

# Lisburn Primary and Community Care Centre Project

Full Business Case

**Summary Paper for SEHSCT Board**

**21<sup>st</sup> June 2018**

# 1 Lisburn PCCC Full Business Case – Summary Paper

## Introduction and Background

- 1.1 The Full Business Case ('FBC') for the Lisburn Primary and Community Care Centre ('PCCC') Project ('the Project') has been prepared by the South Eastern Health and Social Care Trust ('SEHSCT' or 'the Authority') with the assistance of its specialist advisors. It sets out the case for the award of contract to the Preferred Bidder, the GPG O'Hare consortium, and provides details of the key areas of refinement to the Project since the time of preparation of the Appointment Business Case ('ABC').
- 1.2 The Project involves the provision of a new PCCC facility in Lisburn which will provide fit for purpose accommodation for GP services, selected acute outpatient services and a large number of multidisciplinary teams.
- 1.3 While the Outline Business Case ('OBC') was not formally approved at Departmental level, the approval to commence a procurement process for the Lisburn Project as a 'Pathfinder' scheme using a Third Party Development ('3PD') approach, was instead initiated through the issue of a Ministerial Direction from the then DoH Minister (Edwin Poots) to the DoH Permanent Secretary in April 2013. On 29 May 2013, the Permanent Secretary, Andrew McCormick, issued formal direction to progress the Lisburn PCCC Project using the 3PD procurement method. The procurement process for the Project was subsequently launched to the market in July 2013 using the EU Competitive Dialogue procurement procedure.
- 1.4 The 3PD approach involves a revenue funded partnership arrangement with a private sector developer as an alternative to funding from the traditional capital budget allocation. This will result in the SEHSCT entering into a contract for the design, build, finance and maintenance (hard facilities maintenance only) of the new PCCC facility for a term of 25 years, after which the PCCC shall revert to the SEHSCT. Alongside this, the SEHSCT shall enter into sub-lease arrangements with each of the GP practices that have agreed to re-locate to the new PCCC.
- 1.5 Following the completion of the tendering stages of the procurement process the ABC report was prepared seeking the approval of the appointment of the recommended Preferred Bidder, namely the O'Hare and McGovern consortium. The Preferred Bidder was subsequently formally appointed in April 2016.

## Confirmation of Service Needs and Activity Levels

- 1.6 The implementation of this new community focussed building is expected to make a significant contribution to the delivery of a reformed primary care service for the Lisburn population.
- 1.7 Detailed analysis of the service needs for the Project was undertaken as part of the OBC. This involved examination of the demographics, population forecasts, deprivation levels and the health and social care profile of the residents. The ABC re-examined the updated population and demographic factors available in 2015 and confirmed that there had been no material change in the projections.
- 1.8 The detailed service activity analysis undertaken in the OBC identified that there was expected to be an increase in the future service profile and staffing levels across most services and was

used to derive the initial schedule of accommodation for the proposed PCCC facility. The ABC reviewed this schedule of accommodation and noted the rationale for any discrete changes to the proposed schedule of accommodation in the time between the OBC and ABC.

- 1.9 There has been no change in the overall schedule of accommodation requirements for the PCCC since the ABC. Significant engagement work has been undertaken with the GPs and SEHSCT services throughout the Preferred Bidder stage to review and refine the accommodation requirements of each service on a room by room basis. As a result, the SEHSCT remains confident that the now fully designed facility shall meet the current and known projected activity levels for each service going forward.

### Confirmation of Project Objectives and Constraints

- 1.10 To support the strategic context, a range of key objectives and critical success factors were established for the Project. The overall aim of the Project stated within the OBC and ABC, and which remains unchanged is as follows:

*“Provide purpose built accommodation which will support the delivery of high quality integrated primary and community care services for the population of Lisburn and the surrounding area”.*

- 1.11 The measurable Project objectives stated within the OBC, as updated in the ABC, remain largely unchanged.

### Overview of Preferred Bidder’s Solution

- 1.12 The building proposed by the Preferred Bidder is located on the SEHSCT’s Lagan Valley Hospital (‘LVH’) site and involves the provision of services over four floors, spanning a net internal area of c.12,400sqm. The Preferred Bidder shall also deliver basement level and multi-storey decked car parking providing c.400 car parking spaces. The picture below provides an architect’s impression of the completed PCCC building on the LVH site:

**Figure 1.1: Architect’s Impression of Completed Lisburn PCCC**



## Overview of Preferred Bidder Stage

1.13 A significant amount of work has been undertaken by the SEHSCT and Preferred Bidder teams in the period since the last formal reporting of the Project to the HSCB Board at the ABC review stage. A summary of the key activities undertaken during this stage is outlined in Table 1.1 below.

**Table 1.1 Overview of the Preferred Bidder Stage**

Stage	Key Activities
Bidder Debrief and Preferred Bidder Appointment	<ul style="list-style-type: none"> <li>• ‘Standstill Letter’ issued to all three short-listed bidders including the outcome of the Final Tender evaluation process and details of their weighted score against each of the award criteria, as well as the weighted score of the Preferred Bidder</li> <li>• The Preferred Bidder appointment letter was subsequently issued by the Authority to the GPG O’Hare consortium on 25 February 2016 following the completion of a 10 day standstill period. Following clarifications, the Preferred Bidder signed and returned the appointment letter on 11 April 2016.</li> </ul>
Reviewable Design Data Stage 1	<ul style="list-style-type: none"> <li>• The Authority team worked closely with the appointed Preferred Bidder to agree the finer details of the design as part of a formal process titled the Reviewable Design Data Stage 1 (‘RDD Stage 1’).</li> <li>• A ‘No Change Principle’ was applied in terms of design review so that only clinically required changes were proposed by service leads.</li> <li>• The RDD process involved a series of engagement by the SEHSCT’s Project Team with 100+ SEHSCT service users, eight GP Practices, as well as other SEHSCT teams such as Estates, IT and Infection Control so as to obtain feedback and sign off on each of the various RDD Stage 1 Items.</li> <li>• Extensive programme of design review meetings to achieve agreement on RDD Stage 1 design developments, including departmental and room layouts, positioning of data / power / services, and confirmation of furniture and equipment requirements. In total over 400 meetings with Service Leads, GPs, and managers of SEHSCT teams were carried out during the intensive RDD period.</li> </ul>
Authority Variations	<ul style="list-style-type: none"> <li>• Authority initiated ‘Variations’ were only permitted to be put forward by the SEHSCT service teams and GP Practices where considered absolutely necessary to ensure clinical effectiveness of the design.</li> <li>• A protocol for proposing and approving Authority Variations was developed which involved:               <ol style="list-style-type: none"> <li>(1) Review of the Variation proposal by the SEHSCT Project Director</li> <li>(2) Indication of likely cost implications by Preferred Bidder</li> <li>(3) Review by Project Board of proposed variation, including costings</li> <li>(4) Where approved, detailed costings provided by Preferred Bidder</li> </ol> </li> <li>• It was agreed with DoH that the SEHSCT would be provided with a delegated change limit of 2% of the capital costs, equating to a limit of ██████</li> <li>• Where any individual proposed Authority Variation was greater than ██████ this was required to be flagged by the SEHSCT Project Manager to the HIB Procurement Sub-Group.</li> <li>• The final agreed Authority Variations were valued at well below the agreed tolerance limit of ██████.</li> </ul>

Stage	Key Activities
Contractual Fine Tuning	<ul style="list-style-type: none"> <li>• While the draft Agreement for Lease and Lease documents were developed and refined with Bidders as part of the dialogue phase, there were a number of items flagged within the Final Tender versions of these documents as 'to be finalised at the Preferred Bidder stage'. These relate to items which were not appropriate or possible to finalise prior to dialogue closure (for example, Bidder design specific / Bidder financing solution specific items). These items were fine-tuned during the Preferred Bidder stage.</li> <li>• As part of this contractual refinement work the Authority also considered its position in respect to the overall contractual structure for the Project, in light of an option retained by the Authority in the procurement documents to revert to a simpler licence contractual structure in the event that the one or more solutions are proposed on the Authority's existing Lagan Valley Hospital site.</li> <li>• A number of small refinements were also required to the insurance and payment mechanism contractual provisions to ensure that the contract remained in line with the requirements to obtain a revenue budgetary treatment.</li> </ul>
Finalisation of Financial Model	<ul style="list-style-type: none"> <li>• The Preferred Bidder's financial model as submitted at Final Tender stage has required to be updated to reflect the change in the estimated contract award date (in line with the pre-set indexation uplift mechanism outlined in the tender documents), along with a number of small cost changes as outlined in the next section of this paper.</li> <li>• The Authority team has been assisted in the analysis of the updated Preferred Bidder's financial models by the Project's external financial advisers, KPMG.</li> </ul>
Summary of Planning Process	<p>Planning approval was obtained by the Preferred Bidder in May 2017. As the three month judicial review period noted in the procurement documents has now lapsed, there is currently no impediment from a planning approvals perspective to progressing to contract award.</p>
GP Engagement	<p>GP Engagement during this phase included:</p> <ul style="list-style-type: none"> <li>• Engagement with GPs in relation to design of the GP Practice areas as part of the RDD Process;</li> <li>• Development and agreement of GP Sub-Lease; and</li> <li>• Reconfirmation of HSCB financial support to GPs.</li> </ul> <p><b>The Agreement to Sub-Lease document has now been signed by all of the eight GP Practices</b> currently located in Lisburn Health Centre that are due to relocate to the PCCC.</p>
Wider Stakeholder Engagement	<p>The SEHSCT Project Team has continued to engage in wider stakeholder engagement and briefings on the Project throughout the process. Such engagement has included Patient representative groups, 3<sup>rd</sup> sector bodies, NIAS, affected Trust services, Medical Committee Meetings and the SEHSCT wide Travel Plan Steering Group.</p>
Enabling Works Phase 1	<p>A significant amount of refurbishment / construction works was carried out on the existing estate at the LVH site to:</p> <ol style="list-style-type: none"> <li>(i) Convert vacant space into functional accommodation for the services being decanted from premises within the "red line site";</li> <li>(ii) Establish additional car parking facilities to manage the displacement;</li> <li>(iii) Successfully relocate 140 staff from the buildings currently located on the red line site that is to be used for the new PCCC building.</li> </ol>

Stage	Key Activities
Ongoing Review of Equality Considerations	At each key milestone in the development of the Project an equality screening exercise was undertaken to assess the impact of the design proposed on all Section 75 groups. This has continued between the ABC and FBC stage and it was most recently confirmed at the end of RDD Stage 1 that a full Equality Impact Assessment is not required.

### Reconciliation of Annual Service Payment

1.14 The ABC provided details of the payment principles underpinning the 3PD contract, which remain largely unchanged at this FBC stage. In summary, the SEHSCT shall be required to pay an Annual Service Payment ('ASP') to the 3PD Contractor in return for the occupation of the Lisburn PCCC and for the Hard Facilities Maintenance ('Hard FM') services to be provided by the 3PD Contractor for the 25 year contract term.

1.15 The Preferred Bidder's ASP was detailed in the ABC and the financial model then became the 'base case' financial model for the purposes of the Preferred Bidder stage. During the Preferred Bidder stage the financial model has been updated in a number of discrete steps to reflect the following:

- The agreed refinement of the overarching contractual structure (see further details in the '*Final Risk Allocation*' section of this paper);
- Impact on whole of life costs arising from:
  - the net cost impact of Authority Variations arising in RDD Stage 1;
  - the net cost impact of the changes in the Group 1 & 2 fixtures, furniture and equipment lists arising following the detailed design work in RDD Stage 1;
  - the impact of the construction indexation uplift on capital costs and fixtures, furniture and equipment costs due to the change in the target contract award date from 1 April 2016 at Final Tender to the current estimate of 31 August 2018. This indexation uplift on capital costs has been undertaken in a transparent manner in line with the pre-determined mechanism set out by the Authority in the original tender documents;
  - the impact of the change in approach to the Enabling Works Phase 2 programme since the ABC stage, whereby the SEHSCT has advised that it will not permit the demolition works at the red line site to be undertaken until the 3PD contract has been formally awarded. This has created a 7 month period in which additional costs shall be incurred by the Preferred Bidder on legal and accountancy fees, as well as on commitment fees on the debt funding arrangements;
- The implications of the contract refinements which were required to enable compliance with Budgetary Treatment guidance (see further details in the '*Affordability and Accounting Treatment*' section of this paper); and
- Revised funding terms prevailing at the time of this FBC preparation.

1.16 Details of each financial model change and its associated cost consequence on the ASP, total nominal payments and the project Net Present Value ('NPV') are presented in Table 1.2.

For comparison purposes with the ABC, the updates to the ASP are presented in April 2016 prices and the net present value is calculated at this date based on a discount rate of 6.09%:

**Table 1.2: Summary of Change in ASP from ABC to FBC**

Model Ref:	Financial Model Description	Annual Service Payment (£'000)	Total Nominal Payments (£'000)	Net Present Value (£'000)
4.0	Base – Final Tender Model	█	█	█
4.1	Composite Trade Licence Model (reflecting refinement to contractual structure)	█	█	█
4.2	Model 4.1 above plus changes to the capital costs (including Variations, FF&E revisions, indexation uplifts and costs incurred over Enabling Works period)	█	█	█
4.3	Model 4.2 above plus impact of contractual refinements to meet budgetary treatment (namely refinements to insurance provisions)	█	█	█
4.4	Model 4.3 above plus impact of revised funding terms (i.e. the 'FBC Model')	█	█	█

1.17 As a result of these changes the ASP has increased by █ per annum (in April 2016 prices).

█  
 █  
 █  
 █

1.18 █  
 █ The movement in market interest rates between FBC and contract award may have an impact on which senior debt provider offers the best value for money for the Authority. The Preferred Bidder will therefore not select its senior debt provider until closer to contract award (when there is less risk of movements in market interest rates altering the selection of preferred lender after this date) and until final due diligence has been completed. For the purposes of the FBC, the more favourable terms have been used.

1.19 In undertaking the review of the revised funding terms, the Authority has relied on the expertise of the Project's financial adviser, KPMG, who have benchmarked the updated term sheets from financial institutions provided by the Preferred Bidder to those recently seen on similar projects elsewhere in the UK. While there are relatively few similar projects in the UK at this time, the terms appear to be on-market. As such, it is not expected that materially better terms would be available if the Preferred Bidder were to undertake a broader senior debt competition.

## Affordability and Accounting Treatment

### Accounting Treatment

1.20 In discussion with DoH, the SEHSCT has examined the likely accounting treatment for the Project. It considers that the 3PD solution falls within the scope of IFRIC 12 (Service Concession Arrangements) and on this basis, SEHSCT will record the infrastructure assets constructed as part of the Project on its balance sheet. The SEHSCT will have an asset of the property and there will be an associated finance lease creditor.

### Budgetary Treatment

1.21 However, for national accounting and departmental budgeting purposes, the treatment of the Project is governed by ESA 2010<sup>1</sup> and the Manual on Government Deficit and Debt ('MGDD').

1.22 The MGDD provides guidance as to whether the assets constructed as part of the Project are considered to be government assets or those of the 3PD Contractor. The assets can be considered non-government assets only if there is strong evidence that the 3PD Contractor will bear most of the risk attached to the assets.

1.23 Where the assets are considered to be non-government assets, the majority of costs associated with the Project score against the Resource Departmental Expenditure Limit ('DEL') rather than Capital DEL.

1.24 The provision of opinions on the budgetary classification of projects in the UK is the responsibility of the Office of National Statistics ('ONS'). While ONS can only provide a firm and final budgetary treatment opinion on the final contract (i.e. post contract award) they did agree to look at the draft contract documents and a position paper prepared by the Authority to give a provisional view and feedback.

[Redacted]

[Redacted]

[Redacted]

1.26 [Redacted]

<sup>1</sup> The European System of National and Regional Accounts (ESA 2010)



1.27 [REDACTED] the Authority remains confident that the Project will achieve a revenue budgetary classification.

### Affordability Assessment Cost Summary

1.28 The ASP is not the only cost associated with this project. There are also associated running costs that are required to be incurred to allow the building to successfully operate. Unless otherwise stated, the costs referred to below are referred to in 18/19 prices.

### Summary of Capital Costs

1.29 The capital costs and income associated with the Project are as follows:

**Table 1.3: Summary Capital Costs and Income**

Item	3PD Contractor	SEHSCT	Cost
Trust ICT Equipment	Supply and install the IT infrastructure distribution system includes all 'passive kit' (i.e. cabling etc.)	<ul style="list-style-type: none"> <li>'active kit' (e.g. moveable IT equipment, VoIP handsets, video conferencing units etc.)</li> <li>Provision of an external communications link from the PCCC building</li> </ul>	[REDACTED] upfront
			[REDACTED] replacement (every 5 years)
Other Furniture and Equipment	NA	<ul style="list-style-type: none"> <li>Supplying Group 2 equipment</li> <li>Supplying and installing Group 3 equipment</li> <li>Ongoing maintenance and replacement of some items of furniture and equipment</li> </ul>	[REDACTED] upfront
			[REDACTED] replacement (every 7 years)
Enabling works	NA	<ul style="list-style-type: none"> <li>This contract is currently out to tender</li> </ul>	[REDACTED] ( [REDACTED] resource DEL)
Capital proceeds	NA	<ul style="list-style-type: none"> <li>From the sale of the Lisburn Health Centre based on LPS valuation</li> </ul>	[REDACTED] receipt

### Summary of Revenue Costs

1.30 The revenue costs and income associated with the Project are as follows.

**Table 1.4: Summary Revenue Costs and Income**

Item	Detail	Cost / Income
Annual Service Payment	<ul style="list-style-type: none"> <li>Paid by the SEHSCT in respect of the construction of the PCCC, the supply and installation of Group 1 equipment, the installation of Group 2 equipment, and ongoing Lifecycle and Hard FM services provided by the 3PD contractor over the 25 year term</li> </ul>	[REDACTED] per annum (noting this is at 18/19 prices)
Premises running costs	<ul style="list-style-type: none"> <li>General premises related running costs in the new PCCC, such as energy, water charges, rates, cleaning, building maintenance, IT maintenance.</li> </ul>	[REDACTED] per annum

Item	Detail	Cost / Income
Project Management Costs	<ul style="list-style-type: none"> <li>SEHSCT team managing the Project through the implementation, construction, commissioning, defects liability periods and the post project evaluation period</li> </ul>	██████ in total from 2018/19 to 2022/23
Premises Related Staff Costs	<ul style="list-style-type: none"> <li>Contract management function (2WTE), the first line helpdesk (1WTE), security staff (1.5WTE), additional portering staff (1WTE) and an additional treatment room nurse (1WTE)</li> </ul>	██████ per annum
Surveyor Role	<ul style="list-style-type: none"> <li>Inspection of works during construction period</li> </ul>	██████ total cost
Net Service Charges	<div style="background-color: black; width: 100%; height: 1em; margin-bottom: 5px;"></div> <ul style="list-style-type: none"> <li>The SEHSCT will reflect the total GP service charges received as income</li> </ul>	██████ per annum cost ██████ per annum income
Car Parking Income	<ul style="list-style-type: none"> <li>It is anticipated that the SEHSCT shall charge for the use of the car parking at the PCCC. The net income (after accounting for the costs of car park security staff (0.5WTE) and rates payable on the car park) has been included</li> </ul>	██████ per annum

1.31 For completeness and for the purposes of the Economic Cost Analysis, the **wider staff costs and goods and services costs** of a combined ██████ are included in the spreadsheet analysis at a flat level in real cost terms. However, these have been kept out of the funding gap analysis as they are **not covered by the scope of the approval of this FBC** which focuses on the premises related costs of the new PCCC facility.

1.32 While a number of the revenue costs above have changed slightly since the preparation of the ABC, there has been **no material change** in the overall net funding requirement for the Project.

#### Projected Cashflow Impacts

1.33 The projected impact of the capital costs and revenues for the first 10 years of the Project are summarised in Table 1.5 overleaf in real uninflated cost terms. This shows the total costs as compared to the existing baseline funds, (also shown in real uninflated cost terms).

1.34 The table highlights that the peak funding revenue funding requirement of ██████ in real uninflated costs occurs in 2022/23 during the first full operational year of the new facility. This then reduces to a flat additional revenue requirement of ██████ in real uninflated cost terms thereafter.

1.35 The capital cost requirements for the Enabling Works and ICT and Group 2 & 3 equipment purchase and commissioning is a total of ██████ in real uninflated cost terms over the first four years, with a capital receipt of ██████ then arising in 2022/23 from the disposal of Lisburn Health Centre.

**Table 1.5 – Forecast Additional Cashflow Requirement (in uninflated cost terms)**

[TABLE REDACTED]

- 1.36 Table 1.6 below highlights how this additional funding requirement is altered when inflation is applied at the relevant rates (which range from 1% to the standard appraisal rate of 2.5% depending on the nature of the cost). This variation in inflation rates is included to highlight the impact of baseline funding not necessarily rising in line with cost inflation which creates a gap in the funding requirements over time.

**Table 1.6 – Forecast Additional Cashflow Requirement (in inflated cost terms)**

[TABLE REDACTED]

- 1.37 The affordability analysis undertaken at ABC stage was stated in nominal inflated costs and included the wider staff and goods and services costs. While it is not possible to undertake an exact comparison back to the ABC due to the difference in price base dates, when the wider staff and goods and services costs are extracted, the **10 year revenue requirement at ABC was [REDACTED], as compared to the [REDACTED] shown above.** This would indicate that there has been an overall reduction in the total revenue requirement as compared to the costs estimated within the ABC.
- 1.38 The equivalent **10 year capital costs within the ABC was [REDACTED] as compared to the [REDACTED] shown above,** however the costs included at this FBC stage are now much more accurate as they are based on the building as designed, rather than through the use of %age estimates.

#### Additional Affordability Considerations

- 1.39 While the tables above set out the expected financial impact of the Project, in practice, payments from SEHSCT to the 3PD Contractor could vary for a number of reasons. An overview of the most significant reasons is set out below:

**Table 1.7 Summary of Possible further variations to financial impact**

Item	Explanation of possible impact
Indexation	A proportion of the Annual Service Payment ([REDACTED]) will be indexed every year in line with movements in RPIx. In the event that actual movements in RPIx differ from the 2.5% p.a. assumption made, the ASP may be higher or lower.
Early termination	The draft Agreement includes provisions in respect of early termination as a result of Project Co default, Trust default and Force Majeure. In this situation the Project Co can either sell the asset to a third party or the Authority (SEHSCT) can purchase it. In light of the compelling case for change and the demand analysis underpinning the accommodation requirements, the likelihood of early termination is considered to be remote.

#### Final Risk Allocation

- 1.40 A summary of the refinements made to the draft contract documents during the Preferred Bidder stage are set out below.

#### Refinement of the Contractual Structure

- 1.41 The original draft contract documents for the Project had been drafted on the basis that the bidders would bring a site to the Project, and that the Preferred Bidder will complete construction of the new facility on that site, before leasing the completed building to the SEHSCT. The principal documents provided to interested bidders at the commencement of the dialogue phase of the procurement were therefore the Agreement for Lease (which contained obligations on the bidder to build the facility and grant a lease) and the Lease itself, which set out the basis upon which the SEHSCT would occupy and pay for the building over a twenty five year period with a purchase option at the end of that term.
- 1.42 However, it was appreciated from the initiation of the Lisburn Project that there was already a suitable SEHSCT-owned site situated at the LVH which bidders might wish to use. All of the

three shortlisted bidders invited to submit final tenders elected to use the LVH site. It was acknowledged that in those circumstances there was a possibility that a simpler (and more tax efficient) licence structure could be utilised whereby the SEHSCT retained the LVH site (rather than transferring it to the bidder through a head lease arrangement only to lease it back). The terms of the procurement therefore included provision that the SEHSCT could switch to this simpler licence structure, provided that the commercial risks and rewards for the parties remained the same as they stood in the successful tender.

- 1.43 Following consideration by SEHSCT and its legal advisers, and consultation with DoH, a decision was taken in December 2016 to progress with the alternative licence contractual arrangement. This effectively means that the SEHSCT will retain its interest in the LVH site rather than being subject to a long term head lease for the site (with the exception of the pharmacy area). This contractual refinement provides the Authority with greater control over the allocated PCCC site, entitles the Authority to a reversion of the PCC facility at the end of the 25 year term, and also led to a reduction in the overall cost of the Project as compared to the original lease structure arrangement.
- 1.44 There has been as little change as possible made to the clauses contained within the Final Tender versions of the draft contract documents to facilitate the simpler contractual structure. The most significant changes relate to the structure / format of the documents and to the terminology used for the contracting parties whereby the draft Agreement to Lease and Lease have now been combined and titled 'draft Agreement'. In addition, some of the clauses and provisions have been removed where they no longer remain applicable under a licence arrangement. This includes the previous 'option to purchase' at the end of the term, with the PCCC facility instead transferring the Authority for nil consideration at the end of the 25 years.

#### ***Impact of Specific Contract Refinements required for Budgetary Treatment***

- 1.45 [REDACTED] two specific contract refinements were required to be made to the contract documents to enable the Project to achieve the necessary revenue funded classification for budgetary treatment purposes. The two amendments required related to insurance risk and the timing of the cap on payment mechanism deductions.

#### ***Refinements arising from contract finalisation and fine tuning***

- 1.46 While the draft Agreement for Lease and Lease documents were developed and refined with Bidders as part of the dialogue phase, there were a number of items flagged within the Final Tender versions of these documents as 'to be finalised at the Preferred Bidder stage'. These relate to items which were not appropriate or possible to finalise prior to dialogue closure (for example, Bidder design specific / Bidder financing solution specific items).
- 1.47 The contractual 'fine tuning' exercise with the Preferred Bidder has involved picking up these elements and agreeing the final content of the Agreement with the Preferred Bidder in advance of contract award. Aside from the completion / insertion of bidder specific information, some of the key areas of outstanding drafting which has now been finalised in the draft Agreement are as follows:

**Table 1.8: Other Contract Finalisation Refinements**

Item	Explanation
Refinancing	<ul style="list-style-type: none"> <li>These provisions give the Authority a right to reasonably request the 3PD Contractor to investigate refinancing opportunities where it considers the funding terms generally available in the market to be more favourable than those reflected in the financing agreements</li> </ul>
Enabling Works	<ul style="list-style-type: none"> <li>Shortly following the submission of Final Tenders it was decided by SEHSCT Board that demolition of the existing buildings on the red line site in the absence of an unconditional binding legal 3PD contract presented an unacceptable risk to the SEHSCT and on this basis it was agreed to only undertake such works following contract award of the 3PD contract.</li> <li>This resulted in a slight change in contractual position in regards to the position on timing of the Phase 2 Enabling Works activities, necessitating a new clause to be added to the draft Agreement.</li> <li>The new drafting provides that any delay in the completion of the SEHSCT's enabling works and consequent delay in the commencement and completion of the 3PD Contractor's construction works as a result of these works, will be at the SEHSCT's risk.</li> </ul>
Funder Direct Agreement	<ul style="list-style-type: none"> <li>This side document has been drafted based on standard drafting and includes, for example, the right for the funder to step-in in the event that the 3PD Contractor is failing to meet its obligations under the Agreement.</li> </ul>

### *Provisions regarding Financial Distress*

- 1.48 DoH has specifically requested that the contractual positions and remedies for the Authority in a financial distress scenario are set out in the FBC given the increased number of occurrences of such a situation in the UK construction and facilities management sectors in recent years.
- 1.49 There are a number of different possible “financial distress” scenarios, depending upon which party becomes financially distressed and when this occurs, but the process and outcome for the SEHSCT is basically the same in each case, either the SEHSCT puts the contract on the market or a valuation exercise will be carried out to agree a compensation amount to be paid by the SEHSCT to the contractor and complete the development themselves.
- 1.50 In practice, given the amount of due diligence carried out by the investors, the senior lenders and the SEHSCT itself, it is unlikely that the 3PD Contractor will become insolvent simply because the project doesn't stack up. It is more likely that the building contractor or facilities management provider become insolvent at some stage during the course of the project. In the first instance that is a risk for the 3PD Contractor to manage by appointing a new contractor. The risks of delay to the project and increased costs or reduced service payments arising in this scenario lie with the 3PD Contractor and its equity investors. However, if the cost of appointing a replacement contractor is so high as to render the entire project uneconomic, then it could lead to the insolvency of the 3PD Contractor itself. The insolvency of the equity providers themselves should not have any adverse impact on the SEHSCT.

### Overview of Project Risk Register

1.51 As outlined in the ABC, as part of the project governance arrangements the SEHSCT maintains a detailed risk register for the Project which encompasses a range of wider risks associated with the likes of the procurement, funding and approvals processes for the Project.

1.52 There are currently no risks identified as 'Red' rating within the project risk register.

### Arrangements for Post Project Evaluation and Benefits Realisation

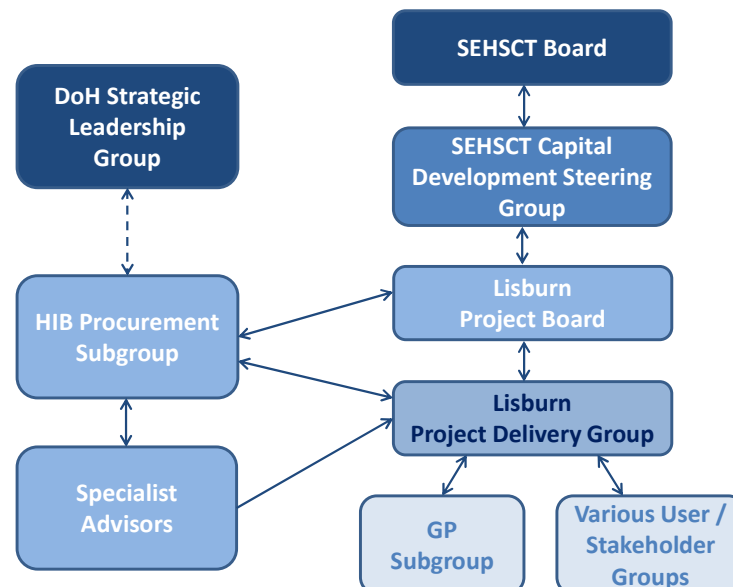
1.53 The Project is being managed in line with Prince 2 programme and project management methodology.

1.54 There has been a slight adjustment to the governance arrangement for the project since the development of the ABC as follows:

- (i) The Health Infrastructure Board (HIB) is no longer active. Following agreement with DoH, escalation of critical issues and decisions previously taken to the HIB for consideration are now being channelled through DoH representatives of the HIB Procurement Subgroup to the DoH Strategic Leadership Group ('SLG').
- (ii) The Lisburn Project Team has been replaced by a Project Delivery Group, with membership, roles and responsibilities amended from that of the earlier Project Team to better reflect the changing roles and requirements at the Preferred Bidder and construction stages of the process.

1.55 The resulting governance structure employed during the Preferred Bidder stage, which is anticipated to continue into the construction phase of the Project, is depicted below:

**Figure 1.2 Overview of Project Organisation and Governance Structure**



1.56 A summary of the key stages of project management are shown in the table overleaf.

**Table 1.9: Project Management Stages**

Stage	Key Points to Note
Enabling Works Phase 2	<ul style="list-style-type: none"> <li>• Subject to a separate tender process</li> <li>• Key dependencies will be managed through a consistent project manager on the two schemes</li> <li>• CPD HP Project Manager for the Enabling Works scheme is closely involved in the PCCC Project</li> </ul>
Construction Stage	<ul style="list-style-type: none"> <li>• Existing Project level governance and management arrangements shall continue</li> <li>• Regular progress meetings between SEHSCT representatives and the 3PD Contractor throughout</li> <li>• The SEHSCT Project Delivery Group will continue to be advised and supported by the specialist advisors in CPD HP, SIB and DLS</li> <li>• The Agreement provides for an Inspection Procedure (details yet to be fully agreed)</li> </ul>
SEHSCT Commissioning Phase	<ul style="list-style-type: none"> <li>• In the 4 month period following building completion and handover specified members of the SEHSCT Project Delivery Group shall be responsible for undertaking post-completion commissioning activities</li> <li>• Project Delivery Group who will be responsible for the decommissioning of the buildings from which the services are to relocate</li> </ul>
Operational Stage	<ul style="list-style-type: none"> <li>• Following completion of the construction phase and the signature of the Agreement, responsibility for day-to-day management of the contract with the 3PD Contractor (and Sub-Lease arrangements with the GPs) shall rest with a nominated SEHSCT Contract Manager.</li> <li>• Technical advisors from CPD HP shall also remain available to provide any necessary technical advice and guidance</li> </ul>

### ***Risk Management***

1.57 The SEHSCT will continue to maintain a Risk Register to capture the project related risks and issues in accordance with the four stage approach of: Risk Identification, Risk Assessment, Risk Management and Risk Monitoring and Escalation.

### ***Benefits Management***

1.58 The extent of change will be reviewed and measured through the use of a Benefits Management Strategy and associated tools. It will follow the four stages of: Identify and structure the benefits; Plan benefits; Execution of benefits realisation plan; Evaluation of benefits achieved.

1.59 A summary of the benefits to be delivered is shown in Table 1.10 overleaf.



Table 1.10: Benefits Statement

Benefit
<p><b>A Quality of Care and Effectiveness</b></p> <ul style="list-style-type: none"> <li>Improved Clinical effectiveness and efficiency.</li> <li>Meets the functional relationship and space requirements of modern primary and community care facility maximising opportunities to support service adjacencies and multi-disciplinary working.</li> <li>To ensure that a reconfigured service supports services in terms of improving the patient pathway and experience by optimising clinical and non-clinical support relationships.</li> </ul>
<p><b>B Quality of Care and Effectiveness</b></p> <ul style="list-style-type: none"> <li>To achieve best value for money from public resources.</li> </ul>
<p><b>C Strategic Fit</b></p> <ul style="list-style-type: none"> <li>Delivering the service model consulted on and agreed by the Commissioner.</li> <li>Support and improve the delivery of an increased range of services within primary and community care in Lisburn.</li> <li>Flexibility in the design to allow future service developments.</li> </ul>
<p><b>D Quality of Accommodation</b></p> <ul style="list-style-type: none"> <li>Accommodation which complies with the current DDA and HMO standards and provides adequate resources and facilities to serve all service users.</li> <li>To provide a primary care centre which is functionally designed, fit-for-purpose and fully compliant with all relevant statutory environmental DDA building standards.</li> </ul>
<p><b>E Accessibility</b></p> <ul style="list-style-type: none"> <li>Accessibility to all service users and staff.</li> <li>Primary and community health care services should be locally based and close to other public sector facilities.</li> </ul>
<p><b>F Ease and Speed of Implementation</b></p> <ul style="list-style-type: none"> <li>No disruption to current services during the project.</li> <li>To ensure that the change process is managed efficiently and effectively, whilst maintaining existing service levels and quality standards and will be supported by the local community, stakeholders, staff, clients, carers and advocates.</li> </ul>
<p><b>G Ease and Speed of Implementation</b></p> <ul style="list-style-type: none"> <li>Delivery of the project in 2021/22</li> </ul>

1.60 Benefits evaluation will be undertaken on a continuous basis, in accordance with the measurement and monitoring procedures set out in the Draft Benefits Realisation Plan. The achievement of benefits will also be assessed as part of the 'Post Project Review' described in the paragraphs that follow.

### **Post Project Evaluation**

1.61 The Post Project Evaluation will include the following process:

- Project Evaluation Review; and
- Post Project Review.

#### **Project Evaluation Review**

1.62 The key purpose of a Project Evaluation Review ('PER') is to assess how successful the procurement was and to capture any lessons learned for the benefit of future procurement projects.

- 1.63 Responsibility for the direction and control of the Project Evaluation Review will reside with the Lisburn Project Delivery Group. While such reports are typically undertaken in full at Project Closure, given the nature of the 3PD Projects as Pathfinders and their potential implications on the roll out of the wider Primary Care Infrastructure Development Programme, clarification was provided by DoH to advise that a large element of the PER was to be fast tracked and undertaken during the Preferred Bidder stage. The SEHSCT, HSCB, CPD HP and the SIB specialist advisors were members of a project group established to complete this evaluation exercise.
- 1.64 A final version of the draft evaluation report was completed in November 2017. The intention is that the findings of this paper, once endorsed by a Minister, will be used by DoH and DoF to assess the success of the 3PD approach and to help inform the most suitable procurement approach for the implementation of the wider Primary Care Infrastructure Development Programme.
- 1.65 These findings will be updated and supplemented to reflect the entire procurement phase as part of the PER. It will also include the Lessons Learned Report which was not included as part of the scope of the Evaluation of the 3PD Procurement Process.

#### **Post Project Review**

- 1.66 The key purpose of the Post Project Review ('PPR') will be to ascertain whether or not the expected benefits, both immediate and consequent, promised by the project have been realised, and if there have been any major problems in the initial operation phase. It compares outturns against estimates for all relevant costs and benefits.
- 1.67 Responsibility for the direction and control of the PPR will also reside with the Project Delivery Group. The PPR will be conducted as soon as immediate benefits are considered capable of measurement. This is expected to be no later than 24 months from the date of operational commencement of the facilities.

#### **Arrangements for Gateway Review**

- 1.68 Following advice from CPD, the SEHSCT does not propose to undertake a full Gateway 3 Review, however it is intended to hold an Internal Peer Review courtesy of CPD prior to contract award. This is anticipated as occurring at some point over the Summer 2018.
- 1.69 The SEHSCT shall seek the advice of CPD HP and the CPD Gateway Review team in relation to the need to undertake further Gateway Reviews during the implementation phases of the Project.

#### **Readiness for Contract Award**

##### **FBC Review and Approval Process**

- 1.70 As the Lisburn PCCC Project was initiated under Ministerial Direction it follows a slightly different review and approvals process as compared to traditionally initiated capital projects. The process followed at FBC stage is largely similar to that undertaken at ABC stage.
- 1.71 The main change from the ABC stage is that DoH has stated that Ministerial approval (which was obtained at ABC stage) is not required for the FBC, provided that there has been no material change to the costs or the position in regards to GP commitment and/or budgetary

treatment. An outline of the relevant SEHSCT and HSCB meeting dates and subsequent target date for submission of the FBC to DoH is outlined in the table below.

**Table 1.11: Target FBC Approval Timescales**

Activity	Target Dates
Completion of FBC	May 2018
Lisburn PCCC Project Board	31 May 2018
SE Local Commissioning Group review	7 Jun 2018
HSCB Senior Management Team review	12 Jun 2018
SEHSCT Executive Management Team review 1	12 Jun 2018
HSCB Board review	14 Jun 2018
SEHSCT Executive Management Team review 2*	19 Jun 2018
SEHSCT Board review	21 June 2018
Formal submission to DoH	21 June 2018
Trust Finance Committee review	23 July 2018
DoH approval	Early / Mid August 2018
Contract award	End August 2018

\*The purpose of this 2<sup>nd</sup> Trust EMT review is to consider the confirmation of funding statement that is to be provided by the HSCB following their reviews.

### **Finalisation of the contract documents**

1.72 While the majority of contract finalisation work related to the draft Agreement and the draft Funder Direct Agreement has been completed, there remain a small number of items subject to final completion as summarised below.

**Table 1.12: Finalisation Steps**

Stage	Summary of Work required
General Finalisation Work	For example: <ul style="list-style-type: none"> <li>mechanical determination of the unit weightings to be inserted into the Service Payment Mechanism</li> <li>the insertion of the relevant site and building plan;</li> <li>the finalisation and insertion of completion criteria;</li> <li>the insertion of Preferred Bidder specific and financing definitions to reflect the agreed subcontractors and financing solution.</li> </ul>
Arrangements for Pharmacy Lease	Discussions are currently ongoing in relation to the proposed treatment of the pharmacy lease under the refined licence contractual structure. In the event that the preferred position has a financial cost impact, this shall be discussed with DoH prior to agreement.
Contract Award Deliverables	While the majority of these deliverables have been completed as part of the RDD Stage 1 process, there remains some finalisation work to be undertaken on a number of these items which is to be undertaken in the coming weeks prior to contract award.
Finalisation of the FF&E Schedule	The Preferred Bidder's final furniture and equipment schedule is subject to final detailed review by the SEHSCT and the Preferred Bidder. It is anticipated that the cost of the overall FF&E schedule may slightly

Stage	Summary of Work required
	reduce from that included in the most recent updates of the financial model.
Financial Matters – Model Audit	The financial model of the Preferred Bidder will be required to be independently audited by a firm approved by the Authority (at the instruction of the Preferred Bidder and at its expense) prior to the contract award.
Preparation for financial and contractual close	<ul style="list-style-type: none"> <li>The SIB (in their role as legal advisors) shall undertake final checks on the contractual documents to ensure that these are complete and printed, ready for legal signature on the agreed day of contract award</li> <li>The SEHSCT, Preferred Bidder and the respective specialist financial advisers will participate in several “dry runs” of the financial close in the week prior to the actual day of financial close, with funding terms (i.e. relevant swap or gilt rates) for the scheme being fixed at contract award (also referred to as financial close)</li> </ul>
Pre-Financial Close Update Paper	In the week prior to contract award the SEHSCT will provide a brief update on the affordability analysis to the DoH.
Economic and Financial Standing Update	The economic and financial standing of the Preferred Bidder will be reconfirmed again prior to contract award.

### Post Contract Award Activities

1.73 Post contract award activities will include:

- Development of Financial Close Update Paper
- Commence Enabling Works Phase 2 Contract
- Temporary provision of c. 26 Displaced Car Parking spaces by the 3PD Contractor

1.74 On the assumption that the FBC is approved by mid-August 2018 and contract award occurs on 31 August 2018, the table below provides a high level overview of the key project implementation milestone dates (as estimated based on the details included within the Preferred Bidder’s programme).

**Table 1.13: Estimated Post Contract Award Timeline**

Activity	Target Dates
Contract award	End August 2018
Phase 2 Enabling Works, including borehole reporting	Sep 2018 – Mar 2019
Red Line Site handover	1 Apr 2019
Construction Phase (c. 24 months)	1 Apr 2019 to End Mar 2021
Pre-handover SEHSCT commissioning	1 Jan 2021 to End Mar 2021
Post-handover SEHSCT commissioning	1 Apr 2021 – 31 July 2021
Operational commencement	August 2021

## Conclusion

- 1.75 This project was initiated through the issue of a Ministerial Direction. The Direction specifically required the ‘progression of the project to deliver the facilities and service model as defined in the business case through third party development’ and also noted the importance to ensure a revenue budgetary classification. The service model as articulated in the business case involved the delivery of an integrated Trust and GP delivery model.
- 1.76 The table below outlines the position at the FBC stage in respect to each of the matters specifically noted in the Ministerial Direction as follows:

**Table 1.14: Confirmation of Ministerial Direction requirements**

Direction Requirements	Confirmation
GP Commitment to relocate to the PCCC	Yes – all 8 GP practices in Lisburn HC have signed the agreement to sub-lease documentation
Service Model in line with Strategic Direction	Yes – confirmed as in line with the Strategic priorities of the HSC and the Minister’s Vision
Revenue Funded solution	Yes - [REDACTED]

- 1.77 The Full Business Case is being presented to the South Eastern Local Commissioning Group on Thursday 7<sup>th</sup> June 2018, the HSCB Senior Management Team on 12<sup>th</sup> June 2018 and the HSCB Board on 14<sup>th</sup> June 2018. In parallel the FBC is being presented to the SEHSCT Executive Management Team on 12<sup>th</sup> June 2018 and to the SEHSCT Board on 21<sup>st</sup> June.
- 1.78 The HSCB Board is asked to confirm that the proposal included within the FBC to proceed to award of contract for the Lisburn PCCC Project to the Preferred Bidder, the GPG O’Hare consortium meets the following criteria:
- Delivers the Ministerial Direction in a manner that otherwise fully addresses a need to demonstrate value for money;
  - Is in line with HSCB strategy for primary care; and
  - Has HSCB support and agreement to associated revenue costs.
- 1.79 The SEHSCT is asked to confirm that the proposal included within the FBC to proceed to award of contract for the Lisburn PCCC Project to the GPG O’Hare consortium meets the following criteria:
- Is procured in line with EU regulations, Executive and HSC policy;
  - Delivers the Ministerial Direction in a manner that otherwise fully addresses a need to demonstrate value for money;
  - Final contract/lease has been categorised as ‘off balance sheet’;
  - Has LCG support and endorsement; and
  - Has support and endorsement (and ideally sign up) from the GPs involved.
- 1.80 On completion of the above confirmations the FBC shall formally be submitted to DoH with a view to DoH then giving formal approval to SEHSCT to progress to contract award.