authorisation
- b. **NOTE** that the FBC provides for progress of the scheme consistent with the Outline Business Case, albeit practical completion is later than then envisaged.

Simon Cook
FBC project manager

31st May 2019