

Report Title	Update on completing the Midland Met Hospital		
Sponsoring Executive	Toby Lewis, Chief Executive		
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Meeting	Trust Board	Date	5 th September 2019

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

The paper updates the Board on the 2022 completion date for Midland Met and approval dependencies that sit behind that. Work with Balfour Beatty on the early works contract and the final completion contract, are proceeding well. A route to site recommencement in December remains, contingent on one final approval of the scheme over coming weeks.

In October we will make an important provider decision about facilities management in the new hospital, and the paper updates on work to conclude later that month on other aspects of how we move into Midland Met and use it well. The optimisation programme for 2020 and 2021 is being developed presently to support Go Live in spring 2022 and the eighteen months thereafter.

Some current estimates of cost overage are outlined, notwithstanding the evolving nature of the final cost to complete, and the different ways in which cost and lifetime cost can be reasonably analysed. A simple construction cost difference is not, perhaps, the most relevant way to consider the position. As always advised, the excess cost of delay have been met centrally and not within the local NHS.

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 & 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?]*

n/a

4. Recommendation(s)

The Trust Board is asked to:

- a. **NOTE** the remaining "window" of approval consistent with the FBC timetable and budget
- b. **DISCUSS** decision making around Facilities Management
- c. **CONSIDER** how best to achieve transparency on costs after the FBC is approved

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

Trust Risk Register		3021 and 3022				
Board Assurance Framework		SBAF 4 and 8				
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 HOSPITALS NHS TRUST

Report to the Trust Board: 5th September 2019

Midland Met update

1. Introduction

- 1.1 We have routinely updated the public, and private, Board, as well as the estates major project authority, on progress with Midland Met. Importantly work on the Early Works contract is progressing to time and standard.
- 1.2 This paper sets out the forward look, given delays to external approval as against the approved OBC timetable.
- 1.3 The paper also updates the Board on lifetime cost estimates, reflecting the commitment given by all parties to ensure that excess cost beyond the 2015-16 FBC would be nationally funded. Whilst clearly the headline capital cost for the build will be substantially above those FBC expectations, the lifetime cost is compared.

2. Current position

- 2.1 The Board approved the Final Business Case to complete the Midland Met at its June meeting in expectation of external approval by the end of August 2019, in line with the nationally approved Outline Business Case agreed at the start of 2019. Whilst that timetable has not been achieved, it remains possible to achieve re-start on site at the outset of December. This would, probably, secure 2022 opening before mid-summer. That timetable is achievable if a deal is reached in October, given adjustments to the extant early works contract that we have made conscious of the small delay.
- 2.2 The dual steps required prior to that involve reconfirmation of supply chain pricing by our preferred bidder, which is nearing completion, and formal HMG approval of permission to contract with Balfour Beatty. Taking those matters separately:
 - Gleeds, WT, the Trust and Balfour are working together to complete MEP validation and assess supply chain returns. The work is not yet complete, but work to date gives no cause to consider that the OBC price, and FBC price, which are the same, cannot be delivered on this project.
 - NHSI, DHSC and HMT are working together to support the Trust and to achieve final approval. Drafting amendments to the FBC have been made as the case has been considered nationally. The final version of the FBC published after contract close will reflect those alterations. The scrutiny is welcome as the sums involved are substantial, but the case maintains the cost and commercial arrangements approved previously.

3. Facilities Management and Commissioning

- 3.1 The OBC and FBC also outlined the intention of the Trust to seek to secure a high quality build through concurrent selection of a hard FM supplier to maintain the new build after opening. A PF2 contract operated with that arrangement on an integrated basis through the SPV. Under a publicly financed option no directly comparable proposition existed. However, the Board took the view that it was important to be clear now how the building would be maintained and kept good, and that having that involvement during final design and construction remained important.
- 3.2 The ITPD for hard FM was duly issued and is targeted for selection in early October, consistent with the timetable outlined in the prior section of this paper. There is to be a relationship directly between the FM provider and the construction contractor over the first five years of operation. This operates in addition to the Trust's rights as a contractee.
- 3.3 Distinct from that process the Trust has issued to market wider options around our estate upkeep, and decisions on the provision of those arrangements will be taken between 4-8 weeks after the Midland Met decision is made. There is no inherent inter-dependence between the two decisions, albeit bidders may create synergistic opportunities.
- 3.4 What is common to our approach to facilities management is the Trust's insistence that mechanisms to ensure upkeep and upkeep funding are put in place, and the clinical estate, in particular, does not fall at risk of year by year financing decisions. The contract form, procurement form, and provider decisions will take due account of that insistence.
- 3.5 Facilities management is materially about employing high quality trained staff and supporting their work. The ability of any provider to convince the Trust of their ability to do just that, including the safely TUPE extant employees to a new provider, will be a vital consideration in upcoming decisions. Openness with our staff has been maintained throughout both on an individual and collective basis.
- 3.6 We have taken the opportunity of the build delay to refresh our approach to two related issues, and at the estates MPA at the end of October we will consider the outcome of this work in more detail:
- The phased commissioning programme for services to relocate into Midland Met, taking advantage of preferential site access from early 2022.
 - Best logistical practice around operating the new site, mindful of our investment in AGVs, and commitment to JIT delivery models to support low stock holding and waste.

4. Financing

4.1 The Board will recall that the asset that is the current Midland Met is now on the books of the Trust, because of the cancellation of the SPV contract in 2018. The value of that asset changes over time, with the move from a built cost to a post opening value being reflected in our FBC. Those values attract cost through the PDC model used in the NHS, and NHS Improvement have agreed in approving the FBC to the Trust's proposals about how that phasing is managed financially.

4.2 The Trust has benefitted from investment via DHSC to support the delay to the scheme. That investment spans the following categories or 'buckets':

- Site maintenance and business case development costs
- PF2 cancellation and termination costs
- Interim site stabilisation and reconfiguration costs through STP wave 4 and through the Early Works contract
- Continuation and prolongation costs associated with NHS taper relief payments which have been extended from 2019 to 2023
- Capital funding to complete the build

4.3 The risk transfer arrangements applied to the option now being used are different to those used under a PF2 arrangement. A summary briefing on those differences has been provided to the Board and was incorporated into the FBC. Our intended FM arrangements transfer some new and additional risks to the provider. Our construction arrangements, not because of financing but because of the part built nature of the build, transfer MEP risk and fit out risk, but retain warranted to the Trust some risks from the inherited building we have bought. An NEC4 contract was considered by the Trust and national bodies as the best way to manage that risk profile.

4.4 There are multiple different ways of analysing and presenting the cost profile of the scheme. It is perhaps inevitable that different bodies will issue different views and analysis of the same over coming months, once the business case is finalised. The contract price will determine some of that detail, albeit the contract form does not carry a Guaranteed Sum to completion. Inevitably some parties will simply compare construction cost. It is probably of more use to summarise two views of the comparative lifetime position, all referenced back to the PF2 approved Midland Met FBC:

- Depending on presentational choice, there is between £3m betterment and £98m additional direct cost associated with the overall costs of the scheme and its delay costs when comparing expected public finance outturn against contracted Pf2 cost.

- On a discounted cash-flow basis, because of both new costs for delay, and the upfront nature of payment for a publicly funded scheme, the additional cost is between £67-140m over the lifetime of the expected PF2 contract.

Clearly VAT treatment of the scheme varies depending on the funding choice made.

We have participated in the current National Audit Office enquiry, which is ongoing into the response to both our own delay and that at Royal Liverpool. It is clearly the case that there is much to learn about PF2 contracts' strengths and weaknesses during provider collapse, and about how the public sector responds with partners to unforeseen major events of this nature. The Trust sought a more rapid remedy to complete the hospital than that chosen, but has worked closely with funders to mitigate the clinical service impacts of delay. Opportunity cost is not considered in the analysis of delay. Conversely, we might reasonably expect to be better prepared for our 2022 move that we would have been for 2019.

5. Conclusions

5.1 The Trust Board is asked to:

- a) **NOTE** the remaining "window" of approval consistent with the FBC timetable and budget
- b) **DISCUSS** decision making around Facilities Management
- c) **CONSIDER** how best to achieve transparency on costs after the FBC is approved

Toby Lewis
Chief Executive

August 30th 2019