Redevelopment of Southmead Hospital

Full Confirming Business Case

November 2009

FINAL – Public Version

PLEASE NOTE

SOME SECTIONS HAVE BEEN REDACTED FOR REASONS OF COMMERCIAL CONFIDENTIALITY

REDACTED SECTIONS ARE MARKED AS

-REDACTED-

CONTENTS

SECTION 1: INTRODUCTION

1.1 Purpose of Business Case

The purpose of the case is to secure approval for North Bristol NHS Trust (NBT) to complete Financial Close with Carillion Healthcare, the consortium appointed as Preferred Bidder for the Southmead Hospital PFI scheme.

This FCBC focuses on developments and key changes that have occurred within this PFI scheme since Appointment Business Case (ABC) approval to FCBC submission and highlights any outstanding issues which remain and how these will be resolved prior to Financial Close.

The main purpose of the FCBC is to demonstrate that the project remains within the key parameters agreed as part of the approval of the ABC. Therefore, it should be noted that the FCBC does not provide a history to the scheme, nor does it include any information that has not changed following approval of the ABC by the Department of Health. For a full account of the scheme, this FCBC should be read in conjunction with the ABC and the OBC.

1.2 Key Changes since ABC

The ABC for this scheme was approved by the South West Strategic Health Authority (SHA) in April 2009 and by the Department of Health (DH) and Her Majesty's Treasury (HMT) in November 2009. The Trust then appointed Carillion Healthcare as its Preferred Bidder.

There have been four principal changes to the proposed development since the approval of the Appointment Business Case:

- The transfer of £13m enabling works from the Private Finance Initiative to public sector capital (in addition to the £8m publicly funded enabling works identified in the ABC);
- The inclusion of decontamination services (previously intended for a separate procurement) at a cost of £7 million within the Private Finance Initiative;
- A change to the financial structure of the scheme with the transitional funding requirement reduced from £40.7m to £20.0m (addressed further in section 9);

(These changes represent changes to scope and are dealt with in section 3).

- The tightening of performance assumptions around length of stay and the resultant move of services from residual estate

There have also been a number of smaller clarifications and fine tuning to the structure of the deal and these are described in the commercial section.

In addition there were some options for design identified and priced by Carillion in the competition that the Trust accepted. These options were included in the ABC financial analysis but some detail of these options is included in section 5.

All the changes are within the 10% capital expenditure (or 5% for revenue impact) margin of change allowed without re-approval of the business case.

1.3 Approvals

The North Bristol NHS Trust Board approved this FCBC on 19 January 2010. Approval has since been gained from NHS South West on 20 January 2010.

The principal Primary Care Trusts submitted written approval for the ABC in July 2008 and provided updated letters of approval in July 2009. As there has been little movement on this scheme since the re-approval and PCT plans for going forward are still consistent with the case assumptions, the Trust has agreed with the DH that it is unnecessary to request further updated letters of approval for this FCBC.

1.4 Planning Approval

The full planning application was approved by Bristol City Council at a meeting on 21st October 2009. The judicial review standstill period has now commenced and is due to end on 28th January 2010.

1.5 Financial Thresholds

The Trust confirms that the overall net recurring cost of the scheme remains within the financial thresholds set at ABC approval, with the retention of a buffer to cover potential rate movement between now and Financial Close.

The Trust has kept a tight control over design creep and there have been NO UNPLANNED CHANGES in design or use of the risk reserve between ABC and CBC. This has resulted in a small reduction in the PFI capex from ABC from £435m to £429m as result of the net impact of removing advance works and adding sterile services.

Changes since ABC are therefore a result of funding terms and rates. The process of monitoring these variables has been managed by a weekly monitoring process using updated screen rates and latest information on terms. This has been supplemented by fortnightly reviews of the financial model including desk reviews of latest LIBOR and RPI swap rate.

SECTION 2: STRATEGIC CONTEXT

2.1 Bristol Health Services Plan

The Bristol Health Services Plan provides the framework for all strategic and capital developments for the Bristol health community. This includes a service design programme governed through the Bristol Health Services Plan Service Design Programme Board, with Director level membership from Primary Care Trusts and acute NHS Trusts in the health community.

This programme was established in late 2007 and is on track to deliver the change associated with the capital developments such as Southmead Hospital.

A report on progress was made to the Capital Investment Group of the SHA in September 2009 and will be repeated at regular intervals throughout the life of the programme.

More details of this monitoring process are included in section 12.

2.2 NBT service planning

Associated with the Bristol wide programme is an NBT service change programme that has been established to ensure the objectives set out in the original OBC (and refreshed in the ABC) are met. This programme is steered by a programme board and is linked into the day to day performance improvements of the Trust as well as the Bristol wide initiatives. The arrangements are as laid out in the ABC.

2.3 Associated scheme developments

In association with the Southmead PFI and the service development work, there are a string of complementary capital developments that together constitute the overall BHSP investment and meet the capacity planning requirements.

Progress on these capital developments is shown in the following table:

Capital developments in the Bristol health community

NHS Organisation	Scheme	Progress
North Bristol NHS Trust	Southmead redevelopment	About to secure Financial Close
North Bristol NHS Trust	Centralisation of Pathology	Phase 1 in construction; Phase 2 Full Business Case submitted for consideration
University Hospitals Bristol NHS Foundation Trust	Cardiothoracic Centre	Operational – opened May 2009
University Hospitals Bristol NHS Foundation Trust	Centralisation of specialist paediatrics	Construction due to start in 2010
University Hospitals Bristol NHS Foundation Trust	Replacement of Old Building at Bristol Royal Infirmary	Service planning complete. Will be financed through internally generated funds.
NHS South Gloucestershire	Yate community health care centre	In construction – due to open November 2009
NHS North Somerset	Clevedon Community Hospital	Outline Business Case submitted for consideration
NHS Bristol	South Bristol Community Hospital	Stage 2 Business Case approved 15 January 2009
NHS South Gloucestershire	Frenchay Community Hospital	Service modelling underway
NHS South Gloucestershire	Cossham Community Hospital	Planning permission secured, FBC to be submitted November 2009

This table shows that the sense of an overall investment programme moving together is being maintained. The integrity of the programme is overseen by updates through the BHSP programme structure to the SHA.

SECTION 3: SCOPE CHANGES

3.1 Introduction

There have been three principal scope changes to the proposed development since the approval of the Appointment Business Case:

- The funding of £13m additional advance works through public sector capital instead of through the Private Finance Initiative (£7m of advance works were already included in the scheme at ABC);
- The inclusion of a decontamination facility (£7m) within the Private Finance Initiative;
- An agreement with the SHA to reduce the transitional funding sum from £40.7m identified in the ABC to £20.0m. This has been achieved primarily by reducing the buffer reserved to bed in the Trust savings plans, and capitalising the cost of minor equipment and second stage demolitions previously planned to be charged to revenue and covered through transitional funding. The Trust has agreed with the SHA that the revised projections are reasonable and achievable.

Prudential borrowing of £13m in 2009/10 is required to finance the additional enabling works, and £8m in 2013/14 to finance the minor equipment and demolition costs. The £13m in 2009/10 has already been approved and will be drawn down in two tranches in 2009/10. The further £8m required in 2013/14 is supported by the SHA, but a formal application has not yet been made. Both loans are planned to be repaid early from the capital receipt from sale of planned sale of the surplus element of the Frenchay site once the acute services have been re-provided in the new hospital.

3.2 Additional Advance Works

The additional advance works primarily relate to the provision of temporary catering, pharmacy and radiology services which currently reside within the footprint of the new hospital building.

The Trust is seeking to vacate the existing buildings prior to the current financial year end so that the decommissioning and demolition of existing buildings are treated as impairment, rather than accounted for as accelerated depreciation. The former accounting treatment frees up funds within the local health community.

These works have been procured using the standard form Advance Works Agreement, with project-specific amendments where required.

The advance works have been largely completed and Carillion have delivered the work to programme and design standards without any consequential financial impact upon the Trust.

The benefits of the advance works agreement are:

- The reduction of the accelerated depreciation burden on the local health economy;

- Improvement in the value for money of the scheme with a lower cost of funding for the advanced works together with;

- Clearance of the construction site in advance of Financial Close which reduces the risk for Delay Events in the initial stages of the PFI project

The principal risks associated with the advance works are:

- The works are not complete on time and therefore the accelerated depreciation benefits are not realised

- The works are completed but the remainder of the scheme is not approved at CBC stage.

The first risk has been managed by tight programme control of the advance works together with an incentive penalty for Carillion of up to **£[REDACTED]** for late completion.

The second risk has been controlled by maintaining the project within the agreed ceiling with a control on design changes.

The main commercial considerations that have arisen through the development and final agreement of the advance works are:

Equipment

The advance works includes Carillion providing a pharmacy robot, MRI scanner, CT and plain film machines within the temporary buildings. These will be transferred into the new hospital. As for other fixed equipment to be transferred into the new hospital within the Project Agreement, the Trust will be responsible for decant, whilst Project Co is responsible for re-commissioning.

The pharmacy robot will be classed as category A2 equipment within the PFI scheme, which requires Project Co to maintain and lifecycle this equipment. It has been agreed that the Trust will maintain this equipment whilst in the temporary building and Project Co will take over these responsibilities upon transfer to the new hospital. Due to the specialist nature of this equipment, the equipment will be maintained by a third party specialist throughout. There is no risk in relation to the condition of the equipment at point of transfer.

The radiology equipment is classed as category B equipment, requiring Project Co to purchase and commission, then the Trust maintains and lifecycles. Therefore there are no issues in relation to maintenance.

Damages

As highlighted above, the main advantages to this contract are the value for money improvement and the saving due to accounting for the redundant buildings as impairment rather than through the accelerated depreciation regime. To incentivise Carillion to complete the works on time the Trust has included a weekly penalty for late handover of each temporary building. Whilst these penalties would not cover the full loss of income to the Trust, they are at a sufficient level to motivate Carillion to complete on time. This therefore follows the same principle as the payment mechanism.

Interface with main works

The advance works agreement will be subsumed within the Project Agreement at Financial Close. Some minor amendments were required to the Project Agreement to ensure that there are no gaps within the Project Agreement when this arises. The key points are to ensure transfer of the equipment, final payments of the advance works and incorporation within schedule 37 (phasing and decommissioning of buildings).

The advance works are discussed in more detail at Appendix B.

3.3 Sterile Services Department

The Avon Decontamination Project was developed to deliver an out-sourced decontamination service serving the whole of Bristol. An Outline Business Case was approved by the Strategic Health Authority on 26 June 2008. Unfortunately, as the preferred option was further developed it became clear that it was not possible to identify a value for money solution and therefore the project ceased in April 2009.

The cessation of this project occurred after the Trust had closed the PFI competition. Having considered the options available, the Trust proposed to incorporate a sterile services department within the new hospital. The Trust sought legal advice before confirming that this could be incorporated based on the existing OJEU notice, even at this late point in the process.

The proposed solution for the decontamination service is to create a sub-level to the new multi-storey car park adjacent to the new hospital at a cost of £7.1 million excluding Value Added Tax ([**REDACT**]% of total forecast capital expenditure on the Private Finance Initiative development). The FB forms for the scheme have been amended to include the decontamination development and are included in Appendix C.

An option appraisal was carried out and the above represented the best value solution. The costs of the preferred solution were also covered by the savings associated with the development (including amalgamation of the current two departments into a single unit. Details of the decontamination option appraisal and costs are included in Appendix D.

The proposals have been assessed and benchmarked against other decontamination schemes. The design proposals have been assessed by the Trust's design advisors and by the SHA and considered appropriate.

The incorporation of the Sterile Services Department within the scheme was reported to the Capital Investment Group of the SHA on 24 September 2009. The Department of Health have also reviewed details of this scheme prior to submission of this FCBC.

SECTION 4: PROCUREMENT PROCESS

4.1 Funding Competition

A funding competition has been run by Carillion Healthcare in line with the principles and process set up in the ABC. This competition was completed in a number of stages as set out below:

4.2 Agreement of a protocol

Carillion agreed a protocol to govern the competition with the Trust (and its advisors) and the DH. The protocol described the method by which funders would be engaged and the timetable for approval following credit committee approvals.

4.3 Selection of Pathfinder Banks

Lloyds and RBS were appointed as Pathfinder Banks to help prepare the competition and refine the funding documentation.

The primary objectives of this first stage approach to prospective lenders were:

- To identify and appoint lenders sufficiently experienced and willing to invest on competitive terms the resource required to assist in the development of the Project. (considered to be predominantly focussed on the finance documentation)
- To develop the documentation to a level sufficient for securing senior management approved offers of finance and followed, shortly thereafter, by the provision of credit approved offers of finance;
- To determine current market view of pricing for a healthcare project scheduled to close in early 2010; and
- To determine market capacity and appetite for the provision of the long term senior debt product.

The pathfinder bank candidates were selected and approved by a Finance Working Group (composed of Carillion and their advisors, the Trust and their advisors and the PFU).

The main role of the Pathfinder Banks was:

- Management of the lenders' due diligence advisors to achieve a satisfactory conclusion to all due diligence work-streams; and
- Development of the funding documentation in conjunction with the European Investment Bank (EIB).

In return for the investment of both time and resource and that the Pathfinder Banks were offered a "right to match" terms for the provision of an equal portion of the commercial term loan facility.

4.4 Preparation of a bond solution

In parallel with the bank process, a bond solution was prepared by:

- Undertaking a pre-rating exercise with S&P to establish a rating for the project (BBB+);
- Selection of Lloyds and HSBC as bond lead arrangers (Candidates were selected and approved by the Finance Working Group based on their active status in the infrastructure finance market and the value for money of their offers).

The main line that was pursued was an unwrapped bond but variants on this main route including private placement and a wrapped bond were also explored as part of this process.

4.5 Engagement with the European Investment Bank (EIB)

The EIB have been associated with the project since the competition phase and their comments and requirements were discussed further as part of the preparation of the competition.

During this process the EIB requirements have been subject to further development as follows:

- **[REDACTED]**
- **[REDACTED]**
- **[REDACTED]**
- A sculpting solution was implemented to deliver a cash profile acceptable to the bank;
- The bonding solution was refined to meet EIB requirements]

The net effect of these changes was profiled and included in the model issued with the funding competition documents.

4.6 Finalisation of documentation

The Project Agreement and the subcontract heads of terms were substantially completed during the competition phase. In the absence of lenders' support for Carillion proposals the deliverability of the requisite funding was appraised by the shadow lenders' advisors who were appointed and instructed by the Trust.

The shadow lenders' advisors completed their diligence work and prepared a report that was used as a basis of the funding competition. This report was tested and agreed with the Pathfinder Banks, the EIB and the bond lead arrangers.

The main points from this review were incorporated into the Preferred Bidder Letter.

The shadow lenders' advisors' appointments will be novated to the final funders, following agreement of the CBC.

4.7 Funding process – final stage

On completion of due diligence workstreams and the corresponding Project documentation, the project was put out to the banking and bond markets to establish the cost of funding. The amount of funds required from the senior debt competition was £**[REDACTED].**

As a result of this process it was determined that the bank route would provide a better value outcome and the bond solution was therefore placed in reserve.

The project then distributed a full suite of project and funding documentation, financial model and sensitivities and substantially completed due diligence reports to prospective funders.

Banks were asked to provide the following:

- Confirmation of no outstanding issues on project and funding documentation;
- Satisfaction with the due diligence reports;
- Provision of senior management approved terms; and
- Description of the process required to secure credit approved offers of finance.

Sixteen banks were asked to provide bids and the following proposals were received:

[REDACTED].

Details of these proposals are included in Appendix F.

Evaluation and subsequent selection of the final bank group was based upon quantitative analysis of the terms provided plus a qualitative appraisal of lenders' ability to meet the timetable to Financial Close and secure the requisite credit committee approvals.

Following this evaluation and the application of the Pathfinders' right to match the following group of banks was selected:

- Lloyds
- RBS
- NAB
- Soc Gen
- Calyon
- EIB

Terms were conformed at this point and this led to the following composite term sheet:

Margin	**[REDACTED].**
Front End Fee	**[REDACTED].**

Commitment Fees	**[REDACTED].**
Agency Fees	**[REDACTED].**
Gearing	**[REDACTED].**
Contract Period	**[REDACTED].**
Operating Period	**[REDACTED].**
Final Maturity	**[REDACTED].**

Financial covenants	**[REDACTED].**
Debt Service Account (DSRA)	**[REDACTED].**
Maintenance Reserve Account	**[REDACTED].**
Change in Law Facility (CiLF)	**[REDACTED].**
Final repayment Date	**[REDACTED].**
Repayment and calculation dates	**[REDACTED].**
Governing Law	**[REDACTED].**

Following appointment of the final bank group and agreement over the conformed terms the final bank group were each required to obtain credit approved offers for the conformed terms.

This approval will be complete by 15 January.

4.8 Gateway Review

Gateway Review 3B was undertaken in October 2009. This review explored the Trust's readiness to proceed to Financial Close together with an assessment of preparedness for the next stage of the project once Financial Close has been completed.

The Trust achieved an Amber/Green rating**: "***Successful delivery appears likely. However attention will be needed to ensure risks do not materialise into major issues threatening delivery*".

The overall conclusion was: 'The Review Team finds the Project to be well-managed and on course to achieve FC during February 2010. The new hospital proposals enjoy considerable support from PCTs and the SHA'.

The key review points to be addressed are as follows:

Recommendation	Timescale
The Project Director should agree with the SHA the specific range of issues and sensitivities expected to be addressed within the CFBC.	*Do now*
The SRO should ensure the deployment of appropriately skilled programme management capability for the effective coordination of the programme of work post FC to deliver the new hospital services.	*Do by Financial Close*
The SRO should ensure the agreement of a plan covering the quantification, management and implementation of the delivery of benefits across the programme to establish the new hospital services.	*Do by Financial Close*
The SRO should ensure the agreement of an overarching master programme plan for the delivery of new hospital services after FC. This needs to establish the milestones in each area of work, the dependencies between them and the resources required.	*Do by Financial Close*

SECTION 5: ESTATES AND DESIGN ANALYSIS

5.1 Estates strategy

The Trust confirms that this redevelopment project and its associated projects including Pathology, and Learning and Research, together with the development of Frenchay hospital remain central to the Trust's Estate Strategy and that this strategy remains valid.

5.2 Design sign-off

The Trust has received and agreed all design information as requested in competitive dialogue and procurement process and in line with DH guidance.

The Trust signed off all 1:200 plans in early September together with the standard room data sheets and 1:50 drawings. The Trust is currently completing sign off of the bespoke room data sheets and 1:50 drawings. These will be signed off for Clinical Functionality by Financial Close.

Sectional mock ups of components of the building including wall, ceiling and floor details are being completed prior to Financial Close, and these will be used to supplement the sign off of design quality within the Project Co. Proposals. This sign-off will be supplemented by mock-ups of single room, consult exam room, 4-bedded bay, treatment room, operating theatre and an en suite toilet to be constructed and reviewed by the Trust after Financial Close.

Sign-off of mock-ups will be supplemented by a range of reviewable design determined by Schedule 10 of the Project Agreement, which will relate largely to internal finishes, signage and completion of soft landscaping.

A summary of design sign-off process is included in Appendix G.

The original version of the ABC described a number of options for design identified and priced by Carillion in the competition that the Trust accepted. These options were included in the ABC financial analysis. These design options were:

- Increase in the size of the single room by around 1sqm. This option allowed an increase of the dimension of the room to the outside wall and thus made the room feel a little more spacious. This change was strongly supported by the Trust's Clinical Specification Group responsible for functional sign-off of the building

- Increase in the number of medi-rooms in the theatres suite from 48 to 60. Although the number of 48 was modelled as being adequate for future need the Trust believes that some spare capacity here would be helpful for future flexibility

- Aggregation of the Trust isolation rooms from separated clusters into a single group, giving the Trust more resilience in the event of a serious infection outbreak

- Tightening of the building energy performance from 45GJ/100m^3 to 40GJ/100m^3

Overall these design options were seen to improve the Carillion offer and increase the functionality of the hospital. The capital and revenue consequences were incorporated in the final version of the ABC.

5.3 Technical design review

The Trust and its advisors have reviewed all technical information and confirm that it is satisfied with both the level of detail and content of the information received.

All issues raised have been resolved to the Trust's satisfaction and the Trust confirms that this has not increased the overall capital expenditure of the project.

Trust sign-off (including Trust advisors):

- Technical fire compliance (details of Trust review are included in Appendix H)
- Impact of fire strategy on building design and aesthetics
- Clinical room sizes and shapes
- Elevations and architectural treatment
- Landscape plan
- Interior design proposals including impact of technical issues
- Workmanship and materials sign-off including mock-up benchmarks
- Derogation list

The ABC considered Carillion's proposals in detail and the following were fixed and have not changed:

- Flexibility for expansion, contraction and alternative use
- Energy consumption
- Carbon trading provision
- Health and Safety, Firecode and Environmental standards principles (although more detailed proposals have been presented and agreed)
- Sustainability proposals
- Hard FM services provision

5.4 Ground contamination and asbestos

The commercial position in relation to ground contamination and asbestos has not changed since the ABC and follows the standard form position. Trust surveys have not been updated as warranted surveys for the key risk buildings were completed during Competitive Dialogue.

At final bid Carillion offered a schedule of rates which could be used should additional asbestos be discovered during construction phase. During Clarification this position was amended slightly to give the Trust the option to move to an open book position if it is unhappy with the schedule of rates at the time the cost is incurred.

SECTION 6: EQUIPMENT AND IM&T

6.1 Summary

Equipment and IM&T proposals from Carillion have been finalised and details including lifecycle assumptions, payment mechanism provisions and technical refresh arrangements have been included in the project agreement. The risk profiles, IM&T arrangements and equipment responsibility matrix remain as at ABC.

The equipment proposals have been developed in parallel with the finalisation of room data sheets and the two sets of data have been reconciled to ensure consistency.

The equipment for the AWA was successfully selected and procured using the equipping committee arrangements outlined at ABC stage. The commercial consequences of the AWA equipping have been described in section 3.

6.2 IM&T

The IM&T proposals remain as in the ABC but a full review of the 1:200, 1:50 and RDS has been conducted to check and sign-off IM&T installations and related power sources.

There has also been a review and sign-off of IM&T equipment to check for power output and specifications and impact upon the energy model.

The IM&T proposals have been signed off by the Trust's director of IM&T.

SECTION 7: ACTIVITY AND CAPACITY

7.1 Changes subsequent to ABC approval

The baseline for capacity and financial planning within the Appointment Business Case was the plan for 2008/09. The following section:

- Updates the impact of a range of activity growth scenarios from the 2009/10 plan which take into account the changing resource outlook;
- Adjusts specific length of stay reductions towards benchmarked best practice;

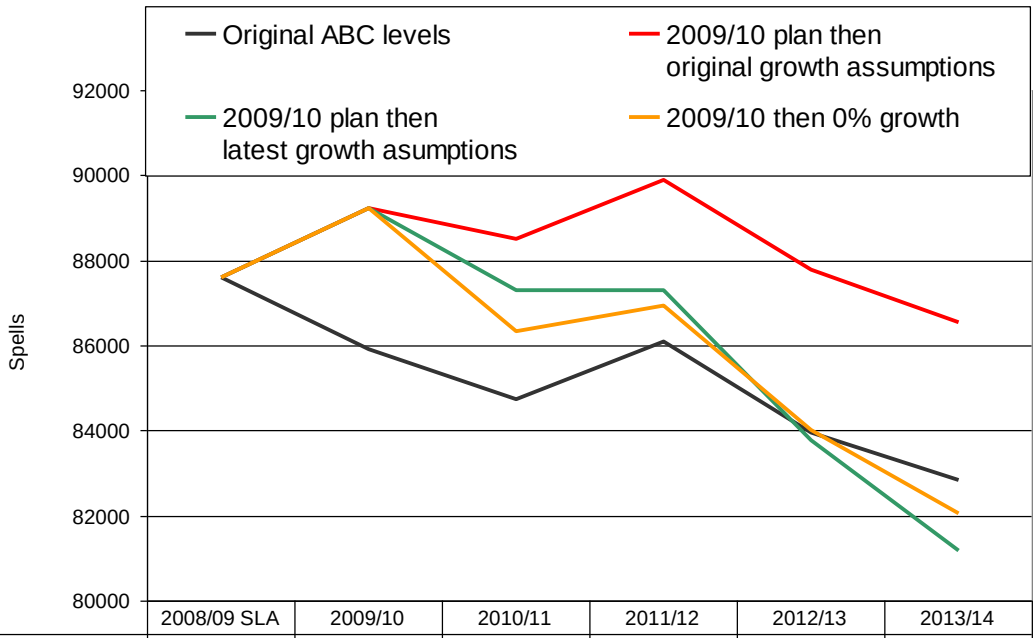
7.2 Inpatient activity projections

The table below shows the activity levels projected in the Appointment Business Case compared to updated projections based on:

- Growth in line with the Appointment Business Case forecasts (circa 1.5% per annum on average);
- Growth in line with the North Bristol NHS Trust updated medium-term financial plan (circa 0.7% per annum on average);

- Zero growth.

Updated activity forecasts



	2008/09 SLA	2009/10	2010/11	2011/12	2012/13	2013/14
Original ABC levels	87612	85920	84740	86094	83943	82848
2009/10 plan then original growth assumptions	87612	89214	88497	89882	87764	86540
2009/10 plan then latest growth asumptions	87612	89214	87309	87309	83759	81188
2009/10 then 0% growth	87612	89214	86327	86945	84017	82047

The 2009/10 plan revised starting point at 89,218 spells is over 3,300 spells above the Appointment Business Case projection for 2009/10 of 85,920 spells. Depending on the growth rate scenario, the projected 2013/14 activity ranges from 81,188 to 86,540 spells, compared to the Appointment Business Case forecast of 82,848 spells.

Activity is projected to reduce in all scenarios. This is due to:

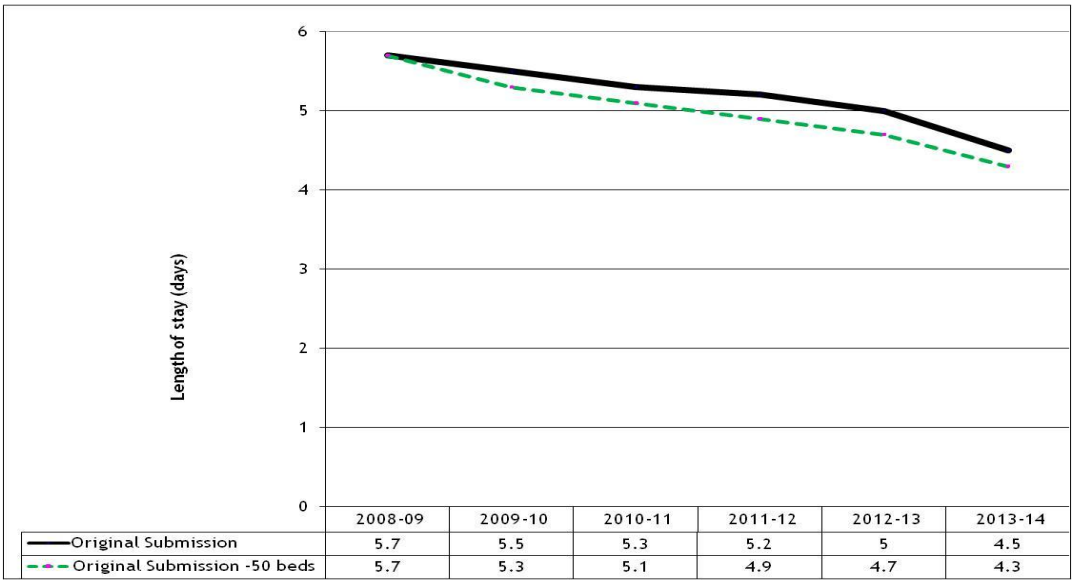
- The planned transfer to University Hospitals Bristol NHS Foundation Trust of specialist paediatrics;
- Some emergency admissions going to other acute hospitals resulting from the move to a single acute hospital in North Bristol;
- The impact of the independent sector treatment centre;
- More care delivered in community settings.

This demonstrates that the activity forecasts remain broadly in line with the original assumptions within the Appointment Business Case. However, there is a risk that the future projected decrease will not be fully achieved if the unplanned increase in activity seen in 2008/09 continues.

7.3 Length of stay and occupancy changes from the ABC

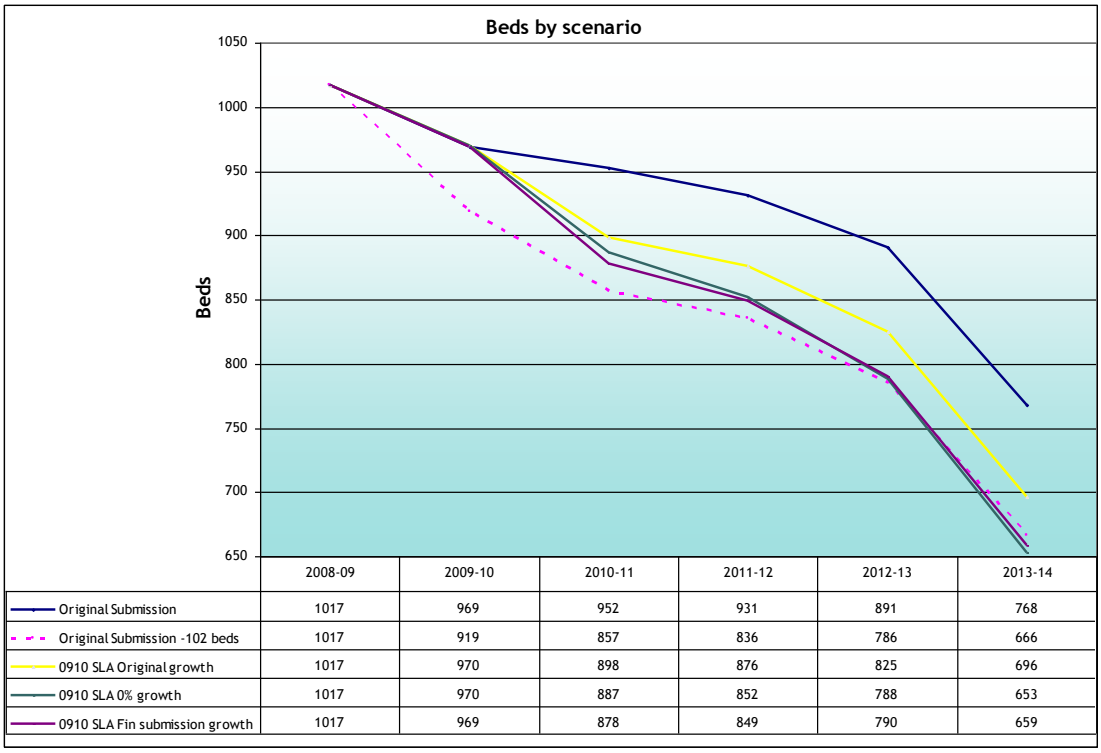
As part of the ABC approval process, the Trust agreed with the SHA a more aggressive trajectory with regard to length of stay and performance improvements.

The table below shows the planned phasing of the further length of stay reductions agreed in response to this adjustment:



	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Original Submission	5.7	5.5	5.3	5.2	5	4.5
Original Submission -50 beds	5.7	5.3	5.1	4.9	4.7	4.3

The reduction planned is primarily in non-elective general medicine, but also non-elective trauma and orthopaedics and general surgery. The Trust is already achieving the revised target of 5.3 days average length of stay required in the new trajectory by the end of 2009/10.
In addition, the Trust has committed to achieve these targets even after the likely increase in average patient age and complexity over the period, and has moved to plan at 84% occupancy including the impact of seasonal variations.



	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Original Submission	1017	969	952	931	891	768
Original Submission -102 beds	1017	919	857	836	786	666
0910 SLA Original growth	1017	970	898	876	825	696
0910 SLA 0% growth	1017	970	887	852	788	653
0910 SLA Fin submission growth	1017	969	878	849	790	659

The overall effect of these changes is to reduce the projected bed requirement by slightly over 100 beds from that set out in the ABC, dependent of course on the management of growth to the very low levels now projected in the context of the opportunities to reduce the use of the acute sector. This is shown in the table below.

This represents an increased level of performance improvement compared to the ABC, which provided for a 50 bed reduction on the original length of stay plans. The financial benefit of this is estimated at £2.6m, and this is included in the financial section of this CBC in the sensitivity analysis.

7.4 Closure of retained estate and incorporation of women's services within the PFI

The consequence of the reduction in length of stay projection is the ability for further closure of retained estate, with the assumption that maternity services would move from retained accommodation into the new PFI build.

The main elements of inpatient accommodation would be accommodated within a 96 bed cluster of beds. This would allow the maternity beds to use a 64 bed grouping with fairly minimal works alterations. The NICU would fit into the other 32 bed cluster and this would require some internal alterations to accommodate cots rather than standard inpatient beds.

In both cases, there would be adequate internal area to accommodate the changes and an extension to the PFI would not be required.
The delivery suite would be incorporated within the lower acuity theatre complex. There are a few modifications required to meet the requirements of the service but these would be achievable through internal restructuring.

The benefits of developing the hospital with standard rooms are being used to their maximum effect with this move.

The office and ambulatory care facilities will be incorporated within the Trust's final phase enabling scheme that is excluded from the PFI.

Carillion were asked to provide elemental costs for providing additional capacity during the competition and these will be used in benchmarking the actual costs proposed for the development.

The programme for delivering this change is as follows:

- Secure outline scoping proposal from Carillion Feb 2010
- Consult with staff/public on potential move 2010/2011
- Complete design and cost proposals 2011/2012
- Amend construction 2012/2013

SECTION 8: COMMERCIAL

8.1 Standard Form Contract and procurement compliance

The procurement has been completed in line with EU regulations.

The PA and associated schedules have been completed to comply with SF3 with some exceptions, which have been agreed with the PFU. The full list of amendments to SF3 is shown in Appendix I and the main points are listed below:

Drafting exception
PA Clause 7 – Warranties. Project-specific drafting has been incorporated in relation to warranties provided by the Trust to Project Co.
Pa Clause 15.3 – Unforeseen ground conditions and Contamination – the principles of this clause remain. Replicate clauses have been inserted to enable distinctions to be made between unforeseen ground conditions and Contamination, Asbestos within Existing Buildings and Asbestos within ducts.
PA Clauses 14.1, 14.2 and elsewhere – Phasing – the PFI site will be handed to Project Co in several tranches. These have been referred to as Phase 1 Works Area 1, Works Area 2, etc. throughout the Project Agreement and Schedules
PA Clause 30.4 – compliance with Trust Policies – this has been expanded to cover compliance with PCT policies to reflect the potential for the PCT to operate the integrated community hospital.
PA Clause 35 – Advance Works – due to the Advance Works Agreement, additional drafting was required to cover the works which will be completed after financial close.
PA Clause 35.5 – Default Interest – For the first 30 days following default, this will mean LIBOR + 2%. Following this period, the rate will increase to LIBOR plus a margin plus 2%. The 30 day lower interest rate will not apply in the event of a subsequent default occurring within 3 years of the previous default.
PA Clause 39.3.4 – Relevant Changes in Law – it was agreed to include emissions Specific Change in Law as a Relevant Change in Law, allowing Project Co to seek adjustments to Service Payments to compensate for any increase or decrease in net cost following change in law.
PA Clause 34 - Market Testing – this clause has been deleted as this is irrelevant to a hard FM only scheme.
Schedule 18 – New Service Provider - upon appointment of a new Service Provider there will be a wipe clean of Service Failure Points in relation to the affected Service. This shall be limited to two replacements of the Service Provider. The new sub-contractor will have no bedding in period for financial deductions (and for the avoidance of doubt no relief on SFPs) and in addition will be liable to double financial deductions for performance failures for months 4-12 (inclusive) in the first year of operation for a replacement subcontractor.
Schedule 22 – the Trust has included the concept of Ad Hoc Small Works. A budget of £10k per annum has been included within the financial model to cover minor works e.g. putting up shelves, hooks, key cutting, redecorating small areas, etc. at pre-agreed prices. This helps to ensure that the Trust won't be charged excessive prices for inevitable minor tasks which we will require Project Co to perform during the concession period.
Schedules 30-33 – ROE – These schedules have not been used as the Trust does not

envisage any staff transfer.

8.2 Changes since ABC

The commercial structure of the deal has remained as at ABC (including risk profile, concession length and associated documentation) with the exceptions of the scope issues addressed in section 3.

There have been some minor changes to the commercial deal to reflect the issues that were outstanding at Preferred Bidder appointment. The outstanding issues and their resolution is summarised in the following table:

Energy: The deal is compliant with PFU energy principles and guidance. The banks were concerned at the low energy threshold underwrite by Carillion within their offer and were looking to the Lenders' Technical Adviser to confirm that the thermal energy efficiency provisions within the Project Agreement are appropriate, particularly in the light of the addition of the Clinical Sterile Services Department. The banks commented that Project Co may be exposed to risk in relation to its energy obligations and expected this risk to be mitigated appropriately.	A revised energy model was prepared by Carillion, including the sterile services department. This has been reviewed by the Lenders' Technical Advisor who is content with the energy target. The banks have agreed the Good Housekeeping Measures incorporated within the PA, which relate to energy efficiency. In additional Adjustment Factors were inserted in schedule 8, part 7 to cover energy risk.
Title: The funders were awaiting further information on the specific titles included in the Site. The banks were looking to the Trust to warrant to the best of its knowledge information and belief that it is not aware of any undisclosed title issues which could affect the Project.	An updated Certificate of Title was issued in October 2009. Some minor points were raised in relation to this, and are currently being resolved satisfactorily**.** No issues have arisen from this updated Certificate. The warranty in clause 7.1 has been amended. At ABC, the warranty was based on actual knowledge of the employees of the Trust working within the Directorate of Facilities and/or other department of the Trust working within estates and property functions within the Trust...' This has now been revised to warranting 'on the basis of actual knowledge of the Trust

	Board and/or its employees (such employees having their knowledge in their capacity as employees of the Trust) …'.
Disaster plan: The banks stated their position that the Disaster Plan should be appropriate in the light of Project Co's limited operational obligations (i.e. Hard FM) under the Project Agreement. The funders required further reflection on those duties which Project Co is able to perform and, to the extent these are material, the variation mechanism should apply and/or it should be a Compensation Event under the Project Agreement.	The Disaster Plan wording has been revised such that Project Co is responsible for sorting the fault if it relates to hard FM. Available Project Co staff will also help the Trust in Disaster Plan situations. The banks confirm that a Disaster Plan situation will not now require a variation or Compensation Event.
Trust Parties: The definition of "Trust Party" should include any licensees of the Trust connected with the provision of clinical services including the university, its staff and students making use of the Facilities.	The Trust has agreed to amend the definition of Trust Party to include a new point: d) The University of Bristol and the University of the West of England (and any successor in title to either university) and the employees and students of each university. The University of Bristol and University of the West of England are the two principle universities which the Trust has teaching associations with. The Trust therefore believes that this is reasonable. These additional parties will also be incorporated for insurance purposes.
Title to equipment: The banks required the removal of the prohibition on the creation of encumbrances over the Equipment since this may affect the enforceability of the funders' floating charge under the Enterprise Act provisions.	Title to New Equipment remains with Project Co being the "owner" of that equipment. The prohibition on charging, previously in schedule 13 has been removed. Project Co may incorporate a floating charge over Project Co owned equipment. However, this charge must be released on termination. This drafting is to be incorporated within in the funders' agreement, rather than in the PA.
Advance Works: The banks commented that, as is standard for PFI projects and as envisaged by NHS SF3, the Advance Works Agreement	The capital payment regime has been imported into the Project Agreement to cover unfinished

ceases to have legal effect upon signature of the Project Agreement and that the Advance Works be included as "Works" under the Project Agreement. Notwithstanding this, the banks had a number of concerns with the current draft of the Advance Works Agreement issued 10th August 2009 which relate principally to the interface between the Advance Works and the "Works" and ensuring that the position in relation to claims in respect of the Advance Works is clear on financial close. Specifically, the banks requested that where the Trust defaults in payment to Project Co after financial close in respect of Advance Works, Project Co must be made whole bearing in mind the statutory right of the Construction Contractor to suspend work for non-payment.	Advance Works which are undertaken between financial close and 31 March 2010. The Trust's express obligation to pay is set out in Clause 35A. This ought to be sufficient to allow Project Co to claim a delay/compensation event if the Trust is in breach. However, an express reference to this in Clause 35A. This does not add any additional risk to the Trust, merely clarifies the existing position. In addition the Trust has agreed that it will receive a warning notice before a Delay/Compensation Event can be claimed (within the current timescale for payment) and that the provisions of Clause 45.1 will be amended to ensure the Project Agreement cannot be terminated for failure by the Trust to pay a capital payment.
EIB technical issues: The EIB raised a number of technical issues with the SF3 drafting that required consideration by the PFU.	The significant points have now been resolved with the PFU and only minor amendments required to the PA.
VAT on energy: The Trust asked Carillion to look at the possibility of becoming the prime payee on the energy bills for the PFI.	This has not been incorporated within the Project Agreement.
Demolitions: The Trust asked Carillion to explore a carve-out of phase 2 demolitions from the PFI scope.	This has not been incorporated within the Project Agreement.
Wipeclean: The pathfinder banks requested that upon replacement of the Hard FM subcontractor there will be a wipeclean of Service Failure Points.	The Trust has agreed that Project Co is allowed a wipeclean of SFP upon appointment of a new subcontractor. This shall be limited to two replacements of the Service Provider. In return, the new sub-contractor will have no bedding in period for financial deductions (and for the avoidance of doubt no relief on SFPs) and in addition will be liable to double financial deductions for performance failures for months 4-12 (inclusive) in the first year of operation for a replacement subcontractor.
Default Interest: At present, "Default Interest	The Trust has agreed to a

Rate" is defined in the Project Agreement to mean "2% over LIBOR." The funders requested that this definition be edited to take into account the fact that the nominal interest rate on the Loans under the funders' facility documents is in fact LIBOR plus a margin and that default interest is therefore LIBOR plus a margin plus 2%.	compromise proposal. For the first 30 days following default, the PA provision should remain. Following this period, the rate would step up as proposed by the funders This 30 day relief would not apply in the event of a subsequent default occurring within 3 years of the previous default.

8.3 Completion of documentation

The senior funders have agreed to all project documentation and are in position to sign the Direct Agreement.

Carillion have put in place the requisite insurances and these arrangements have been agreed and signed off by the funders' insurance advisors and the Trust insurance advisors.

The energy model has been completed to the satisfaction of the funders' technical advisors and the Trust's technical advisors.

The payment mechanism was agreed as part of the Competitive Dialogue process but has subsequently been adjusted to reflect the design development during preferred bidder stage including the addition of the decontamination unit.

The payment mechanism relates to the service specifications agreed in competition. These specifications have been enhanced through development of the method statements.

SECTION 9: FINANCE

9.1 Capital and transitional expenditure and financing

The capital expenditure included in the ABC was £**[REDACTED]** in the PFI with a total of £**[REDACTED]** including public sector investment. The only scope movement since the ABC are those planned changes identified in section 3. The impact of these changes, together with the demolition carve out described in the commercial section, is shown in the following table:

	PFI	Trust capital	Transitional Costs	Total
	£m	£m	£m	£m
Capex in ABC	435	43		478
Transitional costs in ABC			40	40
Total in ABC	**435**	**43**	**40**	**518**
Decontamination	**[REDACTED]**			
AWA	**[REDACTED]**			
Minor equipment under £5k	0	5	-7	-2
Transfer of demolition costs to Trust	-3	3		0
Reduction in other transitional costs			-11	-11
Other minor changes	**2**			2
Total in FCBC	**428**	**64**	**22**	**514**

These costs now represent the final capital and transitional cost out-turn figures. The capital cost changes have been assessed and benchmarked by the Trust's technical advisors.

The total of funding provided by banks is more than the forecast equivalent capital expenditure of the Private Finance Initiative scheme . This is because there are a number of other funding requirements that need financing prior to the scheme being fully operational. The sources and applications of the funding are shown in the table below:

Sources and application of funding

Sources	£million	Applications	£million

[REDACTED]

Updated FB forms are attached in Appendix C

The Trust capital costs identified above have been included in the Trust's latest capital programme, with the additional expenditure since ABC being funded by prudential borrowing of £21m. The £13m loan for advanced enabling is already approved and the further £8m is not required until 2013/14. The latest capital programme is shown in Appendix J.

9.2 Changes in the Unitary Payment since the ABC

The affordability threshold was set in the ABC at £37.6m at 2008/9 prices with a target UP of £34.5m.

The changes to the UP between the ABC and the FCBC fall into five categories:

- **Scope changes:** relating to advanced works, sterile services and transitional funding described in section 3.

- **Adoption of the Carillion non-mandatory variants:** described in the ABC and in section 5.

- **Risk provision:** reduced from **[REDACTED]** to **[REDACTED]** to reflect advance of the design and subsequent managing out of the risk. The revised risk matrix is shown in section 11.

- **Changes in market rates:** LIBOR and RPI swap rates have moved since the ABC. The net impact of these movements is shown in the following table:

	ABC	Aug	Sept	Oct	Nov 2	Nov 6
LIBOR	3.82	4.50	4.35	4.37	4.11	4.26
RPI	3.61	3.50	3.60	3.41	3.48	3.53

  The overall impact on the UP is an increase of around £2.1m compared to ABC rates. The buffer of 50 basis points (bps) has been retained.

- **Changes in terms:** The changes in commercial bank terms have been derived from the funding competition and are summarised in the following table:

	Terms at ABC	Terms at FCBC

[REDACTED]

  The EIB terms have changed since ABC as follows:

	Terms at ABC	Terms at FCBC

[REDACTED]

  The overall impact of these term changes is to increase the cost of the UP by £**[REDACTED]**.

- **Sculpting:** To respond to the need to reduce the UP and to address some concerns expressed by the EIB around the shortage of cash in the financial model in the early part of the deal, the Trust explored the potential for sculpting the UP. Agreement in principle was reached with the PFU and a model was run with £**[REDACTED]** additional payments in the years 2015 to 2018

The impact of this sculpting is a reduction in the annual UP of **£[REDACTED]**

The justification for this in value for money terms is set out in section 9.7.

These changes are summarised in the table below:

[REDACTED]

In summary, the revised UP (including the retention of the 50bp buffer worth £2m) is £2.2m higher than the target UP within the ABC but £900k less than the UP cap.

9.3 Changes in the recurring revenue impact of the scheme since ABC

The recurring impact of the scheme at ABC was £5.2m. This has subsequently been amended to reflect the increase in projected UP as shown above. In addition, the reduction in transitional funding has led to the transfer of £5m of equipment from the transitional revenue funding to the Trust's capital programme, with a consequent increase of £600k per annum in capital charges.

A third adjustment is the incorporation of the decontamination unit savings as identified in Appendix D to offset the increased costs of incorporating the scheme within the PFI.

These impacts are shown in the following table:

	Recurring financial impact of the scheme £m
Recurring revenue impact at ABC	**5.2**
Impact of increased UP	2.2
Impact of capital charges on under £5k equipment	0.6
Additional savings resulting from inclusion of CSSD	-0.4
Recurring revenue impact at November 03	**7.6**

This table shows a recurring revenue impact of £7.6m per annum, within the ABC constraint of £8.3m but in excess of the target of £5.2m.

9.4 Transitional costs and funding

As a result of the reduction in transition funding reducing from £40.7m to £21.6m, the Trust has recast its double-run cost plan and this amended position is shown in the following table:

	09/10 £m	10/11 £m	11/12 £m	12/13 £m	13/14 £m	14/15 £m	15/16 £m	16/17 £m	17/18 £m	Total £m
Total transitional income	**3.55**	**1.59**	**1.48**	**1.48**	**6.49**	**4.51**	**1.90**	**0.30**	**0.28**	**21.6**
One-off transitional costs										
Disposal of Frenchay land	0.0	0.0	0.0	0.0	0.0	0.5	0.0	0.0	0.0	0.5
Decommisioning/double running costs	0.0	0.0	0.0	0.0	2.1	0.0	0.0	0.0	0.0	2.1
Minor equipment etc.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Purchase of losing bid design	1.0									1.0
Excess travel	0.0	0.0	0.0	0.0	0.0	0.3	0.3	0.3	0.3	1.2
Premises release phasing difference	0.5	0.3	0.2	0.2	1.4	0.0	0.0	0.0	0.0	2.7
Phasing of savings	0.0	0.0	0.0	0.0	0.7	3.2	1.6	0.0	0.0	5.5
Redund., temp. excess staff & agency prem.	0.0	0.0	0.0	0.0	0.6	0.0	0.0	0.0	0.0	0.6
Capital charge release timing difference	0.2	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.6
Project team	1.8	1.3	1.3	1.3	1.3	0.5	0.0	0.0	0.0	7.3
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total transitional costs	**3.55**	**1.59**	**1.48**	**1.48**	**6.49**	**4.51**	**1.90**	**0.30**	**0.28**	**21.6**

The two main areas of reduction in transitional expenditure are as follows:

- £7.1m of minor equipment and £3m of demolitions were previously assumed to be charged as transitional funding. Both of these costs are now planned to be capitalised, accounting for a £10.1m reduction in revenue cost. Following review the provision for minor equipment purchases has been reduced to £5m. This change is shown in the summary of changes in capital and transitional costs shown in section 9.1. Thus this change results in £8m of additional capital expenditure, the planned financing of which is outlined in section 9.8.

- The provision for phasing in the full effect of the synergy and performance savings has been reduced by £6.6m (from £12.1m to £5.5m). This is due to planning for a much more aggressive, but realistic, phasing of the savings, based on 80% in the first full year after completion of phase 1, 90% in the second year and 100% from year 3.

The revenue and capital consequences of changes in transitional funding have been addressed in sections 9.1 and 9.3.

9.5 Revenue impact on a year by year basis

Impact on Trust I&E position

The overall impact of these changes on North Bristol NHS Trust income and expenditure associated with the scheme is shown in the table below.

Recurring Revenue Movement of New Hospital Since ABC								
	9/10	10/11	11/12	12/13	13/14	14/15	15/16	16/17
Overall revenue impact in the ABC	**0.5**	**0.4**	**0.6**	**0.8**	**0.7**	**4.1**	**5.2**	**5.2**
Movement in unitary payment					-6.8	1.6	2.2	2.2
Advance enabling and Equipment Movement								
Capital charges on enabling works and equipment	0.0	0.4	0.4	0.2	4.6	1.3	0.6	0.6
Capital charges release due to capital prog update	0.0	0.4	0.0	0.0	0.0	0.4	-0.3	-0.3
Synergy savings					3.4	-0.1	-0.1	-0.1
Transitional Cost and Funding Movement								
Revisions to transitional revenue expenditure	1.6	0.0	0.0	0.0	-14.9	-2.4	-2.5	-1.5
Revisions to SHA transitional funding	-1.6	0.0	0.0	0.0	14.3	2.4	2.5	1.5
Accelerated Depreciation cost & income Movement								
Changes in accelerated depreciation	-4.8	-4.7	-1.5	-1.6	2.8	0.0	0.0	0.0
Change in SHA accelerated depreciation funding	4.8	4.7	1.5	1.6	-2.8	0.0	0.0	0.0
Overall revenue impact August 2009	**0.5**	**1.1**	**0.9**	**1.0**	**1.3**	**7.2**	**7.6**	**7.6**

This revenue impact has been reflected in the latest medium-term financial plan of the Trust and is affordable.

9.6 Sensitivity analysis

This section looks at the principal further risks associated with the project and the proposed contingency plans.

The ABC explored a number of risks associated with the project and the target savings and this assessment is still valid. However, there has been an adverse movement in rates subsequent to the ABC and the risk of further adverse movements (together with contingency analysis) is modelled in the table below:

Item	Current rates		Current rates plus 50 bps		Current rates plus 100 bps	
	UP	Recurring scheme impact	UP	Recurring scheme impact	UP	Recurring scheme impact
	£m	£m	£m	£m	£m	£m
Base plan in the CBC	**36.7**	**7.6**	**36.7**	**7.6**	**36.7**	**7.6**
Risk of rate movements from rates at CBC	-2.0	-2.0			2.0	2.0
Contingencies						
Energy costs reduced by achieving 35 GJ/m3		-0.3		-0.3		-0.3
Performance savings related to closing 50 beds		-2.6		-2.6		-2.6
Use part of PCT balance sheet support						
Revised total	**34.7**	**2.7**	**36.7**	**4.7**	**38.7**	**6.7**

The contingencies identified in the table are as follows:

- Reduced energy consumption from 40GJ/m^3 to 35GJ/m^3 reflecting the refinement of the energy model subsequent to ABC approval
- Performance savings related to the further decrease in bed requirements from efficiency and occupancy by 50 beds.
- Use of PCT planned support for balance sheet impact for general support to £0.8m confirmed in the SHA support letter for the ABC (only to be used if the £8.3m net revenue impact cap is breached).

This table shows that a further 50bp adverse movement in underlying rates could be covered by the identified contingency plans, with the net recurring cost of the scheme remaining within the effective cap of £8.3m per annum.

9.7 Sculpting

To achieve the above position the Trust would have to meet the costs of the sculpting in the years when it would be required as shown below:

Year	Sculpt minimum		Sculpt optimum	
	£m	% of UP	£m	% of UP
2015/16	0.5	1%	0.6	2%
2016/17	3.5	9%	4.7	13%
2017/18			3.8	10%
2018/19			1.9	5%
Total	**4.0**		**11.0**	

The benefits of the sculpting would be £870k per annum for the optimum option and a figure of up to £450k for the minimum option (this exact figure is unclear from the financial model at the moment and could be lower than this).

Due to the current level of the RPI swap rates (as used in the model), the project is experiencing significant cash flow pressure in the early periods. This makes it difficult to meet the cover ratio requirements in these early periods without ending up with spare cash (which ultimately gets swept out to equity) at the back end of the transaction. In other words, in the absence of sculpting the service payment is increased in every period to address a problem which is specific to only the first few years. This offers poor value for money to the Trust. By allowing increases to the service payment in just these early years it is possible to reduce the baseline service payment across the board and still meet the required cover ratios, thus improving the NPV of the transaction.

Initially the project had sought to address this issue through the adoption of a ratio reserve account, funded through additional debt and equity. However, this solution was not acceptable to the EIB when looked at in the context of their due diligence review, whereas the sculpting proposal is. In addition, this revised approach removes the cost associated with drawing down additional debt and equity to fund the reserve

The Trust's plan is to take the optimum sculpting option, and this has been incorporated into the UP projection in section 9.2 above.

The impact of accounting for the scheme on Balance Sheet would be to smooth the impact of the additional £11m. There would therefore not be an additional charge to revenue thus removing the potential to breach the affordability ceiling. The additional £11m would be treated as an additional credit to reduce the finance debtor on the Balance Sheet and so will slightly reduce the scheme's charge to revenue from 2018.

9.8 Plan for financing additional capital investment and sculpting

During the progress of developing the ABC through to final approval the Trust has agreed to finance additional capital expenditure as follows:

- £13m on advance works - to improve overall value for money and reduce accelerated depreciation costs, so benefitting the SHA and the local health economy

- £8m to capitalise minor equipment and second stage demolition costs - to reduce transitional funding requirements.

In addition, as described above, the Trust has agreed to provide additional sculpting payments over 2015 to 2018 to reduce the recurrent unitary payment and so improve overall value for money and affordability.

The table below sets out the Trust's plans for financing these sums:

Planned cash financing of additional capital expenditure and sculpting payments

	Cost	Financed initially by prudential borrowing in 2009/10	Financed initially by prudential borrowing in 2013/14	Repayments to 31/3/14	Loan outstanding at 31/3/14	Loan repayment planned 31/03/2014
	£m	£m	£m	£m	£m	£m
Advance works	13.0	13.0		-2.6	10.4	
Minor equipment & demolitions	8.0		8.0	-0.4	7.6	
Total	21.0	13.0	8.0	-3.0	18.0	-18.0
Est min capital receipt from the surplus Frenchay site enabled by the new hospital Planned to be secured by 31/3/14						29.0
Balance remaining after loan repayment planned to finance sculpting payments						11.0

The surplus Frenchay site planned to be disposed of is after setting aside sufficient land for the planned Frenchay Community Hospital. The value of this surplus land was £28m at 2005 prices. Considering that 2005 values would be below the peak of the market before property values fell in 2007, by 2014 there is likely to have been improvement on the 2005 values. £29m is a prudent minimum expectation of the receipt value.

9.9 Impairment and accelerated depreciation

Impairment and accelerated depreciation have been affected by the increase in the advanced works funded by the Trust from £7m to £20m. This has had the net impact of reducing accelerated depreciation and increasing impairment. The latest projections of accelerated depreciation and impairment reflecting this change are shown in the table below.

	2009/10 £m	2010/11 £m	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m	Total £m
Impairments	**30.6**	**5.2**	**0.0**	**0.0**	**75.0**	**0.0**	**110.8**
Accelerated depreciation	**0.6**	**7.1**	**7.7**	**7.8**	**7.9**	**0.0**	**31.2**

This change has been agreed to be consistent with accounting standards by the Trust's auditors.

The key assumptions in calculating impairment and accelerated depreciation are mainly as ABC and in summary:

- The effect of the valuation of the estate during 2009/10 in line with modern equivalent asset valuation methodology has not been included. At this stage there is insufficient information to assess the impact.

- A level of indexation has been assumed based on current market conditions and past experience.

- The preferred bidder's schedule of building availability has been used to calculate the figures above and any change in these either due to negotiations over the next few months or any change in timing then this would have an impact overall, especially on the split of accelerated depreciation over the next two years.

One assumption that has changed since ABC is the date of Financial Close where the figures were based on a date of 30 November 2009. The analysis has been updated to meet the new target date of February 2010.

9.10 VAT recovery

The main scheme VAT position remains as at ABC and this has been confirmed by the Trust's VAT advisors KPMG.

9.11 Accounting treatment

The Trust's accounting advisors KPMG have confirmed the Trust's accounting treatment relating to the PFI is consistent with current guidance on International Financial Reporting Standards (IFRS). Balance sheet treatment remains as at ABC.

9.12 Financial diligence

The Trust and its advisors can confirm the following:

- The financial model has been optimised to maximise the opportunity to

reduce costs to the Trust

- The UP build up is correct and appropriate;
- WACC and funding terms are consistent with submissions in competitive dialogue
- The deal represents value for money
- The UP price hold is maintained in line with the ABC
- Composite Trader provisions have been put in place by Carillion

SECTION 10: WORKFORCE

10.1 Changes since ABC

The position on TUPE has remained the same as ABC with no transfers in the plan. The process from ABC has been conducted in the same manner as throughout the whole project with staff side representation on the key project groups and a network of staff working groups engaged in signing off the scheme.

10.2 SHA assessment post ABC

As part of the evaluation of the Appointment Business Case it was identified that the workforce strategy and detailed workforce planning required further work. This was also identified by the Department of Health in their assessment.

Since the evaluation by the South West Strategic Health Authority, an Associate Director of Workforce Development has been appointed at North Bristol NHS Trust. This appointment reflects the increased importance the NHS Trust attaches to workforce planning. Since then progress has been made in preparing a workforce development strategy.

The progress on workforce development includes:

- The establishment of a new sub-committee of the Board: the Workforce Strategy and Governance Committee. Chaired by the Chief Executive its remit is strategic workforce planning and the development of the workforce development strategy;
- The establishment of a New Hospital Workforce Group specifically to drive the actions required to deliver the necessary workforce changes;
- The implementation of new integrated workforce planning arrangements across the NHS Trust

The SHA concluded in its progress report in September 2009 that the arrangements are comprehensive and if they are delivered then the NHS Trust should have the workforce in place necessary to support the new development.

SECTION 11: RISK MANAGEMENT

11.1 Changes since ABC

The risk profile of the project and the risk matrix has remained as at ABC with no material change to the commercial structure of the deal. The risk transfer is therefore as at ABC and as such has been agreed by the Trust advisors, the DH and the Trust's governance bodies. The Trust reconfirms its support and that of its advisors to the risk transfer.

11.2 Risk Register

The risk management register has been regularly revised to take account of the move of the project through the process and a summary of the current register is shown below:

RISK	RISK IMPACT	MITIGATION
Activity and Capacity		
Activity growth is more than forecast	Income increases but the scheme is potentially too small.	Increase occupancy level from planned 86%. Use 48 vacated beds within Malvern and Cotswold wards, which exist adjacent to maternity unit. In extremis retain the AOC building Reduce turnover interval of beds. Move towards seven-day elective operating. Increase size of planned Frenchay Community Hospital. Extend new Southmead Hospital (outline planning consent allows for expansion).
Activity growth is less than forecast	The scheme is over-sized and income is reduced leading to a potential affordability gap.	Other clinical services (obstetrics, low-risk births and potentially intensive rehabilitation) that are not currently planned to be provided within the new hospital could be accommodated, thus increasing the income per square metre and releasing other estate costs. The capacity (in terms of beds, staffing and certain direct costs) associated with the reduced activity could be scaled down and the space vacated. The planned Frenchay Community Hospital could be reduced in size. Reduce discretionary investment in North Bristol NHS Trust financial plan. Increase savings plan.
Activity shift to	The scheme is over-	Prudent assumptions are in place. These

RISK	RISK IMPACT	MITIGATION
the new Independent Sector Treatment Centre at Emerson's Green is different to that forecast	sized and income is reduced leading to a potential affordability gap.	have been agreed with local Primary Care Trusts. The design of the new hospital is highly flexible, with all surgical facilities standardised. Switching facilities from one specialty to another is easily achieved. Should the overall activity levels be different to those forecast see the mitigation measures described above.
Change in profile of specialty configurations across Bristol leads to a different set of specialty provision in NBT.	The scheme is designed with the wrong type of capacity leading to expensive reconfiguration of the hospital after completion.	The building has been designed with generic groups of in-patient, outpatient and clinical core services instead of a more bespoke clinical village model. This approach allows for changes in the sets of specialties housed in the scheme without change to the basic structure of the building. In addition the scheme is being specified to include generic rooms for the high volume content such as outpatient consulting rooms, wards and office facilities. This approach leaves the building with around 95% translatable generic space with a relatively small percentage of inflexible space.
Changes in technology and medical practice	The scheme is designed with the wrong type of capacity leading to expensive reconfiguration of the hospital after completion.	See above but also use of techniques such as merging theatre with interventional radiology space and also the fit-out of the building with highly flexible IT and communications capabilities.
Service transfers	Concern that specialist Paeds transfer to BRI does not happen by time of establishment of acute/ emergency phase of new build and new build too small.	Generic space planning allows for temporary mix changes and closure programme around old Southmead could be managed to allow time to resolve service transfer issues. Close liaison is maintained with UHB to ensure early warning signs are picked up.

RISK	RISK IMPACT	MITIGATION
Affordability		
Planned savings are not delivered	Increased expenditure, reduced level of surplus from 2013/14	Majority of savings plan is based on specific plans and, given the opportunity for synergy savings as a result of centralisation of services, is robust. Further work is underway to strengthen the latest £2.6 million savings target arising as a result of the opportunities for productivity improvement to ensure that it is delivered. Overall savings as proportion of turnover is lower than that which has been achieved over each of the last three years. Clinical re-design group in place with senior executive and clinical representation. The group oversees the implementation of the new model. Where possible savings plans as a result of clinical re-design are being brought forward. Level of surplus forecast in 2013/14 is £4 million, rising in future years. This acts as a buffer against the risk of a shortfall in planned savings.
	Increased requirement for beds	Increase occupancy level from planned 86%. Reduce turnover interval of beds. Move towards seven-day elective operating. Increase size of planned Frenchay Community Hospital.
Bidders cannot apply full indexation of construction costs	Unitary Payment is increased from Year 1 by £**[REDACTED]** per annum.	Vfm analyses submitted to the PFU to demonstrate Vfm of full indexation of UP

RISK	RISK IMPACT	MITIGATION
Volatility in financial markets leads to increased funding costs	**[REDACTED]**	**[REDACTED]**
Price creep from closure of competitive dialogue to financial close as a result of finalising design	£0.26 million per annum	There have been no unplanned changes from the period from closure of competitive dialogue until production of CBC. In addition, prices cannot change once fixed price bids have been submitted in the period until the selection of preferred bidder, and can only change from then until financial close within tight, previously-agreed, parameters. Any client changes can only be approved following consideration by the design group and if signed off by the Project Director. Capital costs have been benchmarked against the last five Private Finance Initiative schemes to reach financial close. The indicative capital expenditure level includes two significant provisions for risk. The first is normal planning contingency of 10%, which is the standard level applied to all capital developments. The second is optimism bias, a further contingency which has to be applied to the pricing of capital developments to take account of the relative complexity and risks of delay for the scheme. The level of optimism bias applied to this scheme is also 10%.
Advisor contracts are based on the Negotiated procedure not Competitive Dialogue.	Advisor contracts are terminated leading to need to re-tender with potential impact on project costs up to £500k.	Stage fees may be revised within overall budget to reflect renegotiation and re-tender if necessary. Advisor expenditure is monitored and adjusted to respond to over activity. The project budget contains some contingency for over-run.

RISK	RISK IMPACT	MITIGATION
Transitional costs exceed those anticipated	Increased expenditure, reduced level of surplus in the year in which costs fall	Prudent approach to anticipated transitional costs. Certainty over timing of individual transitional costs will increase closer to the transitional period. This might provide the opportunity for some costs to be re-phased into different financial years. Opportunity to use Strategic Investment Fund to 'smooth' the non-recurrent impact in the year in which they fall.
Overspend on Enabling programme	Costs of Enabling Programme exceed budget allocation, 10% overspend would be £3m	Enabling projects have been specified in detail. Procure 21 has been used for the major enabling projects to allow for price certainty around key risks and transfer of identified risks to the P21 contractor. Project managers have been identified for the main enabling projects. The project is using experienced QS support to support the enabling projects.
Programme		
Problems with Town Planning Application	The scheme is delayed due to a protracted process. Costs increase due to onerous Section 106 requirements. Planning permission is too constraining on the scheme and does not allow sufficient scope for PFI innovation.	Planning approval now secured with residual risk being chance of judicial review.

RISK	RISK IMPACT	MITIGATION
Project is mismanaged	The overall programme becomes delayed and problems arise due to escalating capital inflation and procurement costs.	The project has undergone three successful Office of Government Commerce Gateway reviews which provide an external, independent assessment of the strength of the project management and, in particular, the management of project risks. At least two further Gateway reviews will be conducted at key stages of the project, the next immediately prior to Financial Close. The Trust is maintaining a Prince 2 programme management system and has recruited a Project Team with experience of managing complex PFI procurement. The Trust has also developed an enabling scheme programme that will allow the PFI to be procured as a one phase development. This will make the development simpler and easier to manage from a commercial perspective.
Enabling Schemes are delayed and run into difficulty due to complexity.	Main PFI scheme is delayed due to unavailability of site with potential penalties being incurred due to PFI delay	Enabling Programme Board meets monthly with focus on interdependencies. Enabling team trained on project methodologies. Enabling demolition packages placed with PFI contractor.
Detailed design programme is late	Insufficient time to complete 1:50 reviews with all key users, leading to potential problems with finished design.	Standardisation of rooms and flexible accommodation adopted where possible for principles to be applied. Regular review of stakeholder involvement to ensure all key personnel involved in Bid Evaluations

RISK	RISK IMPACT	MITIGATION
Business case sign off is delayed or not achieved	The programme is delayed land there are problems managing Bidder and Project costs with an extended approval timetable.	The PCTs and SHA are included on the Project Board. The DH and SHA are included in weekly team conference calls to pick up any major issues of concern. The scheme has been refined to ensure compliance with national affordability tests and hurdles. The scheme has been designed to meet the latest developments in health policy including the Darzi review, with a focus on centralising specialist services and decentralising outpatient and diagnostic services into community settings.
Product Quality		
The Clinical Model is not implemented successfully.	The productivity targets cannot be met and the building environment will not be appropriate to a partially implemented model.	This is the key risk in the Project and as such will require the most attention. The Trust has a Service Redesign Group charged with overseeing the implementation of the new model. The group has wide representation from within the Trust and will be serviced and supported by dedicated staff. This group is a composite team pulling together the Trust operational here and now processes with the longer term objectives. The Group reports directly to the Executive team which focuses on this issue as a main agenda item. This allows the programme of change to have CEO level focus during a period of organisational restructure that could potentially refocus senior management attention elsewhere over the next few years. In addition the BHSP Project team will support the process with learning events and networking into the other programmes of development within BHSP and with other programmes around the country.
The workforce is not developed to meet the demands of the clinical model	The clinical model cannot be delivered effectively leading to problems with capacity and affordability due to failure to meet efficiency targets.	The Trust has established a workforce group to target the actions required to implement the necessary changes. This group has put in place an implementation plan and reports to the Project Board.

RISK	RISK IMPACT	MITIGATION
Design is not fit for purpose	The building environment does not meet the needs of the Trust or the patient	The project has a dedicated clinical specification team with a broad range of representation. Patients and staff have been heavily involved with the development of the design. PFI bidders have engaged strong design teams with good track-records.
Building is not designed to the right finish	The building environment is disappointing to patients and staff and generates a sense of anti-climax	The design specification has been detailed to describe exact standards of design finish. The project has utilised a kit of parts approach to allow Bidders to detail large parts of the building during competition. The Bidders are required to produce benchmarks and mock-ups to allow the scheme to be tested for quality.

11.3 Risk matrix

The risk matrix remains as it was at ABC but will naturally adjust once the major milestones of the project have been completed. This matrix will be revised to take account of these stages as shown in the following table:

Milestone	Major Potential Changes to Risk Profile
Financial Close	Procurement delay risks
Completion of all preliminary works	Asbestos and contamination risks
Completion of Phase 1 works	Building delay risks
Completion of Phase 2 works	Residual asbestos and contamination risks

SECTION 12: TIMETABLE AND PROJECT STRUCTURE

12.1 Timetable

Once the Confirming Business Case has been approved the project will move towards Financial Close. This is intended to happen quickly and is enabled by the completion of the five main pieces of work following appointment of preferred bidder:

- The granting of detailed planning permission;
- The appointment of funders, following the funding competition;
- Completion of detailed design in line with procurement documents;
- Clearance of the PFI site through the Trust enabling programme and the AWA;
- Preparation and submission of the CBC

The Confirmatory Business Case can only be submitted after the fixed price for the unitary payment has been agreed. However, the fixed price only remains fixed for four weeks.

There is therefore a four-week window in which approval can be granted for the Confirmatory Business Case. .

The overall timetable from ABC to Financial Close is shown in the following table:

12.2 Timetable following ABC

Action	Achieved by
Review of progress by the SHA Capital Investment Group	24 September 2009
Estimated approval of Preferred Bidder by DH	30 September 2009
Funding competition starts	7 October 2009
Draft CBC submitted	31 October 2009
Results of funding competition received	15 December 2009
Consideration of the CBC by the Capital Investment Group	17 December 2009
Confirmation of time-limited funding offer received	15 January 2010
Approval of CBC by the SHA Board	21 January 2010
Approval by DH	31 January 2010
Financial Close	15? February 2010

12.3 Project structure to complete PFI

The overall project structure remains as at ABC. The Trust confirms that this structure has been designed to meet the requirements for workload and governance throughout the completion of the project and that adequate project funds have been set aside as described in the ABC.

12.4 Ongoing programme arrangements

The success of the development relies on a major change programme across the local health economy and within the Trust itself. The main elements in the management and control of this programme are as follows:

- **SHA monitoring:** A quarterly report will be prepared for the SHA that will highlight the key areas of performance against plan including:
    - overall bed numbers,
    - length of stay reductions
    - throughput analysis
    - savings profile
    - workforce numbers
    - other contingent developments within the Bristol health economy
- **Local health economy:** The improvements required in whole system co-ordination and performance will be governed by a Service Redesign Programme Board chaired by Bristol PCT and with membership from all the local organisations including NBT. This programme board has launched a number of initiatives including rehabilitation, access rates and long-stay conditions.
- **NBT:** The Trust has established a programme board to oversee internal performance improvements and this is linked to the local health economy work. The Trust's initiatives have seen significant improvements in performance to date with a reduction in the bed base of 100 since Outline Business Case with a further reduction of 50 in 2009/10. The programme board has a series of sub-boards including a workforce group that is delivering the change referred to in section 10.
- **Benefits realisation:** The outcomes of the above programmes will be monitored through the Trust's benefits realisation plan. This plan remains as at ABC together with the projected efficiencies and links to best practice/benchmarking. This plan will be maintained and brought up to date in line with the regular reports to Trust Board and SHA.

12.5 Public consultation

Part of the project structure is a programme of public involvement. The Trust has used this programme to ensure it has fulfilled all legal obligations with regard to public consultation, accountability and community involvement (including securing planning permission).

The Trust has undertaken the following initiatives as part of this programme:

- Setting up an information room, open to the public, to review information in relation to the new hospital including planning consents
- Regular Neighbourhood Forum meetings to provide updates to neighbouring residents
- Open Days for members of the general public with an interest in the scheme
- Reports and presentations to the local scrutiny committees

- Involvement of public representatives in key working groups such as the design group;
- A website dedicated to the new hospital

These mechanisms will remain in place throughout the remainder of the project.

SECTION 13: CONCLUSION

The scheme has been delivered within the constraints set at Appointment Business Case and remains affordable to the Trust and the local health economy. The scheme remains of strategic importance and maintains the support of local health partners.