Ayrshire & Arran NHS Board

Full Business Case

Provision of New Maternity Unit, Crosshouse Hospital

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1. EXECUTIVE SUMMARY

1.1 NHS Ayrshire and Arran is committed to providing truly integrated NHS services in pursuit of seamless, efficient patient and public care. The Local Health Plan 1 is a key driving force for change across NHS Ayrshire and Arran, setting out the challenges for integration and comprehensive planning processes to establish the overarching strategic direction for services.

NHS Ayrshire and Arran published its revised Maternity Services Strategy in July 2002 2, in response to the national document "A FRAMEWORK FOR MATERNITY SERVICES IN SCOTLAND" 3 recommendations, indicating a maternity unit with more than 3000 births per year should have easy access to an adult intensive care unit, laboratory and blood transfusion facilities, and special care baby unit / neonatal intensive care unit. These services could not be provided from a stand alone maternity unit, such as Ayrshire Central Hospital, necessitating the need to relocate alongside Crosshouse Hospital, Kilmarnock. Thereby rectifying the deficiencies, together with achieving the following objectives :

- Provide a new Maternity Unit on the Crosshouse Hospital site which will provide a fully integrated service responsive to the needs of mothers and their newborn babies;
- Work closely with our staff, service users and the general public to ensure they have a say on the kind of features and services to be included in the new facility;
- Minimise clinical risk and create a safe, secure environment for mothers and their babies;
- Create a culture based on partnership where the delivery of the highest standards of care is accepted to be the responsibility of everyone.

1.2 In selecting its preferred option, Ayrshire and Arran Health Board considered the recommendations of a full option appraisal exercise which reported in February 2000 4. Conclusion "to relocate in-patient maternity services alongside Crosshouse Hospital, Kilmarnock with a Community Antenatal Clinic provided in Irvine".

1.3 NHS Ayrshire and Arran in accordance with the White Paper "Partnership for Care" 5 has dissolved the legal status of the Primary Care and Acute Trusts to allow the creation of a single NHS organization – NHS Ayrshire and Arran from the 1st April 2004.

From the 1st April 2004 the General Hospitals Operating Division (**Division**) will be responsible for the project management of the new Maternity Unit PFI through to financial close, construction and the operation phases of the project.

1.4 The Outline Business Case for the provision of the new Maternity Unit at Crosshouse Hospital was approved in 2002. The project was advertised in April 2003 in the Official Journal of the European Communities (OJEC) to identify potential providers. NHS Ayrshire and Arran selected Ayrshire Hospitals Limited as its Preferred Bidder in February 2004.

1.5 The Project

1.5.1 The project is to provide a 57 bedded new Maternity Unit on the Crosshouse Hospital site. This will establish a fully integrated childbirth service meeting the needs of mothers and their newborn babies across Ayrshire and Arran.

1.5.2 In addition to the design and build of the facilities the PFI also includes building maintenance, engineering and other estates services. Only “HARD” FM management services are included i.e.

- Estates Services
- Pest Control Services
- Utilities Management
- Helpdesk Services

No staff are transferring to Project Co, as the Division has a committed workforce on the Crosshouse Hospital site, which currently delivers high quality services on its non-clinical services.

1.5.3 Project Co will be responsible for installation, maintenance and replacement of all Group 1 equipment and will also be expected to receive and fit all Group 2 items, as identified by the General Hospitals Operating Division. The provision of new equipment is included in NHS Ayrshire and Arran’s 10 year Capital Plan – 2004/05 to 2013/14, thereby reducing the unitary charge.

1.5.4 Project Co will require to install an IT infrastructure that meets statutory standards and is fully compatible with the existing and future IM&T strategy.

1.5.5. The capital value of the project is £16.24m, excluding VAT.

1.5.6 The contract terms is 30 years from the date of operation, expected in the summer of 2006.

1.5.7 Ayrshire Hospitals Limited is the contracted partner. The main parties within the consortium are Dawn Construction, MacKenzie Partnership and Dawn Facilities Management. Debt finance is to be provided by Allied Irish Bank.

1.5.8 Full planning permission has been obtained from East Ayrshire Local Authority.

1.5.9 NHS Ayrshire and Arran and both Operating Division’s have confirmed their full support for this scheme. The project management structure for the scheme, demonstrated that the procurement process was inclusive with management, clinicians, users, voluntary organizations and partnership representation actively involved at all stages.

1.6 The relocation of the Maternity Unit represents a reduction in the number of both maternity and neonatal beds / cots, as below :

Maternity Beds	82 to 57
Neonatal Cots	25 to 20

This change reflects the decline in births, bed modeling review and redesign of facilities.

1.7 No staff will transfer to Project Co. as part of this scheme. Therefore the “PUBLIC PRIVATE PARTNERSHIP IN SCOTLAND PROTOCOL AND GUIDANCE CONCERNING EMPLOYMENT ISSUES” [6] will not apply. However, staff and their partnership representatives have been fully involved in the preparation of the Human Resources Strategy and the mechanisms for commissioning and de-commissioning the units.

1.8 Economic and Financial Appraisals

1.8.1 The Public Sector Comparator (PSC) has been built up from capital, life cycle and operating costs. All costs are shown as net present values (NPVs) at the price base of 31st July 2004 (discounted at 3.5%). The table below summarizes the NPV comparison between the PSC and the PFI option.

PFI NPV £M	PSC NPV £m
30.395	30.772

The Net Present Value of the PFI option is £0.377m lower than the PSC option, demonstrating value for money.

1.8.2 Sensitivity analysis of the key assumptions underlying the risk analysis (both the assessment of specific risks and the assessment of the optimism bias), concluded that the PFI option base case has a comfortable headroom, that will support some change within the underlying risk analysis.

1.8.3 Financial appraisal details the unitary charge for the PFI scheme, over the 30 operational years at £1.755m per annum, against the affordability target of £1.790m per annum. This amount will be increased each year by the retail price index (RPI) and is only payable when services commence.

1.8.4 The major advantage of the PFI scheme relates to maintenance over the lifetime of the project (life cycle costing). The PFI scheme also provides additional benefits by an improved design, departmental relationships, earlier commencement and other benefits against the current service provision.

1.8.5 A key premise of the scheme is to minimize the revenue gap as far as possible. The resultant affordability gap of £0·432m requiring to be met by NHS Ayrshire and Arran is consistent with the level already approved at Outline Business Case stage, after taking account of the savings from the recommendation for the maternity section of the Ayrshire Central site being declared surplus to requirements and put up for disposal. At present NHS Ayrshire and Arran has met its financial targets. The Financial Plan shows that the scheme is affordable over the life of the contract. In addition, analysis indicates that over the period the cash consequences of the PFI scheme are better than those from the PSC.

1.8.6 The PFI consortium (AHL) will be funded by bank debt, along with equity providers, as below :

Funding	**Gearing**	**Quantum £m**
Senior Debt	92%	17.929
Equity	8%	1.559
<u>Equity Providers</u> Dawn Construction MacKenzie Partnership FES Limited Allied Irish Bank		

1.8.7 The Division's financial advisers Quayle Munro have analyzed the risks and accounting treatment for the asset in the PFI scheme, applying the Treasury's Technical Note. The conclusion being that the risks and rewards of ownership of the facility will lie with the operator and as such the asset and corresponding liability should not be shown in the Board's accounts.

1.9 **Contract Structure in Key Aspects**

1.9.1 The scheme follows the NHS standard contract, Scottish (Version 1) and the contract provides for a 50% share of any refinancing gain, arising from a Qualifying Refinancing.

1.9.2 While there have been some variations to the standard payment mechanism for project specific matters, the main principles of the standard form have been adopted. The reasons for these differences, which will not commercially disadvantage the Board, have been documented and agreed with the Scottish Executive Health Department.

1.10 The key milestones and timetable to delivery of services is summarized below :

- Final FBC submitted by - 27th July 2004
- Approval of FBC - 24th August 2004
- Financial Close - August / September 2004
- Operational Maternity Unit - Summer 2006

2. STRATEGIC CONTEXT

2.1 NHS Ayrshire and Arran in accordance with the White Paper “Partnership for Care” [5] has dissolved the legal status of the Primary Care and Acute Trusts to allow the creation of a single NHS organisation – NHS Ayrshire and Arran from the 1st April 2004.

The creation of one NHS organisation for the people of Ayrshire and Arran will remove any legal barriers to “joined up” working. It will enable NHS Ayrshire and Arran to continue to build on the progress made already towards providing improved and integrated healthcare services.

2.2 From the 1st April 2004, two operating divisions – one responsible for the provision of general hospital services and one for community-based health services were established with devolved decision making arrangements which give greater control of resources and responsibility to frontline staff. The General Hospitals Operating Division will be responsible for the project management of the new Maternity Unit, PFI through to financial close, construction and the operation phases of the project.

2.3 The General Hospitals Operating Division has services based on five sites in Ayrshire and Arran :

- Ayr Hospital, Ayr
- Ayrshire Central Hospital, Irvine
- Biggart Hospital, Prestwick
- Crosshouse Hospital, Kilmarnock
- Heathfield Clinic, Ayr

The Division also provides out-patient services at the War Memorial Hospital, Isle of Arran which is managed by the Community Operating Division. The Division has community Midwifery bases throughout the area and clinicians hold out-patient clinics in a number of hospital and peripheral clinic locations throughout the area. The Division is a major local employer with approximately 6000 staff and a budget of over £156m.

The General Hospitals Operating Division provides a wide range of acute services for the people of Ayrshire and Arran, including :

- Accident & Emergency
- Anaesthesia
- Breast Screening (National Contact)
- Cardiology
- Clinical Haematology
- Dermatology
- Diabetology
- Endocrinology
- Neuro-Rehabilitation Medicine
- ENT (National Contact – Cochlear)
- Gastroenterology
- General Medicine
- General Surgery
- Geriatric Medicine
- Gynaecology
- Intensive Care / HDU
- Laboratory Service
- Maternity
- Medical Imaging
- Neonatology
- Oncology
- Ophthalmology
- Oral & Maxillofacial Surgery
- Orthodontics
- Pathology
- Paediatrics
- Renal Medicine
- Respiratory Medicine
- Urology
- Vascular Surgery

In addition diagnostic and clinical support services include Occupational Therapy, Physiotherapy, Dietetics, Speech Therapy, Orthoptics, Medical Physics, Nuclear Medicine, Medical Photography, Pharmacy, ECG, EEG, Audiology, Laboratory and Imaging services. The Division is also a service provider of TSSU, Supplies and Clinical Waste Services to the whole of NHS Ayrshire and Arran.

2.4 The Division Objectives 2003/04 are in line with the following corporate objectives to guide its work and direction over the next year and beyond.

- Improve health and healthcare through implementation of the Local Health Plan 2003-2006
- Deliver services in which patients and the public have confidence (Clinical Governance)
- Improve the patient's journey through closer integration of health services
- Achieve effective patient and public involvement through implementation of agreed action plans
- Achieve common goals across agencies through effective involvement in Community Planning
- Ensure NHS Ayrshire and Arran is a learning organisation for which staff want to work, providing services in which staff take pride (Staff Governance)
- Continuously improve performance and manage risks in line with sound corporate governance

2.5 Service Objectives and Criteria

2.5.1 The Scottish Parliament has set out the policies and aims for the NHS Scotland. This vision is set out in a number of documents including the White Paper, "Designed to Care" [7], the "Acute Services Review" [8], "Our Health Plan" [9], and "Partnership for Care" [6], The emphasis of these documents being on redesign, modernisation in Scotland, reshaping hospital services and finding new ways of working.

2.5.2 NHS Ayrshire and Arran's, Local Health Plan 2003-2006 [1] recognises the need to adopt these fundamentals in both the operation and strategic planning environment, and in partnership encourage development within the healthcare environment which focuses on improving the clinical pathways linking General practitioners, Community and Hospital services.

2.5.3 Since the first publication of the Ayrshire and Arran Health Board, Maternity Strategy 1997-2002, [10] the service has continued to review and develop the delivery of services to ensure the optimum provision of treatment and care to women of Ayrshire and Arran. In July 2002, NHS Ayrshire and Arran published its revised Maternity Services Strategy [2] in response to the national document "A FRAMEWORK FOR MATERNITY SERVICES IN SCOTLAND" [3], which confirmed in the Childbirth Section the recommendation :

"The Minister for Health and Community Care has approved the NHS Board's decision to relocate in-patient maternity services to stand alongside the facilities of the District General Hospital at Crosshouse Hospital. This will allow improved facilities, environment and ability to develop an integrated delivery suite incorporating Delivery Room facilities, Theatres, High Dependency, laboratory and transfusion facilities, Bereavement Suite, Acute Admissions and observation areas, with immediate proximity to the Neonatal Unit, Adult Intensive Care, Imaging and other essential services".

2.5.4 The project is a direct response to rectify the current deficiencies in maternity services, as contained within the Childbirth Section, recommendations of the national document "A FRAMEWORK FOR MATERNITY SERVICES IN SCOTLAND" [3]. These services cannot all be provided by a stand alone maternity unit, necessitating the need to relocate alongside the District General Hospital at Crosshouse Hospital.

2.6 There were a number of factors and key assumptions underlying the strategic analysis :

- Current services are sub-optimal and provide inappropriate facilities for the delivery of modern maternity services. Irrespective of the amount of investment on the Ayrshire Central site this facility cannot be upgraded to meet the standards laid down in the Scottish Executive's guidelines, because it is not located on a District General Hospital site with all the essential back-up facilities

- The need to respond to changing trends in care provision and the increasing expectations of women and their families

- A need for focused investment to improve integration of services and service delivery

- A need to achieve better use of limited financial resources

- A need to minimise clinical risk and create a safe, secure environment for mothers and their babies

These factors and assumptions remain as live today, as originally stated in the Outline Business Case. Indeed changes instigated or proposed for Argyll and Clyde and Greater Glasgow have helped reinforce the need to rectify the weaknesses in maternity services to ensure a modern, flexible, in-patient facility able to respond to the needs of women in Ayrshire and Arran.

2.7 Geography and Population

2.7.1 The catchment area of Ayrshire and Arran covers an area of some 334,081 hectares. The location and population centres are :

- East Ayrshire 125,999 hectares, main population centres Kilmarnock, Irvine Valley and Cumnock

- North Ayrshire 87,859 hectares, main population centres Irvine, Kilwinning, 3 Towns (Stevenston, Saltcoats, Ardrossan), and Garnock Valley

- South Ayrshire 120,223 hectares, main population centres, Ayr, Prestwick and Troon

2.7.2 The region's population is based around three main centres in the towns of Kilmarnock (44,307), Irvine (32,988) and Ayr (47,962) accounting for 34.3% of the total population levels from the General Registrar Office (GRO) for Scotland's estimates at 2000 of 364,708 within the whole of Ayrshire.

2.7.3 Population structure within these overall GRO figures show a decline of around 12% in the young person's age group of 0 to 16. A slight increase of 3% in the younger adult and a considerable increase of around 12% in the population of 55 years and over.

2.7.4 The assessment of activity levels contained within the Outline Business Case has been updated to reflect the forecast figures for 2003/04, Appendices 1 and 1a.

2.8 Scope of the Project

2.8.1 This project is to provide a 57 bedded new Maternity Unit on the Crosshouse Hospital site. This will establish a fully integrated childbirth service meeting the needs of mothers and their newborn babies across Ayrshire and Arran.

2.8.2 The key service features are set out below :

Philosophy of Care

NHS Ayrshire and Arran's approach to the care of mothers and babies is to provide a safe and effective service, which aims to facilitate a fulfilling experience for women and their families. The package of care will be from pregnancy planning through to postnatal care; reflecting a commitment to provide services as close as possible to the home.

Maternity care embraces a whole range of activities for pregnant women, new mothers, babies and their families. These include :

- Health promotion
- Diagnosis
- Assessment
- Treatment
- Continuing care and support

The relocation of the Maternity Unit onto the site of a District General Hospital cannot be seen in isolation. Issues including communication and continuity of care will need to be addressed to ensure that the users and providers of maternity services are involved in the changes.

Services to be Provided

The services covered in this project are summarised below :

- Antenatal / Postnatal In-Patient Care
- Early Pregnancy/ Antenatal Day Care Assessment

- Ultrasound Services
- Diagnostic Services
- Intrapartum Care
- Out-patient Clinic Facilities
- Termination of Pregnancy Facilities
- Neonatal Services
- Anaesthetic Services

Service Standards

Improvement in the quality of care is integral to this project and it is essential that service standards are patient-focused and aimed at improved delivery of high-quality services.

Design Features

The key design features of the new development, as included in the Invitation to Negotiate sent to Bidders, are set out below :

1. The new build Maternity Unit will be stand alone with a direct link corridor to the main hospital facilities, providing a 57 bedded Maternity Unit.

2. The unit should have friendly, homely accommodation in an environment that is “Family Friendly” and not obviously clinical.

3. The design should, as far as possible, emphasise the inter-relationship between antenatal, intrapartum and postnatal care accommodation, which encourages both continuity and ease of of transition between stages of care.

4. The birthing facility should have a clear functional distinction between Midwifery and Obstetric cases and should be co-located with the Theatre Suite (2 off), High Dependency Unit, Birthing Pool, Specialist Delivery Rooms and the Neonatal Unit. The design should also allow for flexibility in periods of high activity and the potential for midwifery cases to use delivery rooms as minimal postnatal stay, prior to discharge.

5. The birth facilities should be easily accessible from the main entrance to the Maternity Hospital and located at the shortest possible distance from the entrance.

6. In-Patient accommodation will be required for postnatal care. These should be predominately single rooms with en-suite facilities.

7. Accommodation should recognise that in most instances a partner, relative or friend will be present at the birth and immediate postnatal period.

8. Design should facilitate change and flexibility, both in the short and the longer term, especially with the fluctuating birth-rate and differing styles of care.

9. Accommodation should be provided for a Bereavement Suite, Children's Play Areas, Physiotherapy, Parenthood Classes, and Staff Education facilities.

10. Security is paramount and should be integral in the building design.

11. A significant IT environment is critical to support the provision of modern healthcare. It is intended that this project includes the installation of cable and network infrastructure. (Please see Section 16)

12. The design must encompass the principles of the "BETTER BY DESIGN" guidance. Providing an environment in sympathy with the "NATURAL" process of childbirth.

13. It must be a sustainable development and emphasise the "SUSTAINABLE DEVELOPMENT IN THE NHS" guidance 11. It must also be in sympathy with and achieve ISO 140001 approval, as part of the Division registration.

14. It is expected that the building will be no more than two storey with landscaping and design principles to ensure a minimum impact on the adjacent housing.

15. It is not expected that the new building will require to conform to the buildings currently on site.

16. There will be a need to provide or modify road access and car parking. It is envisaged that the new unit will have a separate approach road and entrance.

2.9 Assessment of Future Services

2.9.1 In support of the Outline Business Case an assessment of GRO 2002 based projected activity levels was undertaken, Appendix 2. The General Register Offices has predicted, with a few areas of exception, that most council areas will experience a fall in births from 51,792 to 48,923 at the end of the projected period. It is also anticipated that there will be a decline in the numbers in the younger ages of the population with an increase in the over 65, as more of the population reach pension age and average life expectancy increases. The GRO has assumed that there is no change in the birth rate and family size and consequently projects a fall in Ayrshire and Arran from the 2002/03 figure of 3,573 to 3,062 by 2017/18.

The GRO projections are based on existing population as it ages replaced by the expected level of new births. A number of factors may alter this which include :

- Changes in the migration levels which may be affected by the expanded EEC and the attractions of Scotland to an incoming workforce and extensions to visa applications for groups such as students
- The cost of housing is clearly a factor as areas on the boundaries of Scotland's major cities Glasgow and Edinburgh are experiencing an increase in house building to reflect the lower property prices compared to that in the city areas
- Infrastructure changes with particular improvements to road and rail networks
- Family sizes, as this may change from the current levels

The bed complement figure identified in Appendix 3 is based on a number of assumptions, including any foreseeable change in clinical practice. For example, an increase in caesarean section rates will add to the average length of stay

The actual number of births in the Ayrshire Central Maternity Unit for 2003/04 was 3,550 which was above the GRO projection of 3,484. Assuming a reduction does take place in accordance with the projected numbers (say 400 births), this figure with an average length of stay of 2.3 days would result in a fall of only 3.5 beds at 70% occupancy levels.

In summary, although the GRO projection is a very useful guide it is difficult to take this as an exact plan based on a number of variable factors both clinical and demographic. Even if the figures proved to be correct a reduction of 3.5 beds would be negligible in the overall total and the Directorate is content that the planned number of beds is an accurate representation of the requirements for NHS Ayrshire and Arran based on current practice.

2.9.2 A bed modelling review was completed. Appendix 3 which supported the position contained in the Outline Business Case and subsequent number of beds planned.

2.9.3 The Trust competed its Property Management Strategy 2001 to 2011 [12] which highlights the outcome of the Estatecode appraisal of the Trust's Estate. The appraisal reference current maternity services states :

"One of the major issues on functional suitability is the location of the Maternity Hospital on this site and its isolation from other acute services. The Trust is well aware of this issue and is not specifically addressed in this appraisal. Notwithstanding the overall issue of location of maternity services, the on-site appraisals confirmed that most of the Maternity Hospital is less than satisfactory in terms of functional suitability".

2.9.4 The project plan to build a new Maternity Unit is also an integral element of the Ayrshire Wide Property Management Strategy [13], preferred option of "Hub and Spoke" model of property provision for the future. See extract below :

"The Property Strategy proposes an ambitious programme of capital investment to implement the "Hub and Spoke" option in Ayrshire. Investment will be needed to :

Upgrade and modernise the specialist hospitals such as Crosshouse, Ayr and Ailsa to enable them to provide the more complex treatments and services. These developments will include :

- *Extending and refurbishing A&E at Crosshouse Hospitals to include a critical care area (ITU / HDU) and an acute medical admissions / medical decisions unit.*
- ***Development of a new Maternity Hospital at Crosshouse***
- *Extension of ITU / HDU at Ayr Hosital*
- *Further development of Out-patient Clinics*
- *Development of Acute Admissions Facilities*
- *Development of Ophthalmology Daycase Theatre*
- *The redevelopment of Ailsa Hospital for Mental Health Services*

2.9.5 A comprehensive Clinical Brief was included in the Invitation to Negotiate (ITN), concluding that the schedule of accommodation reflects a reduction in the bed complement from 82 to 57 and from 25 cots to 20 cots in the Neonatal Unit with a reconfiguration of Intensive Care, High Dependency and Special Care facilities. Clinical Output specifications were developed by four sub-groups :

- Out-patient / Day Services
- Intrapartum Services
- In-patient Services
- Neonatal Services

See Appendix 4.

2.9.5.1 In developing the specifications sub-group co-chairs consulted widely with clinical and non-clinical colleagues. Specialist needs are elaborated upon in the individual sections and where necessary, room and service descriptions are highlighted.

2.9.5.2 The relocation of maternity services to the Crosshouse site creates opportunities for service development and delivery. Sub-groups commented on the potential impact of a change of site on service provision, these include :

- An opportunity to radically rethink the service provided and the way in which it is delivered from the perspective of maternity service users
- Improved access to adult ITU and other specialist clinical services
- More secure facilities for women and babies
- Closer availability of laboratory services including provision of blood
- Improved opportunity for collaborative working with other professional colleagues on the Crosshouse site
- Improved IT infrastructure
- Centralisation of equipment
- Opportunity for more flexible staff working arrangements
- Improved access to and, availability of senior medical staff during “working” hours
- Development of a purpose-build accommodation which integrates with existing Crosshouse services

2.9.5.3 A Clinical Adjacency Matrix was developed with service users, Appendix 5 with more detailed adjacency information elaborated within specifications where this required particular emphasis.

3. OUTLINE BUSINESS CASE

3.1 The Outline Business Case sets out the proposal for Capital Investment by NHS Ayrshire and Arran to :

- **Provide a new Maternity Unit on the Crosshouse Hospital site to furnish a fully integrated childbirth service responsive to the needs of mothers and their newborn babies.**

3.2 The option appraisal exercise was designed to address the specific question, where in-patient maternity services within Ayrshire should be located. The precise configuration of services was assumed to be similar across all options and hence the focus of attention was the impact of different locations and different links with a District General Hospital service.

A number of possible options were generated, following the deliberations of the Option Appraisal Group, as follows :

1. Do nothing
2. Minimum upgrade to estate at Ayrshire Central site
3. Upgraded status quo without ITU, including 24 hour laboratory services
4. Upgraded status quo with an ITU, including 24 hour laboratory services
5. New build maternity unit at Crosshouse Hospital
6. Maternity Unit incorporated in to existing facilities at Crosshouse Hospital
7. New build maternity unit at Ayr Hospital
8. Maternity unit incorporated in to existing facilities at Ayr Hospital
9. New build maternity unit at both DGH sites
10. Maternity unit incorporated in to existing facilities at Crosshouse and Ayr hospitals
11. New build maternity unit at Ayr Hospital and unit incorporated in to existing facilities at Crosshouse Hospital
12. New build maternity unit at Crosshouse Hospital and unit incorporated in to existing facilities at Ayr Hospital
13. New build midwife led stand-alone unit at Ayr Hospital and obstetric unit incorporated in to existing facilities at Crosshouse Hospital
14. Incorporated midwife led unit at Ayr Hospital and obstetric unit incororated into existing facilities at Crosshouse Hospital
15. Incorporated midwife led unit at Ayr Hospital and new build obstetric unit at Crosshouse Hospital
16. New build midwife led stand-alone unit at Ayr and new build obstetric unit at Crosshouse Hospital
17. New build midwife led stand-alone unit at Crosshouse Hospital and obstetric unit incorporated into existing facilities at Ayr Hospital
18. Incorporated midwife led unit at Crosshouse Hospital and incorporated obstetric unit at Ayr Hospital
19. Incorporated midwife led unit at Crosshouse Hospital and new build obstetric unit at Ayr Hospital
20. New build midwife led stand-alone unit at Crosshouse Hospital and new build obstetric unit at Ayr Hospital

3.3 The long list of 20 possible options were then rationalised to a short list of 5 options, as undernoted that were explored in considerable detail by the Maternity Services Option Appraisal Group :

1. Do nothing
2. Do minimum
3. Upgraded status quo without intensive therapy unit
4. Single site maternity at Crosshouse Hospital
5. Single site maternity at Ayr Hospital

3.4 The option appraisal methodology followed Henderson's recommendations and those stages outlined by the Management Executive (Henderson 1984, National Health Service in Scotland), as follows :

Stage 1 – Defining the problem

Stage 2 – Generating options

Stage 3 – Shortlisting the options

Stage 4 – Identifying, measuring and valuing benefits associated with each short-listed option

Stage 5 – Costings

Stage 6 – Dealing with risk and uncertainty

Stage 7 – Decision analysis

These elements of option appraisal were each applied in turn within Ayrshire and Arran using a Maternity Services Option Appraisal Group. This group met on a number of occasions, applying each stage of the process in turn. The group defined criteria, generated and shortlisted options as well as weighting the criteria and scoring each of the options under consideration. The group also guided the generation of the costs produced collaboratively between local Trusts and the Health Board.

3.5 The assumptions underlying the recommendation of the Option Appraisal Group were reviewed against the recommendations of the national document "A FRAMEWORK FOR MATERNITY SERVICES IN SCOTLAND" [3] and subjected to a full public consultation exercise, comprising :

- Meeting with MPs, MSPs and Council Leaders
- Media briefing
- Meetings with key groups
- Meetings with staff groups
- Public meetings (10 off)
- Information leaflets (30,000 circulated) with comment slips
- Comments Hotline / fax / E-mail
- Press Campaign
- Radio Slots

In addition to an independent study of the economic impact of the preferred option. The process endorsed the recommendation of the Maternity Services Option Appraisal Group without any change to the ranging of options.

4. THE PUBLIC SECTOR COMPARATOR

4.1 Description of how the PSC has been derived and updated

4.1.1 Introduction

The PSC has been built up from capital, life cycle and operating costs identified by the Technical and Financial Advisors. All costs are shown as net present values at a price base of 31st July 2004 (discounted at 3.5%). In line with the Treasury Guidance (The Green Book – Appraisal and Evaluation in Central Government) [14], the PSC has then been adjusted as follows :

- Quantification of project specific risks
- Quantificationof required tax adjustment
- Quantification of optimism bias

Details of each adjustment, as well as the underlying costs, have been provided in the sections below.

4.1.2 Public Sector Costs – underlying costs

The basic underlying costs of the PSC can be summarised as follows :

4.1.2.1 *Capital Costs*

The following table summarises the capital estimates of the base costs in net present value terms, assuming a 2-year build period.

Description	**Cost (excluding VAT) £m**
Departmental Costs	10.007
On costs	2.893
Provisional location adjustment	0.258
Sub-total	**13.158**
Fees	1.579
Non works costs	0.036
Type 1 equipment	0.493
Inflation adjustment	0.976
Total	**16.242**

4.1.2.2 *Additional cash flows (including life cycle and FM)*

The table below summarises the net present value of the various costs throughout the project life

Description	**Cost (excluding VAT) £m**
Risk management	0.480
Site investigation	0.176
Mobilisation costs	0.456
Energy costs	1.299
Running costs (facilities maintenance)	2.572
Unplanned maintenance costs	0.354
Life cycle	2.033
Total	**7.370**

Please note a further description of the assumptions underlying the above costs is detailed within section 7.6.

4.1.3 Adjustment of PSC for Treasury Green Book

Sections 4.1.3.1 to 4.1.3.3 summarize the adjustments that were made to the PSC costs, in line with the Treasury Green Book Guidance [14]

4.1.3.1 *Quantification of project specific risks*

The value of risks transferred has been assessed on a detailed level for the Ayrshire Maternity Unit, Crosshouse Hospital. A full analysis can be seen within Attachment F1, (Pages 21-22) and these have been summarised in the table below :

Description	**£m**
Capital costs	2.002
Life cycle costs	0.316
Operating costs	0.953
Total specific risk adjustment	**3.271**

4.1.3.2 *Quantification of required tax adjustment*

The tax adjustment was calculated following the Treasury Guidance "Supplementary Green Book guidance – Adjusting for Taxation in PFI vs PSC Comparisons" [15]. The various adjustment factors are built up as follows :

- +2% - Starting point for all projects
- +3% - Nominal value of FM < Capital costs of facility
- +1% - Tax treatment is likely to be revenue
- +0% - Project sector is not considered to be risky

The total tax adjustment produced is 6%, and this should be applied to the total PSC NPV (capital and services), which is £23.613m (Capital NPV £16.242m; Services £7.370m. The tax adjustment is therefore **£1.417m.**

4.1.3.3 *Quantification of optimism bias*

The optimism bias adjustment was calculated following the Treasury Guidance "Supplementary Green Book Guidance – Optimism Bias" [16]. The project falls under the standard building categorization and this produces a starting level of 4% (works duration) and 24% (capital expenditure). Each of the aforementioned percentage values are derived from a number of detailed categories and these have been reviewed to assess the level of mitigation deemed possible. The final adjusted optimism bias calculated was 2.05% (works duration) and 15.22% (capital expenditure). The works duration adjustment is a timing and adjustment therefore at this level is not considered significant enough to make a quantified adjustment. The capital expenditure adjustment of 15.22% is applied to the net present value of the capital cost (£16.242m). This produces and adjustment factor of **£2.471m**. A detailed analysis of the optimism bias calculation and level of mitigation can be seen within Attachment F2, (Pages 23-24).

4.1.4 **Summary of adjusted PSC**

The adjusted PSC is summarised in the following table

Base capital costs	£16.242m
Base operating costs	£7.370m
Specific risk adjustment	£3.271m
Tax adjustment	£1.417m
Optimism bias adjustment	£2.471m
Final adjusted PSC	**£30.771m**

4.2 Explanation of any updates in order to bring the PSC in line with the PFI options

As negotiations have progressed we have continued to monitor all developments, and where necessary incorporate these changes into the PSC. The table below tracks the changes in unitary charge from appointment of Preferred Bidder to Financial Close. An explanation of all movements in unitary charge have been provided and we have then identified whether any corresponding adjustment has been required with the PSC.

1st year unitary charge (£m)	Explanation of movement	PSC update required
1.805	-	-
1.743	Swap rate adjusted to 5.4% (from 6%)	Reflected in PSC
1.753	Accidental and Malicious Damage	Not reflected in current PSC
1.758	Quality Audits	Not reflected in current PSC

[The table above shows that no adjustment was necessary within the PSC.]

The current PSC has been calculated on an assumed unitary charge of £1.755m. The current model version is at £1.758m (at a swap rate of 5.4%). Current negotiations are likely to remove the £5k increase required in respect of Quality Audits thus the modelled unitary charge would be £1.753m. The final headroom shown within the PSC should therefore increase to approximately £0.700m.

ATTACHMENT F1

Detailed breakdown of capital costs risk adjustment:

	NPV at real 3.5%	Probability	Risk Adjustment
Capex			
Detailed planning consent and potential delays impacting on capex	0.760	10.00%	0.076
Failure to obtain planning approval	15.198	1.00%	0.152
Securing other statutory approvals	0.190	5.00%	0.009
Other design risks	1.178	5.00%	0.059
Design development	0.190	5.00%	0.009
Design life expectancy	0.190	5.00%	0.009
Delays and changes caused by statutory/regulatory etc	0.950	10.00%	0.095
Failure against initial design requirements	0.190	5.00%	0.009
Design faults causing higher maintenance	0.263	15.00%	0.040
Latent defects < years 15	1.152	5.00%	0.058
Latent defects > years 15	1.209	5.00%	0.060
Ground Conditions	1.900	10.00%	0.190
Antiquities	1.900	1.00%	0.019
Infrastructure requirements	1.900	10.00%	0.190
Site safety / Health & Safety	0.190	5.00%	0.009
Site security	0.190	2.50%	0.005
Cost overruns	3.040	5.00%	0.152
Industrial action	0.380	2.50%	0.009
Availability of labour	0.950	10.00%	0.095
Exceptionally adverse weather conditions	0.475	2.50%	0.012
3rd party claims	0.475	5.00%	0.024
Irrecoverable losses	0.190	2.50%	0.005
Prime contractor default	5.666	10.00%	0.567
Sub-contractor default	2.833	5.00%	0.142
Project management	0.190	1.00%	0.002
Fire certificate refusal	0.475	1.00%	0.005
Total			2.002

Detailed breakdown of life cycle costs risk adjustment:

Life cycle costs	NPV at real 3.5%	Probability	Risk Adjustment
Lifecycle costs greater than forecast:			
Life cycle costs 5% greater than expected	0.132	50.00%	0.066
Life cycle costs 10% greater than expected	0.263	25.00%	0.066
Life cycle costs 20% greater than expected	0.527	10.00%	0.053
Life cycle costs 40% greater than expected	1.054	5.00%	0.053
Life cycle costs 60% greater than expected	1.581	2.50%	0.040
Life cycle costs 80% greater than expected	2.108	1.25%	0.026
Life cycle costs 100% greater than expected	2.635	0.50%	0.013
Total Life Cycle Costs			0.316

Detailed breakdown of operating costs risk adjustment:

Basic Operating Costs	NPV at real 3.5%	Probability	Risk Adjustment
maintenance (Hard FM) 5% greater than expected	0.151	50.00%	0.076
maintenance (Hard FM) 10% greater than expected	0.303	25.00%	0.076
maintenance (Hard FM) 20% greater than expected	0.605	10.00%	0.061
maintenance (Hard FM) 40% greater than expected	1.210	5.00%	0.061
maintenance (Hard FM) 60% greater than expected	1.816	2.50%	0.045
maintenance (Hard FM) 80% greater than expected	2.421	1.25%	0.030
maintenance (Hard FM) 100% greater than expected	3.026	0.63%	0.019
Insurance premiums	0.000	0.00%	0.000
Energy	0.000	0.00%	0.000
Availability - scenario A	0.128	50.00%	0.064
Availability - scenario B	0.722	20.00%	0.144
Availability - scenario C	1.699	10.00%	0.170
Compliance with regulations	0.937	1.00%	0.009
Cost overruns	1.874	10.00%	0.187
Industrial action	0.187	1.00%	0.002
Health & Safety	0.187	1.00%	0.002
Emergency plans	0.187	0.50%	0.001
Pilfering	0.019	0.50%	0.000
Vandalism	0.094	1.00%	0.001
Environmental management	0.019	1.00%	0.000
Employee default	0.094	0.50%	0.000
Changes in law (general)	0.094	5.00%	0.005
Total Base Operating Costs			**0.953**

ATTACHMENT F2

Works Duration
Capital Expenditure

Standard buildings		CAPITAL EXPENDITURE 24%	CAPITAL EXPENDITURE 24%	% mitigated
Procurement	Complexity of contract structure	0%	0.00%	0.00%
	Late contractor involvement in design	2%	0.50%	75.00%
	Poor contractor capabilities	9%	7.20%	20.00%
	Government guidelines	0%	0.00%	0.00%
	Dispute and Claims occurred	29%	27.55%	5.00%
	Information management	0%	0.00%	0.00%
	Other	0%	0.00%	0.00%
Project specific	Design complexity	1%	0.20%	80.00%
	Degree of innovation	4%	0.40%	90.00%
	Environmental impact	0%	0.00%	0.00%
	Other	0%	0.00%	0.00%
Client specific	Inadequacy of Business case	34%	10.20%	70.00%
	Large Number of Stakeholders	0%	0.00%	0.00%
	Funding Availability	0%	0.00%	0.00%
	Project Management Team	1%	0.10%	90.00%
	Poor Project Intelligence	2%	0.30%	85.00%
	Other	1%	0.00%	100.00%
Environment	Public relations	2%	1.60%	20.00%
	Site characteristics	2%	1.90%	5.00%
	Permits/Consents/Approvals	0%	0.00%	0.00%
	Other	0%	0.00%	0.00%
External Influences	Political	0%	0.00%	0.00%
	Economic	11%	10.45%	5.00%
	Legislation / Regulations	3%	3.00%	0.00%
	Technology	0%	0.00%	0.00%
	Other	0%	0.00%	0.00%
		101%	63%	
			15.22%	

Standard buildings		WORKS DURATION 4%	WORKS DURATION 4%	% mitigated
Procurement	Complexity of contract structure	1%	0.40%	60.00%
	Late contractor involvement in design	3%	0.75%	75.00%
	Poor contractor capabilities	4%	3.20%	20.00%
	Government guidelines	0%	0.00%	0.00%
	Dispute and Claims occurred	4%	3.80%	5.00%
	Information management	0%	0.00%	0.00%
	Other	0%	0.00%	0.00%
Project specific	Design complexity	3%	0.60%	80.00%
	Degree of innovation	1%	0.10%	90.00%
	Environmental impact	0%	0.00%	0.00%
	Other	0%	0.00%	0.00%
Client specific	Inadequacy of Business case	31%	9.30%	70.00%
	Large Number of Stakeholders	6%	1.50%	75.00%
	Funding Availability	8%	2.00%	75.00%
	Project Management Team	0%	0.00%	0.00%
	Poor Project Intelligence	6%	0.90%	85.00%
	Other	0%		
Environment	Public relations	8%	6.40%	20.00%
	Site characteristics	5%	4.75%	5.00%
	Permits/Consents/Approvals	9%	8.55%	5.00%
	Other	0%	0.00%	0.00%
External Influences	Political	0%	0.00%	0.00%
	Economic	0%	0.00%	0.00%
	Legislation / Regulations	9%	9.00%	0.00%
	Technology	0%	0.00%	0.00%
	Other	0%	0.00%	0.00%
		98%	51%	
		Mitigated risk	2.05%	

5. THE PFI PROCUREMENT PROCESS

5.1 The procurement process followed the Scottish Executive Health Department PPP / PFI guidance for projects <£60m (NHS HDL (2002) 68) [17], as summarised below :

Stage 1 - Pre-qualification questionnaire issued to market and evaluation process undertaken to select three shortlisted bidders.

Stage 2 - Invitation to Negotiate (ITN) issued to three shortlisted bidders.

Stage 3 - ITN bids evaluated and Preferred Bidder selected to work with NHS Ayrshire and Arran and its advisers to finalise design detail, service method and contract terms.

5.2 The undernoted Advisers were appointed to support the NHS Ayrshire and Arran Project Board and Project Team in the procurement process :

Legal - MacRoberts Solicitors
Excel House
30 Semple Street
EDINBURGH EH3 8BL
Lead Adviser : Duncan Osler

Financial - Quayle Munro Limited
8 Charlotte Square
EDINBURGH EH2 4DR
Team Leader : Jo Elliott
Lead Adviser : Alan Ritchie

Technical - Currie & Brown Limited
140 West Campbell Street
GLASGOW G2 4TZ
Team Leader : Jim Hackett
Lead Adviser : Derek Sharkey

5.3 The Pre-Qualification Questionnaire (PQQ) followed the national guidance and was based on the Department of Health's Standard Form PQQ. Three consortiums returned PQQ's, as below :

- Ayrshire Hospitals Limited
- Kilmarnock Healthcare Partnership
- Canmore Consortium

The PQQ Evaluation Model used was in line with the standard guidance notes, containing a series of detailed questions to allow NHS Ayrshire and Arran to evaluate the economic and financial standing, ability and technical capacity of the organisations which responded to the OJEC advertisement. The unanimous recommendation of the Evaluation Panel was that the 3 consortiums be progressed to the ITN stage.

5.4 A comprehensive ITN document was prepared in line with DOH guidance, including the Scottish Health Standard Form Project Agreement (Version 1) with operational responsibility for Facilities Management (FM) services, confined to "HARD" FM services only. The ITN was issued in July 2003 and returns received on the 31st October 2003.

The methodology and evaluation process, Appendix 6, was formally approved by the Project Board, prior to the return of the ITN bids, and is consistent with the NHS Executive's PITN Guidance Notes (Version 2) dated 4th February 2003 [18] with minor amendments to take account of scheme-specific circumstances. Evaluation categories and weightings utilised consistently throughout the process, are summarised below :

Ref	Evaluation Category	Potential Weighted Maximum Score
A	Legal Response	15
B	Financial Response	15
C	Approach to Design and Construction	35
D	Approach to Facilities Management	27
E	Project Management Approach	8
	Aggregate Maximum Score / Total Score	**100**

Evaluation panels were established for each category to undertake detailed scoring, against set individual evaluation criteria, each of which contained core questions to facilitate analyses of consortia compliance to the key elements within the ITN. The undernoted table contains the outcome of all the evaluation categories :

Ref	Evaluation Category	Maximum Potential Weighted Score	Consortium		
			Canmore	AHL*	KHP**
A	Legal Response	15	7.49	8.16	8.86
B	Financial Response	15	8.63	9.42	8.79
C	Approach to Design and Construction	35	17.94	22.76	18.48
D	Approach to Facilities Management	27	14.04	13.50	15.66
E	Project Management Approach	8	5.20	5.12	4.80
	Aggregate Maximum Score / Total Score	100	53.30	58.96	56.59

(* AHL – Ayrshire Hospitals Limited)

(** KHP – Kilmarnock Healthcare Partnership)

Sensitivity analyses of scoring patterns in the Design and Construction category by individual staff groups (e.g. Doctors, Midwives, Management and Lay Representatives) showed a consistency in scoring across all staff groups. All groups had a clear margin in favour of Ayrshire Hospitals Limited.

5.5 The embodiment of the evaluation was compliance and completeness of bids, against the ITN specification. During the evaluation period key clarifications were requested from each consortia in order to refine and finalise with bidders the definition of obligations, the allocation of risk and the unitary charge.

Analyses of the consortia submissions, clarification process, consortia presentations and meetings with consortia supported the position that NHS Ayrshire and Arran had received three robust, fully acceptable bids. Notwithstanding, two consortia (AHL and KHP) actively demonstrated a significantly greater commitment to developing an interactive communication link to demonstrate their shared commitment / ownership to achieving the project objectives.

The evaluation process has proven to be robust in the evaluation of consortia, establishing a clear winner. The information gathered during the process allowed the preparation of legal, financial and technical schedules of key areas in which the Trust wished to see some movement from the consortia, prior to final appointment of the Preferred Bidder.

Subsequently a letter and schedules of key areas were issued to each consortia on the 8th January 2004 with responses received on the 19th January 2004, resolving a number of issues. This was followed up with more detailed negotiation with Ayrshire Hospitals Limited to finalise a schedule of negotiation, before appointment of Preferred Bidder letter being issued on the 19th February 2004.

5.6 A copy of the original OJEC contract notice is attached, Appendix 7.

5.7 Partnership working has been fundamental to the Project Management Structure from the outset with the involvement of staff, staff representatives, and lay representatives on each level of the decision-making process, see Project Management Structure, Appendix 8.

In addition, a number of communication initiatives have been instigated to support and maintain commitment / ownership of the project, see highlights below :

- Programme of Staff Briefings / Bulletins
- Ayrshire and Arran Health Council Survey of maternity in-patients (Local Research Ethics Committee approved), one to one interviews
- Local and national voluntary support groups approached for comments/views on design features etc (e.g. NCT, Ayrshire Miscarriage Support Group, Maternity Services Provision Group, TAMBA, Breastfeeding Support Group)
- Staff Open Days to view and comment on designs and project process

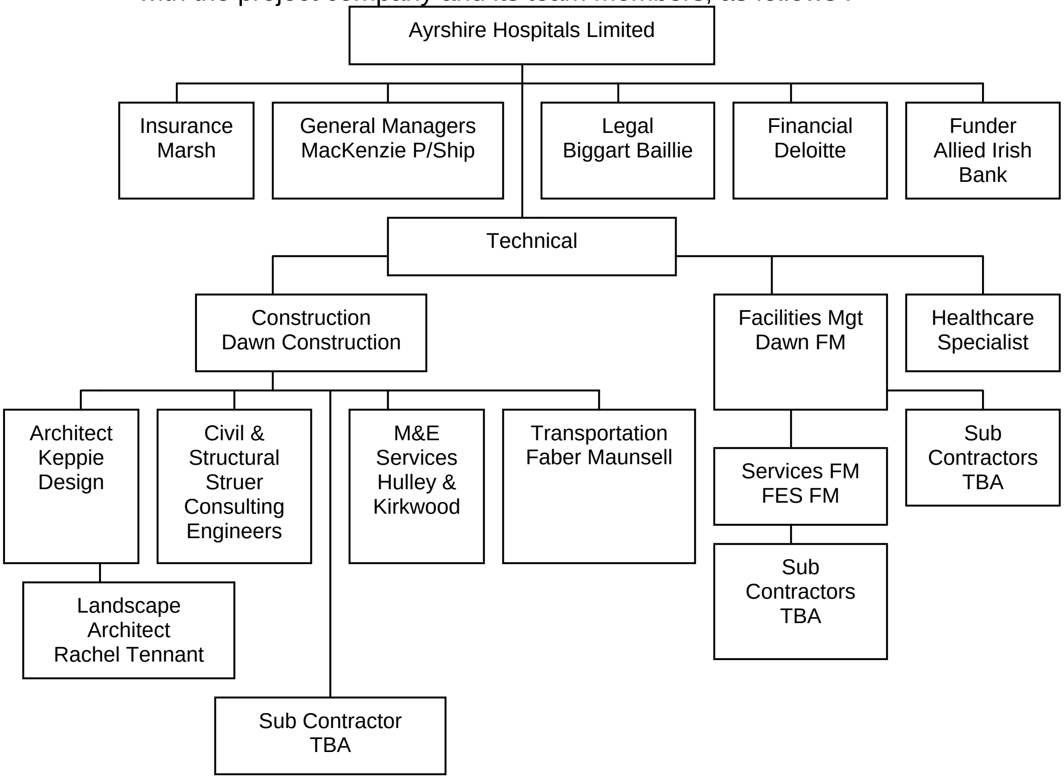
There is a clear project commitment to create a culture where the delivery of the highest standards of care is accepted to be the responsibility of everyone. This is built upon partnership and collaboration with a range of services, as undernoted :

- Families
- Local Authority and Social Work / Housing
- Voluntary Support Services
- Family Planning Services
- GP, Pharmacy and Dental Services
- Health Visitors
- Community Psychiatric Services
- Addiction Services

The aim being to provide a “Family Friendly” environment with adequate privacy for patients in a building which is easy to use, and will enhance the patient experience.

6. THE PREFERRED PFI SOLUTION

6.1 A Special Purpose Vehicle (SPV) has been established to deliver the project, with the project company and its team members, as follows :



6.2 **Design, Construction and Services**

6.2.1 The key features of the ITN solution produced by Ayrshire Hospitals Limited are shown in Appendix 9. The project will create a new state-of-the-art Maternity Hospital at Crosshouse Hospital. It will become the focal point of the area wide maternity services across Ayrshire and Arran, providing a comprehensive service from a single site.

6.2.2 Inter-departmental relationships is paramount and was clearly defined in the ITN Clinical Adjacencies Matrix and in the Clinical Brief for individual departments. Care has also been taken in the design of the facility to consider all of the relationships, particularly in the way it is linked with other non-maternity facilities via the communication link corridor to Crosshouse Hospital.

6.2.3 The design of the building should allow optimum departmental adjacencies in the future, as well as in the initial configuration. On a restricted site, provision for flexibility and internal reconfiguration is easier to achieve than provision for expansion.

Future change will be achieved by amendment to present layouts and, if expansion is required, by increasing the size of the building within courtyard areas, on current roof areas not occupied by plant, or expansion into the adjacent car parks.

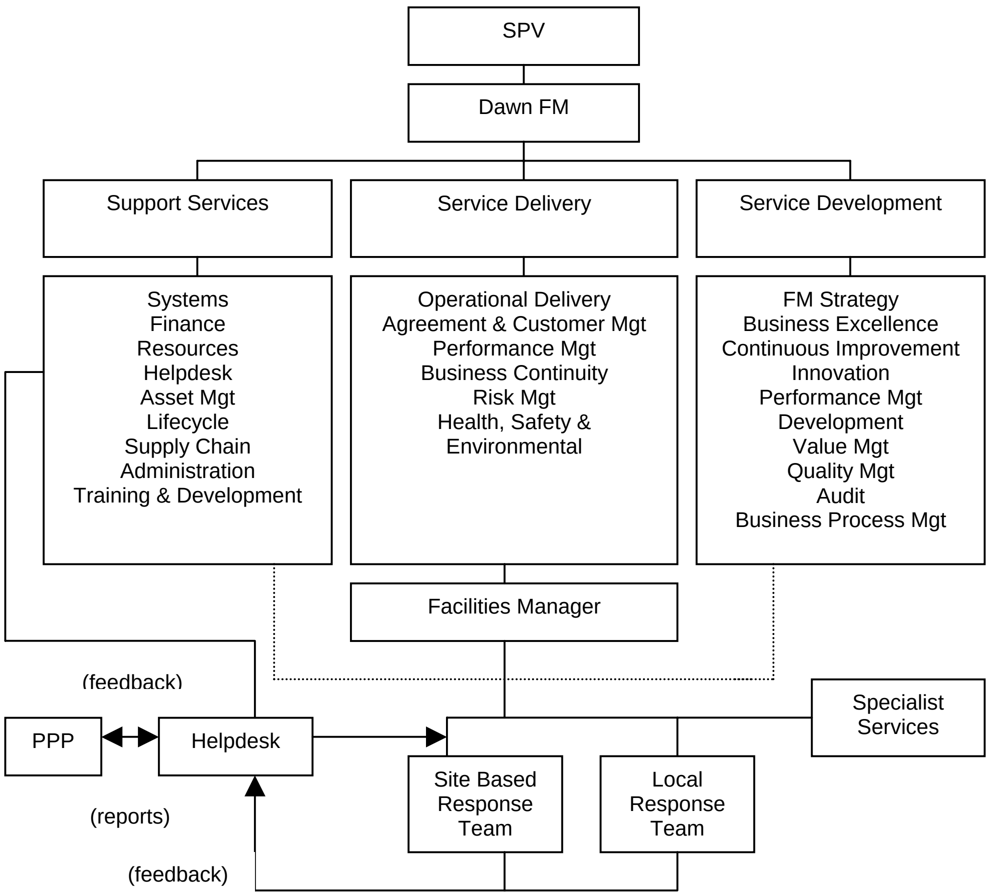
6.2.4 Minimum standards for design and construction have been detailed within the ITN Volume 2 Trust Construction Requirements and Service Level Specifications. Ayrshire Hospitals Limited have confirmed that they will comply with relevant Health Building Notes (HBN) Scottish Health Technical memorandum (SHTM) and Health Technical Memorandum (HTM) with the exception of areas stated within their bid and which have been agreed with the Trust.

6.2.5 The Trust has a committed workforce on the Crosshouse Hospital site, which currently delivers high quality services on its non-clinical services. Therefore the Facilities Management (FM) opportunities within the project were confined to “HARD” FM services only.

Service Level Specifications following the NHS Standard Form were incorporated into the ITN Volume 2 : Section 3 consisting of a General Service Specification and Specific Service Specifications for the services below :

- Estates Services
- Pest Control Services
- Utilities Management
- Helpdesk Services

The “HARD” FM Service Delivery Plan has been generated by Dawn Construction in conjunction with its service delivery partner FES FM and the overall FM structure is detailed in the following chart :



6.3 In their submission AHL estimated a period of some 5 months (March-July 2004) from preferred bidder appointment to obtaining planning permission. However, in order to ensure the planning consent date was achieved the Division and AHL have worked together in meeting with the planners to formalize the stages in obtaining planning permission. See Appendix 20 for the formal approval letter.

6.4 Full Business Case timetable is as follows :

- Submission of draft FBC to Scottish Executive – end of April 2004
- Final FBC for Scottish Executive CIG meeting submitted by 27th July 2004
- Anticipated verbal clearance approximately 24th August 2004

Work will continue in parallel towards achievement of financial close by August/September 2004 with delivery of services by the summer of 2006.

6.5 All bids including any variant bids submitted at the required bid dates (ITN and Preferred Bidder), and subsequently revised through a process of discussion and negotiation, will be held open for a minimum of 12 months from the date of submission of each bid. Accordingly, the AHL bid used as the basis of financial analysis detailed in the Full Business Case was dated 31st October 2003 and will be held open until 31st October 2004.

6.6 **Interest Rates**

Bidders were asked to use a 6% interest rate (exclusive of bank margins), and the Preferred Bidder model produces a first year unitary charge figure of £1.805m. Interest rates over the last few months have been significantly lower than this (circa 5%), therefore the buffer in the original bid was approximately 1%.

6.7 **Sensitivity analysis on interest rates**

To assess the impact of varying interest rates on first year unitary charge the Preferred Bidder was asked to submit a revised unitary charge at an assumed swap rate of 5.4%.

Interest rate	**1st year unitary charge (£m)**
5.4%	1.743

For the purposes of comparison against the PSC, VFM analysis and affordability assessment, a notional unitary charge of £1.755m was used which approximates to a swap rate of around 5.5%.

7. ECONOMIC APPRAISAL (VFM Analysis)

7.1 NPV Comparison of PSC and PFI Option

The table below summarises the NPV comparison between the PSC and the PFI option. The unitary charge used for this analysis was £1.755m.

PFI NPV £m	PSC NPV £m
30.395	30.772

7.2 Preferred Option and Value for Money Assessment

The Net Present Value of the PFI option shows an NPV of £30.395m, which is £0.377m lower than the PSC option. NHS Ayrshire and Arran can therefore demonstrate value for money on this option.

7.3 Assumptions for economic appraisal

The key assumptions used in the economic appraisal for this project are summarised below

- Interest rate of 5.5%. Bidders were asked to submit original bids at an interest rate of 6% (exclusive of bank margins), and all bids were evaluated on this basis. In order to provide a true appraisal of the project, the preferred bidder financial model was then further updated to a more realistic swap rate of [5.5%]. All figures stated within the PFI option are on this basis. This has no impact on the PSC.
- Inflation is assumed at 2.5%
- All net present values have been stated using a discount rate of 3.5%
- The PFI option assumes no capital receipts and a residual value of zero at the end of the concession period
- The 1st year unitary charge figure of £1.755m is stated at a price base of 31st July 2004. It is assumed that this will increase on a per annum basis at the rate of inflation (financial model assumes 2.5%). There is no further sculpting of the unitary charge.

7.4 Calculation of PSC

The calculation of the PSC is described in detail within section 4. Further detail on the various cost assumptions is given in section 7.5 below.

7.5 Quantification of costs and benefits within the scheme

The quantification of costs and benefits has been performed by the Division and the Division’s technical and financial advisors. These have been quantified based on the following assumptions. Full details of the NPV values can be seen within sections 4.1.2.1 and 4.1.2.2.

- Capital costs – provided by Division’s technical advisors, Currie & Brown
- Life cycle costs – based on the Preferred Bidder financial model (extracted by Division’s financial advisors, Quayle Munro) with profit elements removed
- Facilities maintenance – based on the Preferred Bidder financial model (extracted by division’s financial advisors, Quayle Munro) with assumed profit elements removed

- Risk management – an amount has been provided for effective risk management of the project, were the Division to undertake the non-PFI option. This amount would also include any professional fees (non-architectural / construction) that the Division would require in order to facilitate this process. Effective risk management is a requirement to allow for a reduction in the optimism bias upper bound limits, however any additional cost must demonstrate value for money. The risk management amount of £0.480m (which in reality would not be purely risk management due to the element of fees and project management costs) reduces the optimism bias considerably. The cost is considerably smaller than the optimism bias adjustment were there to be no risk management involved, and thus meets this criteria
- Site investigation – there are a number of planning improvement conditions identified which must be met and these have been quantified by the Preferred Bidder, and included within the PSC for completeness and comparability
- Mobilization costs – one-off costs associated with getting the maternity unit up and running post-construction
- Energy costs – quantified based on the Operating Division's current tariffs and energy consumption estimations. The Preferred Bidder financial model unitary charge includes energy, and the PSC must also take them into account in order to give an accurate comparable
- Unplanned maintenance costs – have been assumed at £20k per annum. These costs represent one-off repairs and maintenance, and in particular insurable type events, for which the Operating Division will have to pay for.

7.6 Non-quantified costs or benefits within the scheme

In addition to the quantitative factors considered above there are other subjective factors which should be considered. For the new Maternity Unit a key benefit which is not easily quantifiable from a financial perspective, is the timing of the project deliverability. NHS Ayrshire and Arran believe that it is unlikely that the capital funding would be immediately available thus delaying the Maternity Unit Construction, and the impact of this on the surrounding community could be considered. This adds further weight to the conclusion that the PFI option offers best value for money.

7.7 Sensitivity analysis of the key assumptions underlying the risk analysis

We have performed a sensitivity analysis on the risk analyses performed (both the assessment of specific risks and the assessment of the optimism bias).

7.7.1 Specific risks – sensitivity analysis

The risks within the specific risk analysis can be categorized into 3 sections (capital, life cycle and operating costs) and these have been quantified within section 4.1.3.1. A risk analysis has been performed for each category and this has been detailed below.

7.7.1.1 *Capital costs sensitivity analysis*

For the purposes of the sensitivity analysis we identified the key risks (i.e. the most significant in monetary terms) and performed sensitivity testing on these items. The total capital cost risk adjustment as a net present value was estimated at £2.002m, and of that the key risks noted below total £1.583m. The results of the sensitivity analysis are shown below.

	NPV £m		
Risk	Base Case	Sensitivity 1 – probability on all items decreased to 80% of base case	Sensitivity 2 – probability on all items decreased to 60% of base case
Failure to obtain planning approval	0.152	0.122	0.091
Delays and changes caused by statutory and regulatory issues	0.095	0.076	0.057
Ground conditions	0.190	0.152	0.114
Infrastructure issues	0.190	0.152	0.114
Cost overrums	0.152	0.122	0.091
Unavailability of labour	0.095	0.076	0.057
Primary contractor default	0.567	0.453	0.340
Sub-contractor default	0.142	0.113	0.085
Total	**1.583**	**1.266**	**0.949**

The effects of the above sensitivities on the overall PSC are summarised below

Option	**NPV £m**
PSC – Base case	30.771
PSC – Sensitivity 1	30.454
PSC – Sensitivity 2	30.137
PFI option	30.395

The above analysis demonstrates that on adjustment of the probabilities to 80%, the project would still demonstrate value for money, however on reduction of this probability to 60%, the project would fall below the value for money envelope. We would note however that the base case risk adjustments made are on a very prudent basis and therefore the sensitivity 2 represents a worst case scenario level, that is highly unlikely to be achieved.

7.7.1.2 *Life cycle costs sensitivity analysis*

The life cycle risk analysis takes the base life cycle base costs and assesses the likelihood of these costs being higher than expected. A summary of the sensitivity analysis performed is detailed below.

Base case			**Sensitivity**		
Probability	% increase in costs	NPV value	Probability	% increase in costs	NPV value
50%	5%	0.066	50%	1%	0.013
25%	10%	0.066	25%	2.5%	0.016
10%	20%	0.053	10%	5%	0.013
5%	40%	0.053	5%	20%	0.026
2.5%	60%	0.040	2.5%	30%	0.020
1.25%	80%	0.026	1.25%	40%	0.013
0.5%	100%	0.013	0.5%	50%	0.007
Total		**0.317**	**Total**		**0.108**

The effect of the above sensitivity on the overall PSC are summarised below :

Option	**NPV £m**
PSC – Base case	30.771
PSC – Life cycle sensitivity	30.562
PFI OPTION	30.395

On reduction of the life cycle risk adjustment to circa one third of its original assessment, the PFI VFM conclusion remains the same.

7.7.1.3 *Operating costs sensitivity analysis*

There are 3 key areas of risk that have been identified within the operational cost risk analysis, and these are as follows :

Risk	**Base case NPV £m**
Facilities maintenance	0.367
Availability	0.378
Other cost overruns	0.187
Total	**0.932**

These total £0.932m and make up the majority of the risk adjustment within that category, which totals £0.953m.

- The quantification of the facilities management risk factor was performed on a similar basis to life cycle. The likely % increase in costs was assessed as having a particular probability level, thus producing an overall quantified risk factor. Sensitivity 1 adjusts all probabilities to 80% of the base case, and sensitivity 2 adjusts all probabilities to 60% of their original levels. This produces NPV values of £0.291m and £0.216m respectively.
- Availability was assessed using the working payment mechanism, which was used to run a number of potential scenarios. The scenarios were then used to build up projections for "Excellent" years through to "Poor" years, and these were used to build up a picture for a 30 year project. Overall, three average yearly deductions (£7k, £39k and £93k) were calculated and then the probability assessed of these yearly deductions occurring. Sensitivity 1 assumes that the highest level of deduction (93k) will never occur, and sensitivity 2 assumes that only the low level deduction occurs. This produces NPV levels of £0.208m and £0.064m respectively.
- Other cost overruns represent all other areas of cost, and has been quantified at a level of £0.187m for the full project life. Sensitivity 1 assumes that these occur at only 80% of the projected level, and sensitivity 2 assumes that these occur at 60% of the projected level.

Risk	**Sensitivity 1 £m**	**Sensitivity 2 £m**
Facilities maintenance	0.291	0.216
Availability	0.208	0.064
Other cost overruns	0.150	0.112
Total	**0.649**	**0.392**

The effect of the above sensitivities on the overall PSC are summarised below :

Option	**NPV £m**
PSC – Base case	30.771
PSC – Operating costs – Sensitivity 1	30.488
PSC – Operating costs – Sensitivity 2	30.231
PFI option	30.395

Under sensitivity 1 the PFI option continues to demonstrate value for money, however under sensitivity 2 it falls below the VFM envelope by £0.164m. This second scenario assumes a risk adjustment on availability of only £0.064m. The payment mechanism methodology of risk transfer is key to the PFI option and is one of the major areas of risk transfer. We would therefore view any decrease in the base case level of £0.378m as being an unrealistic transfer of risk.

7.7.2 Optimism Bias – sensitivity analysis

The current optimism bias shows adjustment levels of 15.22% for capital expenditure and which produces an adjustment of £2.471m. The key risks identified within this analysis of capital expenditure are identified below, along with the sensitivities performed and results produced.

Risk	% contributing to 24% upper bound	Base case - % mitigation	Sensitivity 1 -% mitigation	Sensitivity 2 -% mitigation
Poor contractor capabilities	9%	20%	40%	50%
Dispute and Claims	29%	5%	20%	50%
Inadequacy of Business Case	34%	70%	90%	50%
Economic factors	11%	5%	10%	5%
Resulting total % adjustment	24%	15.22%	13.22%	13.07%
Resulting optimism bias adjustment (new present value)	N/A	£2.471m	£2.148m	£2.123m
PSC NPV	N/A	£30.722m	£30.448m	£30.424m
PFI Option NPV	N/A	£30.395m	£30.395m	£30.395m
PFI VFM?	N/A	YES	YES	YES

The sensitivity analysis again concludes that the PFI option remains VFM.

7.7.3 Sensitivity analysis of risk analysis – conclusion

The approach taken in the above analysis was to identify the key risks (in respect of monetary amount) and apply major changes to the assumptions and probabilities. On this basis, we have assessed each risk category in its own right and have not looked at a cumulative risk adjustment, as we do not believe this would produce a realistic scenario. Taking each category in its own right provides a more transparent analysis of the risk assessment process, and produces a conclusion that the PFI option base case has a comfortable headroom, that will support some change within the underlying risk analysis.

8. RISK ANALYSIS

Overview

In line with FBC requirements identified in the Revised Interim Capital Guidance, NHS HDL, (2002) 87 [19], this section covers the following elements :

- A risk allocation matrix showing which party is responsible for managing which risk;
- Identifies the key individual risks including an explanation of what each one means, and how the values and probabilities of those risks occurring were determined;
- Provides an NPV analysis of the risks retained by the public sector under each of the options considered;
- Provides an assessment of the total risks associated with the Project including those risks which are non-quantifiable in the form of weighting and scoring matrix; and
- A sensitivity analysis of the key assumptions underlying the risk analysis

This section also contains information on the Public Sector Comparator, which is addressed in more detail in Section 4.

The treatment of risk adopted by the Board is based on PFI guidance. This guidance splits the project risks into ten broad categories and these categories are subdivided into individual risks. The ten categories are :

1. Design Risks
2. Construction Risks
3. Availability and Performance Risks
4. Operating Cost Risks
5. Variability of Revenue Risks
6. Termination Risks
7. Technology and Obsolescence Risks
8. Control Risks
9. Residual Value Risks
10. Other Project Risks

8.1 Risk Allocation

The objective of performing a risk analysis is to enable a more complete assessment of total revenue costs of the options under consideration. It is used within economic analysis to show which option demonstrates the best value for money **(VFM),** and also forms the basis for the assessment of accounting treatment under [FRS5] (see Section 12 – Accounting Treatment of the PFI Scheme".

The Project Board ran a number of workshops for senior managers from many disciplines to develop and review the outcomes. These were facilitated by its financial advisers in the early stages to give guidance and assistance.

The risk matrix (see Figure 1 : Example from Risk Allocation Matrix) shows for the PFI Option which party is responsible for managing which risk (public sector, private sector or shared). It also cross-refers the individual risks to the relevant provisions of the Project Agreement which makes the contractural risk allocation.

Figure 1 :Risk allocation Matrix Example

Risk Heading	Risk Definition	Project Agreement Clause/Schedule/ Reference	Risk Allocation		
			Public Sector	Private Sector	Shared
Failure to build to design	Misinterpretation of design or failure to build to specification during construction may lead to additional design and construction costs	17		✓	

The risk allocation matrix for the Project is set out at Appendix 10. It follows the standard PFI risk allocation matrix with minor Project-specific changes and, subject to such amendments, reflects the allocations set out in the standard form of contract.

8.2 Key Individual Risks

For each individual risk in the Risk Allocation Matrix / Appendix 10, there is a detailed risk schedule which documents the principal elements that are used to derive the risk assessment. The four main constituents of each risk that have been assessed are :

- The likely impact in financial terms, should the risk be realized (minimum, medium, maximum)
- The probability of the risk being realized (minimum, medium, maximum)
- The timing of the risk if realized
- The proportion of risk borne by the Board / Public Sector

For each risk an expected value is derived based on a three-point-analysis :

- Best-case, most likely case and worst-case values were derived from a base value
- The relative likelihood of the scenarios arising was assessed and each given a percentage value, the total of which was one hundred percent. This gives a simple probability distribution for the risk
- The expected value of the distribution was then calculated by summing the products of the values and probabilities

The likelihood that the risk would occur in any given year was then assessed. The expected value was multiplied by this probability to give the expected value for any given year. These values were extrapolated over the period to which they pertained and discounted using a [3.5]% discount factor to derive Net Present Values **(NPVs)** for the risks.

8.3 NPV Analysis of Risks retained by Public Sector under each option

The qualitative risks retained by the public sector under the PFI option are detailed fully Appendix 10. Further to this a Monte Carlo simulation was run to assess all quantifiable risks. The only significant quantifiable risk retained by the Public Sector was that of residual value. Although the actual risk of residual value lies with the Private Sector (Appendix 10), the potential benefit of residual value lies with the Public Sector and it is this which has been quantified. This benefit is minimal in that the building is a bespoke building and the site is a Greenfield site with designated Healthcare usage. The NPV analysis produced a value of £0·555m residual value risk.

8.4 Assessment of Total Risk

The total risk borne by the Project is not significantly different under the PFI and the PSC options, however, the PFI transfers significant element of risk to the private sector. The remaining elements of risk relate to factors which are either beyond the control of the local health community, such as the risk of changes in legislation, or which are likely to be affected only as a result of large scale change within the health community. The likelihood of the latter occurring is small, as the health community has repeatedly and firmly expressed its support for the Project.

8.5 Sensitivity Analysis for the key assumptions underlying the Risk Analysis

The quantified private sector risk analysis is detailed fully within Section 4 (The Public Sector Comparator). This shows the results of a number of sensitivities testing the private sector risk transfer.

9. FINANCIAL APPRAISAL (AFFORDABILITY ANALYSIS)

9.1 Quantification of the revenue implications of the scheme for PSC and PFI options

9.1.1 The review of the financial considerations has included an assessment of the following components :

A. PUBLICLY FUNDED OPTION

1. The capital costs of the new build
2. The running costs of the new unit
3. Savings through closure of existing premises

B. PFI / PPP OPTION

1. Total running costs (including Preferred Bidder input)
2. An assessment of value for money against the Public Sector Comparator and financial risk assessment

9.1.2 All cost estimates have been based on latest prices i.e. capital costs quarter 3, 2003/04 and revenue costs 2004/05 prices.

9.1.3 Publicly funded Option

9.1.3.1 Capital Costs

The Project Team has undertaken a complete re-assessment of the service requirements in terms of standards of care, activity / workflow projections and accommodation needs using the latest guidance, as contained within the ITN documentation.

This review has confirmed that the new unit will require to have a capacity to cope with 3,600 deliveries per year. In full consultation with Clinical Staff a detailed schedule of accommodation has been agreed.

The Division's Technical Advisers, Currie & Brown, have carried out an assessment of the capital costs using the latest Departmental Cost Allowances, against the agreed schedule of accommodation and the Adviser's experience with other similar developments.

This assessment indicates that the capital investment required to provide the new unit will amount to £20·808m. A summary of the various elements included, is provided below :

	£000s
• Construction Costs (incl. Contingency etc.)	14,749
• Fees	1,643
• Equipment	1,562
• VAT	2,854
Total Capital Cost	**£20,808**

The detailed analysis of capital costs are attached, Appendix 11. The equipment costs are over and above the normal replacement programme.

The projected phasing of the capital expenditure based on a similar timescale to the PFI option for comparability purposes is :

2004/05	2005/06	2006/07
£3·000m	£14·600m	£3·208m

9.1.3.2 Revenue Costs

The revenue costs of the new unit have been based on actual costs for 2002/03 re-based to 2004/05 prices taking account of pay awards, price inflation and budgets set for 2004/05.

All budget holders have been consulted on the staffing and associated running costs, including budgets available for transfer from the existing facility.

The identified savings in respect of clinical and other staffing is based on two main factors. The centralisation of in-patient Maternity and Gynaecology beds onto one site with resulting impact on staff rotas and the reduction in the bed complement from 82 to 57 in recognition of the birth rate trends.

The capital charge estimate of £1·611m has been based on the capital cost of the new unit (as identified in paragraph 9.1.3.1 above) with depreciation of the building element calculated over 30 years (i.e. same as PFI contract period), Plant 20 years, Equipment 10 years and 3.5% for cost of capital (see Note 2).

The rating implications of the new unit on the Crosshouse site and the associated closure of existing premises on the Ayrshire Central site have been estimated with the District Valuers Office.

Annual operating costs of the existing service amounts to £14.611m at 2004/05 prices. The gross running costs of the new unit are estimated at £15.251m, with £13.747m available for transfer from existing budgets, leaving a net additional revenue cost of £1.504m. Full details are provided in Note 1 (together with supporting attachments).

It should be noted that whilst Maternity Services will transfer from Ayrshire Central Hospital, this hospital will remain open for other important services. The cost allocation for site services and the associated valuation of budgets available to transfer have been assessed on the extent to which costs will reduce on the completion of the Maternity transfer. Around £0.060m of existing site running costs apportioned to Maternity Services will require to be retained at Ayshire Central Hospital to provide for remaining services. (see Note 1 for details).

9.1.3.3 Closure / Disposal of Existing Maternity Premises

The Maternity Project Board have agreed that the grounds and buildings on the maternity side of the site will not be required for NHS purposes and be put on the market for disposal once the transfer has been effected.

There are several reasons supporting this decision :

1. A large part of the building is in a poor state of repair. The Estates Survey carried out by Stratagem Management and Technical Consultants Ltd [20], identified £3.5m in backlog maintenance, which would be avoided.

2. NHS Ayrshire and Arran are currently marketing the sale of surplus land adjacent to the maternity side of the hospital. The inclusion of land on the maternity side of the hospital will improve access and add significant value for development opportunities. The estimated total receipt for both elements will be in the range £5·0m to £6·0m, which will be available to assist with funding of other elements of the Ayrshire Central Hospital – Site Development Plan.
3. Savings in running costs, including capital charges, that will be released to offset the additional running costs of the new Maternity Unit.
4. Site fixed costs will be minimised reducing the cost implications for services remaining at Ayrshire Central Hospital.
5. This disposal is fully consistent with the Area Wide Property Strategy *13* and the Ayrshire Central Hospital Needs Assessment *21* commissioned by NHS Ayrshire and Arran.

Certain management departments and the Area Training Centre will require to be relocated, as part of these proposals. The cost of these changes will be met from the expected sale proceeds.

9.1.3.4 Asset Impairment / Accelerated Depreciation

The current net book value of the land and buildings on the Maternity side of Ayrshire Central Hospital amounts to £10·643m, as at 31st March 2004 (see Note 3). The remaining life of the buildings is 22 years.

The Valuation Office Agency (VOA) has carried out a review of these premises and the value on an “open market basis” is £2·635m – see Appendix 12. A resulting impairment of £8·008m will arise (see Note 4 & 5). This will require to be addressed by accelerated depreciation over the three years 2004/05 to 2006/07. Provision for this will require a non-recurring increase of £7·227m in NHS Ayrshire and Arran’s revenue resource limit (see Note 6).

The annual saving in revenue costs and capital charges through closure and disposal of existing premises amount to £0.804m (see Note 1 – Attachment 4). These savings have been reflected in the net additional revenue costs of £0.432m requiring to be funded by NHS Ayrshire and Arran.

9.1.4 PFI / PPP Option

9.1.4.1 General

NHS Ayrshire and Arran has strictly followed the arrangements recommended by the Scottish Executive Health Department and used the associated Scottish standard documentation (Version 1).

Sections 5 and 6 have outlined the procurement process leading to the identification of the Preferred Bidder, which has been used to support the quantification of costs under the PFI option. The resultant costs have been subject to an assessment against the public sector comparator on economic, financial and risk transfer (sections 4, 7 and 8 detail the outcome).

The ITN documentation confirmed that "Hard" FM Services only are included under the scope of the potential PFI contract which will have a duration of thirty years.

9.1.4.2 Estimated Running Costs

The outcome of the evaluation of the response received from the Preferred Bidder, highlights a projected unitary charge of £1·755m per annum.

Attachment F3, Page 45 details the make-up of the projected unitary charge over the 30 year period of the contract. The analysis details the annual costs in real terms i.e. does not apply the 2.5% assumed inflation in both cases. A summarised comparison of the PFI unitary charge against the associated affordability limit is detailed in the table below :

PFI Unitary Charge per annum	PFI Affordability Limit per annum
£1·755m	£1·790m

Total annual running costs under the PFI option, inclusive of in-house costs, have been projected at £15.251m. Note 1, Attachment 5 provides a breakdown of the various elements. This assumes that the project is treated "off balance sheet" following the evaluation of the accounting treatment by the appointed auditor.

The total annual running costs of the PFI and PSC options are very similar. The net additional running costs requiring to be funded by NHS Ayrshire and Arran under both options amounts to £0.432m.

The PFI option incorporates similar proposals to the PSC option for closure and disposal of the existing Maternity premises at Ayrshire Central Hospital.

The asset impairment and accelerated depreciation identified under the PSC also apply under the PFI option (see section 9.1.3.4), necessitating a similar non-recurring increase of £7·227m in NHS Ayrshire and Arran's revenue resource limit over the period 2004/05 to 2006/07.

9.1.5 Outcome of Financial Appraisal

The PFI option is the preferred funding route.

There are two principal reasons for this :

1. Under the PSC option it is likely that capital funding constraints will mean that the new unit will be delayed, with no defined completion date, compared to the 2006 completion date under the PFI option.
2. Under the PFI option, significant elements of financial risk will be transferred to the Project Co.

The resultant affordability gap of £0.432m requiring to be met by NHS Ayrshire and Arran is consistent with the level already approved at Outline Business Case stage, after taking account of the savings from the recommendation for the Ayrshire Central site being declared surplus to requirements and put up for disposal.

In achieving this result it should be noted that around £112,000 of midwifery staff savings have already been taken into account in the achievement of the CRES targets for 2003/04, from the initial reduction by 10 beds, towards the target set for 2006 (move from 82 to 57 beds). In addition, medical savings identified in the Outline Business Case have reduced by £95,000, as a consequence of compliance with Junior Doctors "NEW DEAL", Working Time Directives etc.

9.2 Financial Plans

The preferred solution to progress the project using the PFI option, has been incorporated into NHS Ayrshire and Arran's financial plans. The updated financial proformas covering the period 2003/04 to 2008/09 are attached as Note 7.

9.3 Financial Assumptions

The financial assumptions underlying the appraisal are detailed in the statements of key assumptions in the financial proformas.

9.4 Support from NHS Ayrshire and Arran

The business case has been produced in partnership with all components of the local system and the outcome is fully supported by NHS Ayrshire and Arran, as evidenced by the signatories to the business case.

9.5 VAT Treatment

The Unitary Charge by Project Co to NHS Ayrshire and Arran will be subject to VAT at 17.5%. This VAT will be fully recoverable by NHS Ayrshire and Arran under the Contracted Out Services rules. NHS Ayrshire and Arran has not exercised its right to waive exemption under Paragraph 2, Schedule 10, VATA 1994 on the land, which it will licence to Project Co or on the existing Crosshouse Hospital, but it reserves the right to do so prior to the completion of the transaction and subject to agreement with Project Co.

9.6 Land and Buildings within the PFI Scheme

The land for the Project is wholly owned by the Scottish Ministers. The terms of Clause 14 of the Project Agreement grant a licence to Project Co for occupation of the new maternity unit site, which will endure until expiry of the Project Agreement or earlier termination. The building will exist as an asset of Project Co for the project duration, in the form of a lease debtor. Ownership of this asset will transfer to The Scottish Ministers at the end of the Project Term for nil consideration.

ATTACHMENT F3

Revenue implications of PSC and PFI options

Period ending	PFI revenue charge £m	PSC revenue charge £m
Jul-04	0.000	0.000
Mar-05	0.000	0.000
Mar-06	0.000	0.000
Mar-07	1.609	0.850
Mar-08	1.755	0.380
Mar-09	1.755	0.380
Mar-10	1.755	0.380
Mar-11	1.755	0.380
Mar-12	1.755	0.380
Mar-13	1.755	0.380
Mar-14	1.755	0.380
Mar-15	1.755	0.380
Mar-16	1.755	0.380
Mar-17	1.755	0.380
Mar-18	1.755	0.380
Mar-19	1.755	0.380
Mar-20	1.755	0.380
Mar-21	1.755	0.380
Mar-22	1.755	0.380
Mar-23	1.755	0.380
Mar-24	1.755	0.380
Mar-25	1.755	0.380
Mar-26	1.755	0.380
Mar-27	1.755	0.380
Mar-28	1.755	0.380
Mar-29	1.755	0.380
Mar-30	1.755	0.380
Mar-31	1.755	0.380
Mar-32	1.755	0.380
Mar-33	1.755	0.380
Mar-34	1.755	0.380
Mar-35	1.755	0.380
Mar-36	1.755	0.380
Mar-37	0.146	0.050

AYRSHIRE AND ARRAN GENERAL HOSPITALS DIVISION **Note 1**

MATERNITY BUSINESS CASE

SUMMARY OF RUNNING COSTS OF EXISTING AND PROPOSED SERVICE INCLUDING FUNDING IMPLICATIONS

	STAFF NOS *WTE*	RUNNING COSTS *£000s*
1. Baseline		
Annual running costs of existing service (attachment 1)	**324.44**	**14,611**
2. PSC Option – New Facility		
Projected annual running costs (attachment 2)	**308.12**	**15,251**
Less - available for transfer (attachment 3)	320.50	13,747
Additional cost of new service	-12.38	1,504
Less - savings available if existing premises closed (attachment 4)		804
Less – adjustment to comply with SCIM guidance		268
Funding requirement after savings		**432**

Notes:

a. Analysis of funding requirement after savings	***£000s***
Increased running costs of new facility	372
Site costs retained at Ayrshire Central Hospital	60
Funding Requirement	**432**

b. Increased running costs of new facility - analysis by department	
Medical	(101)
Nursing	(235)
Catering	(86)
Laboratories (Taxis)	(25)
Medical Physics	5
Estates	33
Energy	(29)
Rates	18
Capital Charges	957
Risk Management/Insurance	75
Life Cycle to meet ITN	28
Adjustment to comply with SCIM guidance	(268)
	372

c. Site costs to be retained at ACH - analysis by department	
Portering/Security	5
Catering	40
Estates	15
	60

These costs relate to existing hospital site costs apportioned to Maternity Services, which will require to be retained at Ayrshire Central to provide for the remaining services.

3. PFI Option – New Facility

Project annual running costs (attachment 5)	**15,251**

Funding requirement after savings is the same as PSC option.

AYRSHIRE AND ARRAN GENERAL HOSPITALS DIVISION **Attachment 1**

MATERNITY BUSINESS CASE - DEPARTMENTAL COST SUMMARY

ANNUAL RUNNING COSTS OF EXISTING SERVICE

	ACTUAL STAFF NOS 2002/03 *WTE*	ACTUAL RUNNING COSTS 2002/03 *£000s*	ACTUAL RUNNING COSTS INFL ADJ *£000s*
SALARIES			
MEDICAL	29.60	1,718	1,963
NURSING	225.34	5,859	6,764
DIAGNOSTIC	3.76	147	169
PARAMEDICAL	3.82	113	130
PHARMACY	1.00	24	28
CATERING	10.97	135	160
DOMESTIC	15.68	192	224
PORTERING	5.50	78	92
ESTATES	0.00	48	54
MEDICAL RECORDS	18.02	269	319
ADMINISTRATION	10.75	216	250
TOTAL SALARIES	**324.44**	**8,799**	**10,153**
SUPPLIES			
NURSING		340	353
PHARMACY SUPPLIES		321	334
DIAGNOSTIC		65	67
PARAMEDICAL		16	17
PHARMACY OVERHEADS		1	1
CATERING		51	53
DOMESTIC		26	27
PORTERING		33	35
RATES		103	112
UTILITIES		108	115
ESTATES		74	77
MEDICAL RECORDS		23	24
ADMINISTRATION		55	55
CAPITAL CHARGES		629	654
LABORATORIES		491	511
TOTAL SUPPLIES	**0**	**2,336**	**2,435**
MATERNITY SERVICES OVERHEADS		**1,945**	**2,023**
TOTAL	**324.44**	**13,080**	**14,611**

NOTE**:** The last column shows the effect of adjusting the actual costs of existing services for 2002/03 to 2004/05 pay and price levels.

AYRSHIRE AND ARRAN GENERAL HOSPITALS DIVISION **Attachment 2**

MATERNITY BUSINESS CASE - DEPARTMENTAL COST SUMMARY

PSC - ESTIMATED ANNUAL RUNNING COSTS OF NEW FACILITY

	STAFF NOS *WTE*	ESTIMATED RUNNING COSTS *£000s*
SALARIES		
MEDICAL	27.60	1,862
NURSING	217.34	6,529
DIAGNOSTIC	3.76	169
PARAMEDICAL	3.82	130
PHARMACY	1.00	28
CATERING	4.65	74
DOMESTIC	15.68	224
PORTERING	5.50	92
ESTATES	0.00	74
MEDICAL RECORDS	18.02	319
ADMINISTRATION	10.75	250
TOTAL SALARIES	**308.12**	**9,751**
SUPPLIES		
NURSING		353
PHARMACY SUPPLIES		334
DIAGNOSTIC		72
PARAMEDICAL		17
PHARMACY OVERHEADS		1
CATERING		53
DOMESTIC		27
PORTERING		35
RATES		130
UTILITIES		86
ESTATES		90
MEDICAL RECORDS		24
ADMINISTRATION		55
CAPITAL CHARGES		1,611
RISK MANAGEMENT/INSURANCE		75
LABORATORIES		486
LIFE CYCLE TO MEET ITN		28
TOTAL SUPPLIES	**0**	**3,477**
MATERNITY SERVICES OVERHEADS		**2,023**
TOTAL	**310.12**	**15,251**

NOTE : All costs are stated at 2004/05 pay and price levels

AYRSHIRE AND ARRAN GENERAL HOSPITALS DIVISION **Attachment 3**

MATERNITY BUSINESS CASE - DEPARTMENTAL COST SUMMARY

SUMMARY OF COSTS AVAILABLE FOR TRANSFER

SALARIES	**STAFF NOS *WTE***	**ESTIMATED RUNNING COSTS *£000s***
MEDICAL	29.60	1,963
NURSING	225.34	6,764
DIAGNOSTIC	3.76	169
PARAMEDICAL	3.82	130
PHARMACY	1.00	28
CATERING	7.20	120
DOMESTIC	15.68	224
PORTERING	5.33	87
ESTATES	0.00	54
MEDICAL RECORDS	18.02	319
ADMINISTRATION	10.75	250
TOTAL SALARIES	**320.50**	**10,108**
SUPPLIES		
NURSING		353
PHARMACY SUPPLIES		334
DIAGNOSTIC		67
PARAMEDICAL		17
PHARMACY OVERHEADS		1
CATERING		53
DOMESTIC		27
PORTERING		35
RATES		0
ENERGY		77
ESTATES		62
MEDICAL RECORDS		24
ADMINISTRATION		55
CAPITAL CHARGES		0
LABORATORIES		511
TOTAL SUPPLIES	**0**	**1,616**
MATERNITY SERVICES OVERHEADS		**2,023**
TOTAL	**320.5**	**13,747**

NOTE : All costs are stated at 2004/05 pay and price levels

AYRSHIRE AND ARRAN GENERAL HOSPITALS DIVISION **Attachment 4**

MATERNITY BUSINESS CASE - DEPARTMENTAL COST SUMMARY

SAVINGS IF EXISTING MATERNITY PREMISES ARE DISPOSED

	ANNUAL SAVINGS *£000s*
SUPPLIES	
RATES ON ACH VACATED BUILDINGS	112
UTILITIES	38
CAPITAL CHARGES	654
TOTAL SUPPLIES	**804**

NOTE :

1. Savings assume disposal of all land and buildings on the Maternity side of the hospital.

2. All savings are stated at 2004/05 pay and price levels.

AYRSHIRE AND ARRAN GENERAL HOSPITALS DIVISION **Attachment 5**

MATERNITY BUSINESS CASE - DEPARTMENTAL COST SUMMARY

ESTIMATED ANNUAL RUNNING COSTS OF NEW FACILITY UNDER THE PFI OPTION

	STAFF NOS *WTE*	**RUNNING COSTS** *£000s*
SALARIES		
MEDICAL	27.60	1,862
NURSING	217.34	6,529
DIAGNOSTIC	3.76	169
PARAMEDICAL	3.82	130
PHARMACY	1.00	28
CATERING	4.65	74
DOMESTIC	15.68	224
PORTERING	5.50	92
MEDICAL RECORDS	18.02	319
ADMINISTRATION	10.75	250
TOTAL SALARIES	**308.12**	**9,677**
SUPPLIES		
NURSING		353
PHARMACY SUPPLIES		334
DIAGNOSTIC		72
PARAMEDICAL		17
PHARMACY OVERHEADS		1
CATERING		53
DOMESTIC		27
PORTERING		35
RATES		130
MEDICAL RECORDS		24
ADMINISTRATION		55
LABORATORIES		486
ESTATES		43
EQUIPMENT CAPITAL CHARGES		166
PFI UNITARY CHARGE		1,755
TOTAL SUPPLIES		**3,551**
MATERNITY SERVICES OVERHEADS		**2,023**
TOTAL RUNNING COSTS		**15,251**

NOTE : All costs are stated at 2004/05 pay and price levels.

AYRSHIRE AND ARRAN GENERAL HOSPITALS DIVISION **Note 2**

CROSSHOUSE MATERNITY FBC

NEW FACILITY – PSC OPTION CAPITAL CHARGES

BUILDING WORKS	**REVISED COST** *£000*	**DEPRECIATION COST PER ANNUM** *£000*	**3.5% COST OF CAPITAL** *£000*
Construction Works	7,700	257	270
Plant (extracted from above)	4,000	200	140
External Works	3,011	100	105
Statutory Improvements	38	1	1
Professional Fees	1,643	55	58
VAT	2,581	86	90
Sub-Total Buildings	**18,973**	**699**	**664**
EQUIPMENT			
Equipment	1,835	184	64
Sub-Total Equipment	**1,835**	**184**	**64**
TOTAL	**20,808**	**883**	**728**
TOTAL CAPITAL CHARGES FOR NEW UNIT			**1,611**

NOTES

1. Building depreciation calculated over the same term as the PFI option, i.e. 30 years

2. Plant depreciation calculated on an average of 20 years.

3. Equipment depreciation calculated on an average of 10 years.

AYRSHIRE AND ARRAN GENERAL HOSPITALS DIVISION **Note 3**

AYRSHIRE CENTRAL MATERNITY

CURRENT CAPITAL CHARGES FOR AREAS SUGGESTED FOR DISPOSAL

	Asset Reg.No.	Current Asset Life	NBV 31/03/04	2003/04 Revaluation	NBV 1/4/04	Depreciation 2004/05	3.5% Cost of Capital 2004/05
LAND			£	£	£	£	£
Homeview	1187	N/A	2,230	22,770	25,000	N/A	875
Staff House 17	1188	N/A	2,230	22,770	25,000	N/A	875
Mortuary	1192	N/A	5,031	41,208	46,239	N/A	1,618
Dining/Recreation	1193	N/A	41,557	532,021	573,578	N/A	20,075
Maternity	1197	N/A	429,557	2,183,324	2,612,881	N/A	91,451
ATU/Residency	1198	N/A	40,025	512,407	552,432	N/A	19,335
Mat Nurses Home	1200	N/A	44,399	568,404	612,803	N/A	21,448
TOTAL LAND			**565,029**	**3,882,904**	**4,447,933**	**N/A**	**155,677**
BUILDINGS							
Homeview	1102	22 years	23,248	36,752	60,000	2,727	2,100
Staff House 17	1103	22 years	23,248	36,752	60,000	2,727	2.100
Mortuary	1107	22 years	52,436	30,067	82,503	3,750	2,888
Dining/Recreation	1097	22 years	349,694	(22,731)	326,963	14,862	11,444
Maternity	1094	22 years	2,921,165	(236,901)	2,684,264	122,012	93,949
Maternity	1095	22 years	1,875,795	(74,904)	1,800,891	81,859	63,031
ATU/Residency	1096	22 years	417,168	(27,117)	390,051	17,730	13,652
Mat Nurses Home	1098	22 years	462,307	(30,051)	432,256	19,648	15,129
Hospital	1099	22 years	62,920	17,080	80,000	3,636	2,800
Maternity Theatres	2776	22 years	92,420	(6,008)	86,412	3,928	3,024
Maternity Theatres	2831	22 years	204,541	(13,295)	191,246	8,693	6,694
TOTAL BUILDINGS			**6,484,942**	**(290,356)**	**6,194,586**	**281,572**	**216,811**
TOTAL DISPOSABLE ASSETS			**7,049,971**	**3,592,548**	**10,642,519**	**281,572**	**372,488**
TOTAL CURRENT CAPITAL CHARGES							**654,060**

AYRSHIRE AND ARRAN GENERAL HOSPITALS DIVISION **Note 4**

AYRSHIRE CENTRAL MATERNITY

OPEN MARKET VALUE AND ACCELERATED DEPRECIATION TO COVER IMPAIRMENT COVERING BOTH PFI AND PSC OPTIONS

2003/04	**LAND**	**BUILDINGS**	**TOTAL**
Opening NBV 1/4/03	565,029	6,725,498	7,290,527
Indeaxtion	3,882,904	(290,356)	3,592,548
Depreciation	0	(240,556)	(240,556)
TOTAL	**4,447,933**	**6,194,586**	**10,642,519**

2004/05	**LAND**	**BUILDINGS**	**TOTAL**
Opening NBV 1/4/04	4,447,933	6,194,586	10,642,519
Indeaxtion (3.27% Land,2.00% Buildings)	145,447	123,892	269,339
Depreciation/Impairment	(796,550)	(1,989,862)	(2,786,412)

TOTAL	**3,796,830**	**4,328,616**	**8,125,446**
2005/06	**LAND**	**BUILDINGS**	**TOTAL**
Opening NBV 1/4/05	3,796,830	4,328,616	8,125,446
Indeaxtion (3.27% Land,2.00% Buildings)	124,157	86,572	210,729
Depreciation/Impairment	(846,618)	(2,031,159)	(2,877,777)
TOTAL	**3,074,369**	**2,384,029**	**5,458,398**
2006/07	**LAND**	**BUILDINGS**	**TOTAL**
Opening NBV 1/4/06	3,074,369	2,384,029	5,458,398
Indeaxtion (3.27% Land,2.00% Buildings)	100,532	47,681	148,212
Depreciation/Impairment	(898,328)	(2,073,282)	(2,971,610)
TOTAL as per OPEN MARKET VALUE	**2,276,573**	**358,428**	**2,635,000**

NOTES:

Impairment = Opening NBV as at 1/4/04	10,642,519
Open Market Value	2,635,000
TOTAL IMPAIRMENT	**8,007,519**

AYRSHIRE CENTRAL MATERNITY

CURRENT POSITION AS STATUS QUO

2003/04	**LAND**	**BUILDINGS**	**TOTAL**
Opening NBV 1/4/03	565,029	6,725,498	7,290,527
Revaluation	3,882,904	(290,356)	3,592,548
Depreciation	0	(240,556)	(240,556)
TOTAL	**4,447,933**	**6,194,586**	**10,642,519**

2004/05	**LAND**	**BUILDINGS**	**TOTAL**
Opening NBV 1/4/04	4,447,933	6,194,586	10,642,519
Indexation (3.27% Land,2.00% Buildings)	145,447	123,892	269,339
Depreciation	0	(281,572)	(281,572)
TOTAL	**4,593,380**	**6,036,906**	**10,630,286**

2005/06	**LAND**	**BUILDINGS**	**TOTAL**
Opening NBV 1/4/05	4,593,380	6,036,906	10,630,286
Indexation (3.27% Land,2.00% Buildings)	150,204	120,738	270,942
Depreciation	0	(287,203)	(287,203)
TOTAL	**4,743,584**	**5,870,441**	**10,614,025**

2006/07	**LAND**	**BUILDINGS**	**TOTAL**
Opening NBV 1/4/06	4,743,584	5,870,441	10,614,025
Indexation (3.27% Land,2.00% Buildings)	155,115	117,409	272,524
Depreciation	0	(292,948)	(292,948)
TOTAL	**4,898,699**	**5,694,902**	**10,593,601**

AYRSHIRE AND ARRAN GENERAL HOSPITALS DIVISION **Note 6**

AYRSHIRE CENTRAL MATERNITY

CURRENT COST OF CAPITAL V PROPOSED COST OF CAPITAL IN BOTH PFI AND PSC OPTIONS

	2003/04	2004/05	2005/06	2006/07
CURRENT POSITION				
DEPRECIATION	240,556	281,572	287,203	292,948
COST OF CAPITAL	246,749	372,060	371,491	370,776
TOTAL CAPITAL POSITION	**487,305**	**653,632**	**658,694**	**663,724**
PROPOSED POSITION				
DEPRECIATION	240,556	2,786,412	2,877,777	2,971,610
COST OF CAPITAL	246,749	284,391	191,044	92,225
TOTAL PROPOSED POSITION	**487,305**	**3,070,803**	**3,068,821**	**3,063,835**
ADDITIONAL NON-RECURRING	**0**	**2,417,171**	**2,410,127**	**2,400,111**
NET ADDITIONAL COSTS OF CAPITAL CHARGES (Impairment less Reduced Cost of Capital)				**7,227,409**

NHS AYRSHIRE AND ARRAN

FINANCIAL PROFORMAS

2003/04 TO 2008/09

HEALTH BODY: NHS Ayrshire and Arran
FIVE YEAR FINANCIAL PLAN: 2003/04-2008/9
TEMPLATE 1 - REVENUE RESOURCE ANALYSIS

Revenue Resource	Year 03/04 £000	Year 04/05 £000	Year 05/06 £000	Year 06/07 £000	Year 07/08 £000	Year 08/09 £000
Clinical Service Costs:						
HCH - Board Area (*Template 3a*)	291,204	349,712	357,474	372,484	386,701	404,816
Family Health Services (*Template 3b*)	129,456	140,816	156,614	167,516	178,540	189,688
Other NHS Scotland Service Level Agreements	28,194	30,437	32,943	35,011	36,773	38,373
UNPACs	1,190	1,013	1,013	1,013	1,013	1,013
OATS	572	572	572	572	572	572
Resource Transfers	15,685	16,608	15,209	15,209	15,209	15,209
Other Healthcare Providers	5,719	5,718	5,818	5,918	5,918	5,918
Clinical Service Cost	**472,020**	**544,876**	**569,643**	**597,723**	**624,726**	**655,589**
Non Clinical Service Costs:						
Administration Costs	4,065	3,752	3,752	3,752	3,752	3,752
Other Non-Clinical Service Costs	2,157	1,782	1,782	1,782	1,782	1,782
Local Health Council	136	136	136	136	136	136
Reserves and Contingencies	0	1,560	1,560	1,560	1,560	1,560
Non Clinical Costs	**6,358**	**7,230**	**7,230**	**7,230**	**7,230**	**7,230**
Total Gross Expenditure	**478,378**	**552,106**	**576,873**	**604,953**	**631,956**	**662,819**
Miscellaneous Income:						
NHS Scotland (Non-Patient Related)	4,963	0	0	0	0	0
NHS Not Scotland (Non-Patient Related)	0	0	0	0	0	0
FHS Receipts	6,958	7,132	7,310	7,493	7,680	7,872
Other Public Sector	522	535	548	562	576	591
Local Partnership Agreements (Non NHS)	113	116	119	122	125	128
Joint Resourcing	0	0	0	0	0	0
Private Patients	226	232	238	244	250	256
Road Traffic Accident Income	509	518	532	544	558	572
Interest Receivable	542	0	0	0	0	0
Other (Please Detail)	13,215	5,567	5,706	5,848	5,995	6,144
Total Miscellaneous Income	**27,048**	**14,100**	**14,453**	**14,813**	**15,184**	**15,563**
Net Operating Costs	**451,330**	**538,006**	**562,420**	**590,140**	**616,772**	**647,256**
Less:						
FHS Non-Discretionary Allocation	43,595	22,475	23,673	24,937	26,268	27,672
Local Health Council Allocation	138	138	138	138	138	138
Net Resource Outturn	**407,597**	**515,393**	**538,609**	**565,065**	**590,366**	**619,446**

Revenue Resource Limit:						
Brought Forward from Previous Year	5,636	13,032	2,401	611	11	12
Rev. Resource Limit (Inc. Other NHS Scotland)	407,936	496,462	528,520	556,165	582,066	611,196
Anticipated Allocations	1,437	0	0	0	0	
Net Capital/Revenue Transfers (*Template 6*)	5620	8300	8300	8300	8300	8300
Total Revenue Resource Limit	**420,629**	**517,794**	**539,221**	**565,076**	**590,377**	**619,508**

Saving/(Excess) Against RRL for Year	**13,032**	**2,401**	**611**	**11**	**12**	**61**

HEALTH BODY NHS Ayrshire and Arran
FIVE YEAR FINANCIAL PLAN: 2003/04-2008/9
TEMPLATE 2 - REVENUE RESOURCE SUMMARY

REVENUE RESOURCE SUMMARY: RECURRING/NON RECURRING	03/04			04/05			05/06			06/07			07/08			08/09		
	Recurring	Non Recurring	Total	Recurring	Non Recurring	Total	Recurring	Non Recurring	Total	Recurring	Non Recurring	Total	Recurring	Non Recurring	Total	Recurring	Non Recurring	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Net Resource Outturn:	408,235	-638	**407,597**	501,239	14,154	**515,393**	534,539	4,070	**538,609**	563,365	1,700	**565,065**	589,616	750	**590,366**	618,446	1000	**619446.4**
Total Resources (Excluding B/F Balance):	406,985	8,008	**414,993**	497,195	7,567	**504,762**	536,820	0	**536,820**	564,465	0	**564,465**	590,366		**590,366**	619496		**619496**
Brought Forward Balance :		**5,636**	**5,636**	-1,250	14,282	**13,032**	-5,294	7,695	**2,401**	-3,014	3,625	**611**	-1,914	1,925	**11**	-1,163	1,175	**11.52753**
Saving/(Excess) Against RRL for Year	-1,250	14,282	**13,032**	-5,294	7,695	**2,401**	-3,014	3,625	**611**	-1,914	1,925	**11**	-1,163	1,175	**12**	-114	175	**61**

ıeck:

	03/04	04/05	05/06	06/07	07/08	08/09
Does the Net Resource Outturn agree with the Revenue Resource Analysis	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**
Does the Total Resources (Excl. B/F Bal.) agree with the Revenue Resource Analysis	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**
Does the B/F Balance agree with the Revenue Resource Analysis	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**

HEALTH BODY: NHS Ayrshire and Arran
FIVE YEAR FINANCIAL PLAN: 2003/04-2008/9
TEMPLATE 3a - REVENUE RESOURCE MEMORANDUM NOTES - HCH

	HOSPITAL AND COMMUNITY HEALTH: MEMORANDUM	03/04				04/05				05/06			06/07			07/08			08/09		
		Activity	Direct £000	L.P.A. £000	Total £000	Planned Activity	Direct £000	L.P.A. £000	Total £000	Direct £000	L.P.A. £000	Total £000	Direct £000	L.P.A. £000	Total £000	Direct £000	L.P.A. £000	Total £000	Direct £000	L.P.A. £000	Total £000
	ACUTE																				
1	Elective In-Patient Discharges	16,310	33,030	5,063	38,093	16,310	40,151	5,266	45,417												
2	Emergency In-Patient Discharges (inc Transfers)	35,429	64,697		64,697	35,429	77,137		77,137												
3	Day Cases	26,256	11,780		11,780	26,256	14,045		14,045												
4	Day Patient Attendances	1,772	2,879		2,879	1,772	3,433		3,433												
5	New Out-Patients Attendances	77,483	25,362		25,362	77,483	30,238		30,238												
6	A&E New Out-Patient Attendances (HBT)	102,556	7,253		7,253	102,556	8,648		8,648												
	Acute Total (total of lines 01 to 06)		145,001	5,063	150,064		173,652	5,266	178,918	177,459	5,381	182,840	184,887	5,607	190,494	193,411	5,865	199,276	202,471	6,140	208,611
	MATERNITY																				
7	In-Patient Discharges (inc. SCBU patients)	7,542	11,656		11,656	7,542	16,414		16,414												
8	Day Cases	2,111	1,586		1,586	2,111	1,891		1,891												
9	New Out-Patient Attendances	5,212	1,345		1,345	5,212	1,604		1,604												
10	Total Community Midwife Visits (HBT)	46,996	1,701		1,701	46,996	2,028		2,028												
	Maternity Total (total of lines 09 to 12)		16,288	0	16,288		21,937	0	21,937	22,513	0	22,513	23,500	0	23,500	21,629	0	21,629	22,643	0	22,643
	MENTAL HEALTH																				
11	Occupied Bed days - Adult & Child	72,812	15,077		15,077	72,812	17,976		17,976												
12	Occupied Bed days - Psychogeriatric	46,984	0	10,762	10,762	46,984	1,639	11,192	12,831												
13	New Out-Patient Attendances	2,881	2,196	745	2,941	2,881	2,731	775	3,506												
14	Attendances By Mental Health Patients At Day Hospitals (HBT)	17,228	1,860	1,173	3,033	17,228	2,396	1,220	3,616												
15	Community Psychiatric Team Contacts/Visits	95,488	4,361	1,384	5,745	95,488	1,694	5,156	6,850												
	Mental Health Total (total of lines 13 to 18)		23,494	14,064	37,558		26,436	18,343	44,779	27,016	18,745	45,761	28,147	19,530	47,677	29,445	20,430	49,875	30,824	21,387	52,211
	LEARNING DISABILITY																				
16	Occupied Bed Days	34,283	6,968		6,968	27,000	3,574	4,734	8,308												
17	New Out-Patient Attendances	46	30		30	46	36		36												
18	Attendances By Learning Disability Patients At Day Hospitals (HBT)	1,487	155		155	1,487	30	155	185												
19	Community Mental Handicap Team Contacts/Visits	19,390	983		983	26,000	-511	1,683	1,172												
	Learning Disabilities Total (total of lines 19 to 22)		8,136	0	8,136		3,128	6,572	9,700	3,197	6,716	9,913	3,331	6,997	10,328	3,484	7,320	10,804	3,648	7,663	11,310
	GERIATRIC ASSESSMENT																				
20	In-Patient Discharges	3,390	0	14,371	14,371	3,390	2,189	14,945	17,134												
21	New Out-Patient Attendances	1,643	0	908	908	1,643	139	944	1,083												
22	Attendances At Geriatric Day Hospitals	12,895	0	1,806	1,806	12,895	275	1,878	2,153												
	Geriatric Assessment Total (total of lines 23 to 25)		0	17,085	17,085		2,603	17,767	20,370	2,660	18,157	20,817	2,771	18,917	21,688	2,899	19,789	22,688	3,035	20,716	23,751
	GERIATRIC LONG STAY																				
23	Occupied Bed Days	74,445	0	11,830	11,830	68,000	1,802	12,303	14,105												
	Geriatric Long Stay		0	11,830	11,830		1,802	12,303	14,105	1,841	12,573	14,414	1,918	13,099	15,017	2,007	13,703	15,710	2,101	14,345	16,445
	YOUNG PHYSICALLY DISABLED																				
24	Occupied Bed Days	5,078	1,474		1,474	5,078	1,757		1,757												
	Young Physically Disabled		1,474	0	1,474		1,757	0	1,757	1,796	0	1,796	1,871	0	1,871	1,957	0	1,957	2,049	0	2,049
	COMMUNITY																				
25	Community Nurses Or Health Visitors Contacts (HBT)	669,437	8,396	7,953	16,349	669,437	11,222	8,271	19,493												
26	Community PAMs Contacts	189,869	6,629	102	6,731	189,869	6,777	1,248	8,025												
27	Community Dental Services - Courses Of Treatment	7,206	2,205		2,205	7,206	2,629		2,629												
28	Other Community	0	17,296		17,296	0	17,334	3,288	20,622												
	Community Total (total of lines 28 to 31)		34,526	8,055	42,581		37,961	12,807	50,768	38,794	13,088	51,881	40,417	13,636	54,053	42,281	14,264	56,545	44,261	14,932	59,194
	HOSPITAL DIRECT ACCESS																				
29	Laboratories & X-Ray		4,143		4,143		4,940		4,940												
30	PAMs & Other Technical Departments		2,045		2,045		2,438		2,438												
	Direct Access Total (total of lines 32 to 33)		6,188	0	6,188		7,378	0	7,378	7,540	0	7,540	7,855	0	7,855	8,217	0	8,217	8,602	0	8,602
	GRAND TOTAL *(linked to Template 1)*		235,107	56,097	291,204		276,654	73,058	349,712	282,815	74,660	357,474	294,699	77,785	372,484	305,330	81,371	386,701	319,634	85,183	404,816

HEALTH BODY: NHS Ayrshire and Arran
FIVE YEAR FINANCIAL PLAN: 2003/04-2008/9
TEMPLATE 3b - REVENUE RESOURCE MEMORANDUM NOTES - FHS

FAMILY HEALTH SERVICES: MEMORANDUM	03/04			04/05			05/06			06/07			07/08			08/09		
	Unified Budget £000	Non Discret. £000	Total £000	Unified Budget £000	Non Discret. £000	Total £000	Unified Budget £000	Non Discret. £000	Total £000	Unified Budget £000	Non Discret. £000	Total £000	Unified Budget £000	Non Discret. £000	Total £000	Unified Budget £000	Non Discret. £000	Total £000
General Medical Services	15,796	21,868	**37,664**	40,291	0	**40,291**	47,795	0	**47,795**	49,336	0	**49,336**	50,928	0	**50,928**	52,570	0	**52,570**
Pharmaceutical Sevices	66,331	8,241	**74,572**	74,233	8,563	**82,796**	81,233	9,132	**90,365**	89,233	9,738	**98,971**	97,233	10,385	**107,618**	105,233	11,074	**116,307**
General Dental Services	10	14,389	**14,399**	0	14,674	**14,674**	0	15,266	**15,266**	0	15,882	**15,882**	0	16,523	**16,523**	0	17,189	**17,189**
General Ophthalmic Services	0	2,821	**2,821**	0	3,055	**3,055**	0	3,188	**3,188**	0	3,327	**3,327**	0	3,471	**3,471**	0	3,622	**3,622**
Total *(Linked to Template 1)*	82,137	47,319	**129,456**	114,524	26,292	**140,816**	129,028	27,586	**156,614**	138,569	28,947	**167,516**	148,161	30,379	**178,540**	157,803	31,885	**189,688**

EXPENDITURE: MEMORANDUM	03/04 £000	04/05 £000	05/06 £000	06/07 £000	07/08 £000	08/09 £000
Clinical and Medical Negligence Costs	501	514	526	540	553	567
Effect of Revaluation of Properties	0	0	0	0	0	0
(Profit)/Loss on Disposal of Fixed Assets	253	165	72	0	0	0
Property Costs	29,564	30,303	31,061	31,837	32,633	33,449
Capital Charges	15,496	24,158	25,303	26,502	24,767	25,906
Health Promotion	2,373	2,432	2,493	2,555	2,619	2,685
Total	**48,187**	**57,572**	**59,456**	**61,434**	**60,572**	**62,607**

HEALTH BODY: NHS Ayrshire and Arran

FIVE YEAR FINANCIAL PLAN: 2003/04-2008/9

TEMPLATE 4 - INTERNALLY GENERATED FUNDS

INTERNALLY GENERATED FUND	Risk	03/04			04/05			05/06			06/07			07/08			08/09		
		Recurring £000	Non Recurring £000	Total £000	Recurring £000	Non Recurring £000	Total £000	Recurring £000	Non Recurring £000	Total £000	Recurring £000	Non Recurring £000	Total £000	Recurring £000	Non Recurring £000	Total £000	Recurring £000	Non Recurring £000	Total £000
Total IGF Target ***(To Template 5)***		1,764		**1,764**	1,625		**1,625**	2,250		**2,250**	850		**850**	500		**500**	500		**500**
Details Of Schemes																			
1. BPI Procurement		74		**74**	145		**145**	650		**650**	600		**600**	500		**500**	500		**500**
2. Agency Nurses		84		**84**			**0**	400		**400**			**0**			**0**			**0**
3. Sickness/Absence				**0**			**0**	400		**400**			**0**			**0**			**0**
4. Medicines Management				**0**			**0**	300		**300**			**0**			**0**			**0**
5. Review of Supplies Budgets		477		**477**			**0**	500		**500**	250		**250**			**0**			**0**
6. Rationalisation of EMH		235		**235**			**0**			**0**			**0**			**0**			**0**
7. Incontinence Products		70		**70**			**0**			**0**			**0**			**0**			**0**
8. LHCC Review		90		**90**			**0**			**0**			**0**			**0**			**0**
9. IT Consortium		68		**68**			**0**			**0**			**0**			**0**			**0**
10. Restructuring		64		**64**			**0**			**0**			**0**			**0**			**0**
11. Telecomms saving		4		**4**			**0**			**0**			**0**			**0**			**0**
12. Mental Health				**0**	400		**400**			**0**			**0**			**0**			**0**
13. Ward Programmes		106		**106**			**0**			**0**			**0**			**0**			**0**
14. Pacemaker Contract savings		5		**5**			**0**			**0**			**0**			**0**			**0**
15. Management Salaries		10		**10**	3		**3**			**0**			**0**			**0**			**0**
16. Community Renal Supplies		10		**10**			**0**			**0**			**0**			**0**			**0**
17. Sterile Gloves		5		**5**			**0**			**0**			**0**			**0**			**0**
18. Vacant Posts		78		**78**			**0**			**0**			**0**			**0**			**0**
19. Supplies Budgets		60		**60**			**0**			**0**			**0**			**0**			**0**
20. Nursing Manpower Review		196		**196**	298		**298**			**0**			**0**			**0**			**0**
21. Infusion Sets		63		**63**	62		**62**			**0**			**0**			**0**			**0**
22. Catering Income		45		**45**			**0**			**0**			**0**			**0**			**0**
23. TSSU Leasing		20		**20**			**0**			**0**			**0**			**0**			**0**
24. Specialist Bed Contracts				**0**	70		**70**			**0**			**0**			**0**			**0**
25. Reduction in Film costs				**0**	50		**50**			**0**			**0**			**0**			**0**
26. Linen Services				**0**	65		**65**			**0**			**0**			**0**			**0**
27. General Target				**0**	532		**532**			**0**	350		**350**	350		**350**			**0**
28.				**0**			**0**			**0**			**0**			**0**			**0**
29.				**0**			**0**			**0**			**0**			**0**			**0**
30.				**0**			**0**			**0**			**0**			**0**			**0**
31.				**0**			**0**			**0**			**0**			**0**			**0**
32.				**0**			**0**			**0**			**0**			**0**			**0**
33.				**0**			**0**			**0**			**0**			**0**			**0**
34.				**0**			**0**			**0**			**0**			**0**			**0**
35.				**0**			**0**			**0**			**0**			**0**			**0**
36.				**0**			**0**			**0**			**0**			**0**			**0**
37.				**0**			**0**			**0**			**0**			**0**			**0**
38.				**0**			**0**			**0**			**0**			**0**			**0**
39.				**0**			**0**			**0**			**0**			**0**			**0**
40.				**0**			**0**			**0**			**0**			**0**			**0**
Total Savings Planned		**1,764**	**0**	**1,764**	**1,625**	**0**	**1,625**	**2,250**	**0**	**2,250**	**1,200**	**0**	**1,200**	**850**	**0**	**850**	**500**	**0**	**500**

Check:

Has the IGF target been recorded:	Yes	Yes	Yes	Yes	Yes	Yes

HEALTH BODY: NHS Ayrshire and Arran

FIVE YEAR FINANCIAL PLAN: 2003/04-2008/9

TEMPLATE 5 - NEW RESOURCES

NEW RESOURCES AVAILABLE	03/04			04/05			05/06			06/07			07/08			08/09		
	Recurring £000	Non Recurring £000	Total £000	Recurring £000	Non Recurring £000	Total £000	Recurring £000	Non Recurring £000	Total £000	Recurring £000	Non Recurring £000	Total £000	Recurring £000	Non Recurring £000	Total £000	Recurring £000	Non Recurring £000	Total £000
New Revenue Resource Allocation:																		
Revenue Resource Allocation:																		
Unified Budgets	30,161		30,161	30,538	2,401	32,939	33,000		33,000	28,000		28,000	28,000		28,000	28,000		28,000
FHS Non-Discretionary			0			0			0			0			0			0
Miscellaneous Income:																		
Joint Resources - NHS			0			0			0			0			0			0
Jint Resources - Other			0			0			0			0			0			0
Other (Provide Details)	1,151		1,151	3,130		3,130			0			0			0			0
	31,312	0	31,312	33,668	2,401	36,069	33,000	0	33,000	28,000	0	28,000	28,000	0	28,000	28,000	0	28,000
IGF Target *(From Template 4)*	1,764	0	1,764	1,625	0	1,625	2,250	0	2,250	850	0	850	500	0	500	500	0	500
Total of New Resources Available	33,076	0	33,076	35,293	2,401	37,694	35,250	0	35,250	28,850	0	28,850	28,500	0	28,500	28,500	0	28,500

NEW RESOURCES DISTRIBUTION	03/04 Recurring	03/04 Non Recurring	03/04 Total	04/05 Recurring	04/05 Non Recurring	04/05 Total	05/06 Recurring	05/06 Non Recurring	05/06 Total	06/07 Recurring	06/07 Non Recurring	06/07 Total	07/08 Recurring	07/08 Non Recurring	07/08 Total	08/09 Recurring	08/09 Non Recurring	08/09 Total
Pays:	15,282		15,282	13,930	100	14,030	18,439		18,439	13,000		13,000	13,000		13,000	13,000		13,000
Non-Pays:	3,205		3,205	5,475	635	6,110	4,508		4,508	3,082		3,082	3,888		3,888	4,050		4,050
GP Prescribing:	5,900		5,900	5,986		5,986	7,000		7,000	8,000		8,000	8,000		8,000	8,000		8,000
Hospital Drugs:	1,589		1,589	1,584	225	1,809	1,730		1,730	1,800		1,800	1,800		1,800	1,800		1,800
Cost Pressures:	0		0			0			0			0			0			0
Strategic Developments :																		
Full Year Effect of Prior Year Developments																		
1. (please detail)			0			0			0			0			0			0
2. (please detail)			0			0			0			0			0			0
3. (please detail)			0			0			0			0			0			0
4. (please detail)			0			0			0			0			0			0
5. (please detail)			0			0			0			0			0			0
6. (please detail)			0			0			0			0			0			0
7. (please detail)			0			0			0			0			0			0
8.			0			0			0			0			0			0
	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Developments : Committed																		
1. Waiting Times	1,155		1,155	2,914		2,914	2,000		2,000	300		300	300		300	300		300
2. Clinical Developments	2,368		2,368	1,404	841	2,245	1,700		1,700	300		300	300		300			0
3. Health & Safety	927		927	581	375	956	500		500	0		0	0		0	0		0
4. Beatson Oncology	121		121	47		47	110		110	468		468	162		162			0
5. Neurosciences	150		150	167		167	52		52			0			0			0
6. Delayed Discharges	765		765			0			0			0			0			0
7. CHD/Stroke	386		386	500		500			0			0			0			0
8. Methadone	320		320	350		350			0			0			0			0
	6,192	0	6,192	5,963	1,216	7,179	4,362	0	4,362	1,068	0	1,068	762	0	762	300	0	300
Developments : Planned																		
1. Local Commitments			0			0			0			0			0			0
2. Learning Disabilities	400		400	400		400	400		400	400		400			0			0
3. Renal Services	408		408	250		250	300		300	300		300	300		300	300		300
4. Ayrshire Hospice	100		100	100		100	100		100	100		100			0			0
5. Mental Health			0	330		330			0			0			0			0
6. GP Out of Hours			0	1,275	225	1,500			0			0			0			0
7. Paediatric In Patient Services			0			0	200		200			0			0			0
8. Maternity			0			0			0	350		350	350		350			0
	908	0	908	2,355	225	2,580	1000	0	1,000	1,150	0	1,150	650	0	650	300	0	300
Total Distributed	33,076	0	33,076	35,293	2,401	37,694	37,039	0	37,039	28,100	0	28,100	28,100	0	28,100	27,450	0	27,450
Balance	0	0	0	0	0	0	-1789	0	-1,789	750	0	750	400	0	400	1,050	0	1,050

HEALTH BODY: **NHS Ayrshire and Arran**

FIVE YEAR FINANCIAL PLAN: 2003/04-2008/9

TEMPLATE 6 - CAPITAL TABLE 1

CAPITAL - TABLE 1

	Year 03/04 £000	Year 04/05 £000	Year 05/06 £000	Year 06/07 £000	Year 07/08 £000	Year 08/09 £000
SEHD Capital Resources Allocated:	17,616	13,649	15,536	14,728	14,728	15,228
Capital Income (NBV of Disposal):	1,418	120	3,285	1,800	2,705	1,320
Year End Flexibility Brought Forward:	**5,262**	5,391	2,356	-915	-2,635	-1,024
Net Advances/ Repayments from Prior/ Future Years:						
Net Capital/Revenue Transfers *(To Template 1)*:	-5,620	-8,300	-8,300	-8,300	-8,300	-8,300
Net Capital Resource Limit	**18,676**	**10,860**	**12,877**	**7,313**	**6,498**	**7,224**
APPLICATION OF CAPITAL RESOURCES:						
Hospital Infrastructure:	10,366	2,334	5,980	3,903	3,717	5,144
Community Infrastructure:	238	990	780	780	780	780
Family Health Services:	584	595	2,772	1,655	15	0
Medical Equipment:	1,287	1,850	1,850	1,850	1,850	1,850
Transport:	87	0	0	0	0	0
IM&T:	723	2,175	1,250	600	600	600
Finance Leases:	0	0	0	0	0	0
Developer Led Schemes:	0	0	600	600	0	0
Other: (Provide Backup Schedules)	0	560	560	560	560	560
Total Resources Applied	**13,285**	**8,504**	**13,792**	**9,948**	**7,522**	**8,934**
Capital Resource To Be Applied in Future Years	**5,391**	**2,356**	**-915**	**-2,635**	**-1,024**	**-1,710**
PPP/PFI DEVELOPMENTS						
1. **Maternity Services Modernisation**		3,000	14,000	2,600		
2. **(insert Scheme)**						
	0	**3,000**	**14,000**	**2,600**	**0**	**0**

Note: the revenue implications of PFI schemes (unitary payments) are included within revenue statements

Analysis of Other Schemes

	Year 04/05 £000	Year 05/06 £000	Year 06/07 £000	Year 07/08 £000	Year 08/09 £000
Other: (Provide Backup Schedules)					
Disability Discrimination Act	560	560	560	560	560

Note

The expenditure shown in Template 6 for Developer Led Schemes relates to the Equipment for the Maternity Services Modernisation Scheme. This equipment is being purchased from public sector capital resourcers.

HEALTH BODY: NHS Ayrshire and Arran
FIVE YEAR FINANCIAL PLAN: 2003/04-2008/9
TEMPLATE 7 - CAPITAL TABLE 2

CAPITAL - TABLE 2

	Major Developments Total Value > £1.5m	Category of Expenditure	Year 03/04 £000	Year 04/05 £000	Year 05/06 £000	Year 06/07 £000	Year 07/08 £000	Year 08/09 £000
1.	West Wing Development	Hospital	7,118	1,946				
2.	Maternity Services Modernisation-Buildings	Hospital		3,000	14,000	2,600		
5.	Paediatric Services	Hospital		100	1,640			
6.	Breast Care Services Redesign	Hospital						2,350
7.	Critical Care Services - Ayr	Hospital						1,500
8.	North West Kilmarnock Primary Care Centre	FHS	405	1,695	772			
9.	Ailsa Redevelopment Adult Continuing Care 74 Beds	Hospital	37	50	2,050	4,033	3,847	2,027
10.	Ailsa Redevelopment Adult Mental Health 50 Bed Unit	Hospital			200	1,400	3,200	
11.	North West Area Centre- Largs	FHS	48	400	2,800	1,655	15	
12.	Girvan Community Hospital	Hospital						337
13.								
14.								
15.								
16.								
17.								
18.								
19.								
20.								
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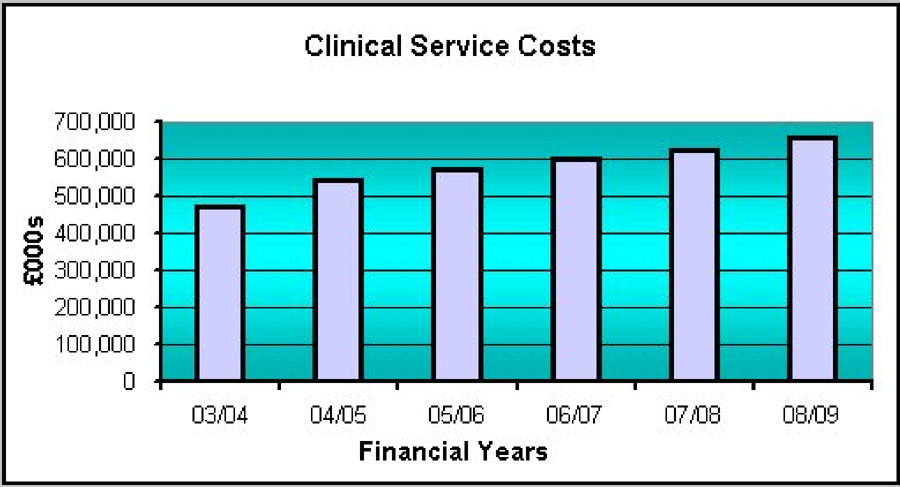
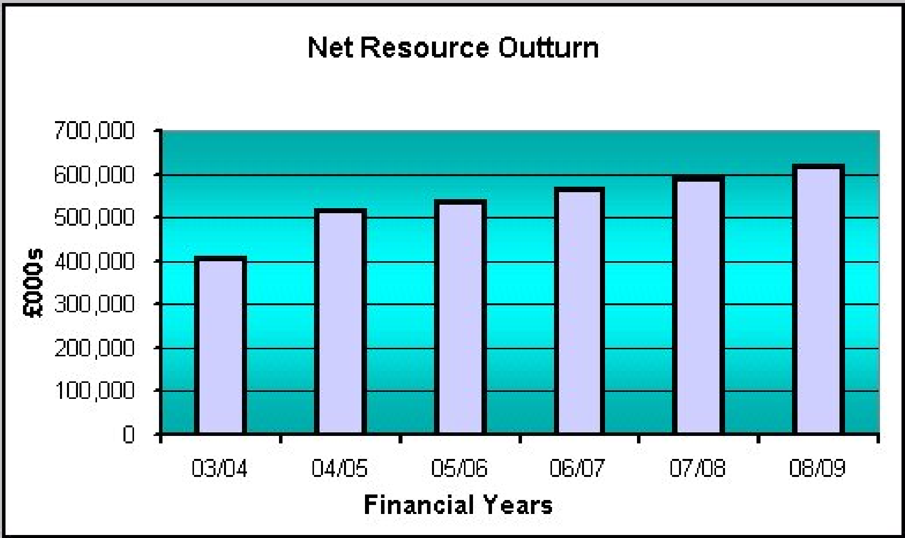
39.								
40.								
	TOTAL		7,608	7,191	21,462	9,688	7,062	6,214

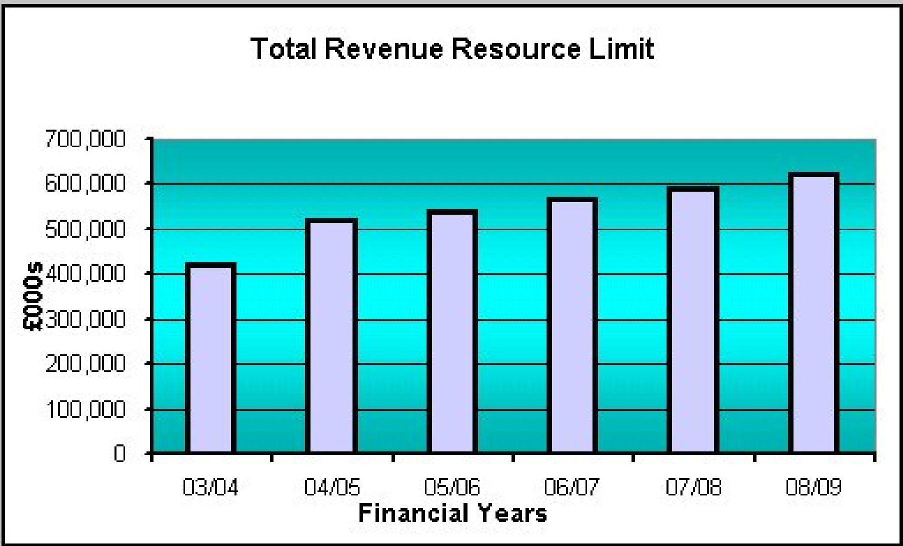
Notes

1 The above figures show gross capital expenditure where total scheme expenditure is greater than £1.5m

NHS BODY: NHS Ayrshire and Arran
FIVE YEAR FINANCIAL PLAN: 2003/04-2008/9
TEMPLATE 8 - CHARTS







NHS BODY: NHS Ayrshire and Arran

FIVE YEAR FINANCIAL PLAN: 2003/04-2008/9

TEMPLATE 9 - STATEMENT OF KEY ASSUMPTIONS

UPLIFT (%)		Year 03/04 (%)	Year 04/05 (%)	Year 05/06 (%)	Year 06/07 (%)	Year 07/08 (%)	Year 08/09 (%)
1.	**Resource:**	8.49	7.93	6.95	5.50	5.22	4.96
2.	**Pay:**	7.50	7.75	9.50	6.10	5.80	5.50
3.	**Prices:**	2.00	2.00	2.00	2.00	2.00	2.00
4.	**GP Prescribing**	9.00	8.50	9.45	9.85	8.95	8.28
5.	**Hospital Drugs**	10.00	10.00	10.00	10.00	10.00	10.00
6.	**Other FHS Uplift:**	6.10	7.20	13.20	3.85	3.85	3.85
7.1	**Capital Cost Index** - Land	0.00	2.94	2.94	2.94	2.94	2.94
7.2	**Capital Cost Index** - Buildings	0.00	5.34	5.34	5.34	5.34	5.34
7.3	**Capital Cost Index** - Plant and Equipment	(0.30)	1.25	1.25	1.25	1.25	1.25

10. SUMMARY OF PFI CONTRACT STRUCTURE

10.1 Overview

In line with FBC requirements of the Revised Interim Capital Guidance, NHS HDL (2002) 87 [19], this Section 10 :

- describes the contractual framework of the Project,
- outlines the legal relationship between the various parties; and
- outlines the variations made to the Scottish Executive Health Department Standard Form Project Agreement (Appendix 13).

10.2 Contractual Framework of the Project

Ayrshire and Arran Health Board **(the Board)** is developing a contract for the New Ayrshire Maternity Unit at Crosshouse project **(the Project)** based as closely as possible on the Scottish Executive Health Department Standard Form Project Agreement, Version 1 **(the Standard Form).** The contract structure recognises the interests of all parties to the Project Agreement **(the Agreement)**, including the funders and the various sub-contractors providing services to the Board. The terms of the Standard Form are being retained, but in line with applicable guidance for using the Standard Form some provisions of the Agreement have been tailored to the particular requirements of the Project. These are described in more detail in Appendix 13

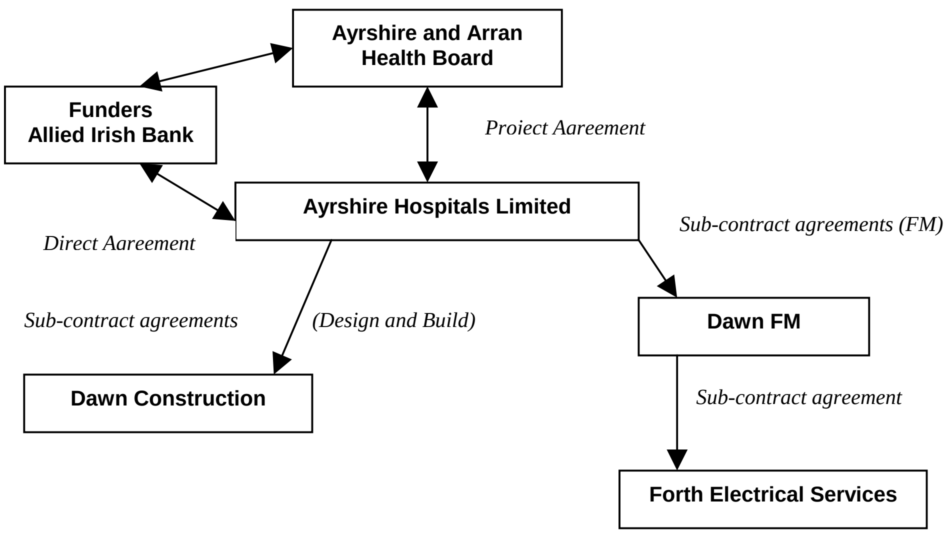
10.3 Principal Sub-Contracts

- Design and Build Contract with Dawn Construction Limited
- FM Agreement with Forth Electrical Services
- Financing Agreement and other documentation with AIB

These contracts create the contractual relationships represented in diagrammatic form in 10.4 below.

10.4 Legal Relationships between the Parties

A Special Purpose Company (Ayrshire Hospitals Limited) will be established to deliver the project. The proposed structure is described by diagram as follows :



11. FINANCING OF THE SCHEME (*COMMERCIALLY SENSITIVE INFORMATION REMOVED*)

The Special Purpose Vehicle (SPV), which will be established to deliver the project, will be funded by debt and equity at a gearing level of approximately -:-. Debt servicing and equity returns will then be paid from the operational cashflows of the SPV.

11.1 Summary of proposed funding structure for the scheme

The senior debt will be provided by Allied Irish Bank, who will also undertake a role as equity providers. The full structure and quantum has been summarized in the table below.

Funding	**Gearing**	**Quantum £m**	**Provider**
Senior debt	•	•	•
*Equity – mixture of subordinated debt and share capital	•	•	•
Further equity details			
Equity provider	**Amount subscribed**	**%**	**Return required (real)**
Dawn construction	•	•	•
Mackenzie partnership	•	•	•
FES Limited	•	•	•
AIB	•	•	•

*The equity is a mixture of sub-debt and pinpoint equity.

11.2 Level of bank debt and details of debt providers and principle terms

The maximum level of bank debt is £-.-m, and is fully provided by Allied Irish Bank. The key terms, senior debt terms have been summarized in the table below.

Details	**Requirements**
Term of funding	•
Interest margin	•
Commitment fee	•
Arrangement fee	•
Debt servicing	•
Annual monitoring fee	•
Debt service cover ratio	•
Loan life cover ratio	•

11.3 Details of shareholders and value of investment

A full list of shareholders has been provided in Section 11.1 above. The total shareholder investment is £-.-m, and this is split as subordinated debt (£-.-m) and pinpoint equity (£-.-m). The subordinated debt interest and capital is repaid to shareholders on an annuity profile basis.

11.4 Details of funding drawdown

All equity is drawn down in the month following financial close (i.e. August 2004). Senior debt is drawn down as is required by the capital spend profile. Thus, debt drawdown occurs in the months of August 2004 to April 2006, following the 21 month construction profile.

11.5 Details of lending terms

Senior debt will be provided to fund the costs of design, construction, fitting out and provision of the new Maternity Unit. The Borrower will be required to enter into interest rate swaps at financial close to hedge their exposure to floating rate interest rates. [Amounts due under the Senior Term Facility, and any interest rate swap agreement will be secured by first ranking and floating charges over Project Agreements, Insurance Policies, all other assets of the borrower, shares and subordinated debts of the borrower and the borrowers rights under the equity subscription agreement. Detailed terms of lending are provided in section 11.2 above].

11.6 Details of financial model

The financial model has been provided by Deloittes in an Excel [2002] format. As the model uses complex formulae, users must ensure that the “Analysis ToolPak add-in is operational. The model is a standard format for SPVs and is driven from distinct input areas, with monthly output for construction periods and semi-annual outputs thereafter. Key modelling assumptions have been summarized below :

- 2.5% inflation
- NPV discount rate – 3.5%
- Corporation tax 30%
- Accounting treatment – lease debtor
- Tax treatment – Composite trader
- Price base date – 31 July 2004

11.7 Quayle Munro commentary

Quayle Munro, the Division’s financial advisers, confirm that they have received financial model and that an audit of this model is being performed by P.F.K. Although the Division will not be an addressee in the final model audit report, we would note that Quayle Munro have requested sight of this report throughout the model audit process.

12. ACCOUNTING TREATMENT OF THE PFI SCHEME

12.1 Introduction

The Division has actively involved its external auditors, Audit Scotland, at all stages of the Project. Copies of all relevant project documentation has been passed to the auditors and regular progress meetings have taken place.

In line with Audit Scotland's guidance on the Auditor's Role in PFI Projects, Audit Scotland were requested to carry out a 3 stage assessment on accounting treatment vis :

1. Outline Business Case (complete)
2. Preferred Bidder Stage (complete)
3. Financial Close

Section 12.2 below summarizes the Division's latest assessment on accounting treatment at Preferred Bidder stage. Appendix 14 provides the supporting evidence.

12.2 Accounting for the Asset

12.2.1 Deciding to whom the asset belongs

The accounting treatment follows from deciding whether in substance the asset belongs to the public sector or to the operator. The asset will belong to the public sector in the following circumstances :

- Where SSAP 21 applies, and the transaction is in substance a finance lease ; or
- Where FRS 5 Application Note F *Private Finance Initiative and similar contracts* applies, and it is determined that the purchaser (and not the operator) has an asset of the property

In deciding whether SSAP 21 or FRS 5 applies it must be considered if the contract can be separated out into property and services elements.

12.2.2 Separating contract elements

There are three general indicators that a contract may be separable into its property and services elements, and if it is concluded it is separable, SSAP 21 will apply to the property element of the contract.

Indicator that the contract may be separable	*Contract details*
The contract identifies an element of a payment stream that varies according to the availability of the property itself and another element that varies according to the performance of certain services.	There will be a single payment that is adjusted according to various performance factors including property availability and usage. However, it will not be possible to calculate a fixed element that would relate wholly to property payments, with the remainder relating to services.
Indicator that the contract may be separable	*Contract details*
Different parts of the contract run for different periods or can be terminated separately. For example, an individual service element can be terminated without affecting the continuation of the rest of the contract.	All the services, which limited to the provision of building maintenance, are to be provided for the entire period of the contract.

Different parts of the contract can be renegotiated early. For example, a service element is market tested and some or all of the cost increase or reductions are passed to the purchaser in such a way that the part payment by the purchaser that relates specifically to that service can be identified.	The contract is structured in such a way that it is not possible to separate out all the services to be provided to identify separately the service elements from the property element.

From our understanding of the proposals, we conclude that SSAP 21 would not apply and that FRS 5 should be adopted.

12.2.3 Applying FRS 5

FRS 5 Application Note F contains detailed guidance on indications that a PFI financed property is an asset of the purchaser or the operator. When considering the guidance reference should only be made to payments for the property and not for any separable service elements.

Indications that the property is an asset of the purchaser	*Indications that the property is an asset of the operator*	*Contract details*
Demand risk is significant and borne by the purchasers, e.g. : ▪ the payments between the operator and the purchaser will not reflect usage of the property so that the purchaser will have to pay the operator for the property whether or not it is used	Demand risk is significant and borne by the operator, e.g. : ▪ the payments between the operator and the purchaser will vary proportionately to reflect usage of the property over all reasonably likely levels of demand, so that the purchaser will not have to pay the operator for the property to the extent it is not used	Demand risk is not considered significant as the facility is the only such facility in the geographical area. This is supported by the evidence contained in the outline business case and ITN – the new facility will be the main maternity facility for Ayrshire. Statistical trends for population were considered at OBC and ITN stage. A letter from Dr Clive Baird outlined some of the considerations taken into account. At Preferred Bidder stage the statistical trends have been updated to reflect the most current available information, and there is no significant change in projected trends. In addition, to address the specific issue of Home Births, we attach a letter from Angela Cunningham (Senior Nurse/Midwife Manager) which collates all available information in this area, and expresses the option that there will be no significant upsurge in Ayrshire home births. The Board have also produced a paper to further document their view on demand risk.

Indications that the property is an asset of the purchaser	*Indications that the property is an asset of the operator*	*Contract details*
		In addition to the above qualitative work a quantitative analysis was provided as part of the Monte Carlo Analysis provided.
▪ the purchaser gains where future demand is greater than expected	▪ the operator gains where future demand is greater than expected	The operator may gain through increasing demand if the facility is extended through change procedures.
There is genuine scope for significant third party use of the property but the purchaser significantly restricts such use.	The property can be used, and paid for, to a significant extent by third parties and such revenues are necessary for the operator to cover its costs.	The current project structure assumes that there is no third party income.
The purchaser in some way guarantees the operator's property income.	The purchaser does not guarantee the operator's property income.	Property income will not be guaranteed.
The purchaser determines the key features of the property and how it will be operated.	The operator has significant ongoing discretion over what property is to be built and how it will be operated.	The purchaser will determine its key requirements, but it will be the operator who develops the detailed design to its own specification. The Board has utilized the standard output specification provided by the Department of Health.
Potential penalties for underperformance or non-availability of the property are either not significant or are unlikely to occur.	Potential penalties for underperformance or non-availability of the property are significant and have a reasonable possibility of occurring.	Potential penalties for underperformance or non-availability of the property are significant and have a reasonable possibility of occurring. A functional payment mechanism is now in place, which has been used to run a number of scenarios supporting this conclusion.
Relevant costs are both significant and highly uncertain, and all potential material cost variations will be passed on to the purchaser.	Relevant costs are both significant and highly uncertain, and all potential material cost variations will be borne by the operator.	Relevant costs will be both significant and highly uncertain, and all potential material cost variations will be borne by the operator.
Obsolescence or changes in technology are significant, and the purchaser will bear the costs and any associated benefits.	Obsolescence or changes in technology are significant, and the operator will bear the costs and any associated benefits.	Obsolescence or changes in technology are insignificant.
Residual value risk is significant (the term of the PFI contract is materially less than the useful economic life of the property) and borne by the purchaser.	Residual value risk is significant (the term of the PFI contract is materially less than the useful economic life of the property) and borne by the operator.	Residual value risk is not significant. The contractor will be responsible for the condition of the building at the end of the period, although the residual value will be insignificant when discounted to today's value. Residual value has also been assessed as part of the quantitative Monte Carlo analysis.

Indications that the property is an asset of the purchaser	*Indications that the property is an asset of the operator*	*Contract details*
The position of the parties to the transaction is consistent with the property being an asset of the purchaser, e.g. : ▪ the operator's debt funding is such that it implies the contract is in effect a financing arrangement ▪ the bank financing would be fully paid out by the purchaser in events of default including operator default.	The position of the parties to the transaction is consistent with the property being an asset of the operator, e.g. : ▪ the operator's funding includes a significant amount of equity ▪ the bank financing would be fully paid out by the purchaser only in the event of purchaser default or limited force majeure circumstances.	The amount of equity in this project is expected to be similar to other PFI projects where the property is considered an asset of the operator. The circumstances in which the bank would recover the full amount outstanding will be limited.

The application note places greater weight on two of the above indicators – demand risk and residual value risk.

While it is not specifically considered as part of the FRS 5 analysis, we have also examined the likely impact of design risk – the risk that the design of the building will not meet the required functionality. We have concluded that, while the risk of design lies clearly with bidders through the procurement process, the risk would not be minimal to the financial returns of the bidders. The design solution has been worked up during the bid development phase and was the subject of close scrutiny during the bid evaluation phase, and as such there is a low probability that the design does not meet the required standard.

Further guidance on accounting matters is given in the Treasury Task Force Technical Note, which suggests that consideration is given to both "qualitative" and quantitative" factors and that this review can take place early in the procurement process.

Qualitative Factors

a) termination following operator default – as the Board will use the NHS Standard Form Project Agreement, the bank financing will not be guaranteed to be paid out in full following operator default
b) nature of operator's financing – the funders have currently modelled a 92% senior debt and 8% equity structure, which we believe is a relatively standard funding package within the current PFI market

c) nature of the property – while the Division will determine its requirements, it will be for the bidders to propose a solution that meets those requirements and in so doing they will have to determine the exact nature of the facility

Quantitative factors

Given the use of the NHS Standard Form Project Agreement and payment mechanism, the financial impact of risks transferred are significant for the operator. In particular, the value of deductions for non-availability and non-performance create the potential for adverse variations in return.

12.2.4 **Summary**

The table below summarizes our view of the risks and rewards of property ownership on this project at Preferred bidder stage.

	Impact on bidder's expected returns	*On balance for the Board*	*Off Balance Sheet for the Board*
Demand Risk	Not significant	X	
Third Party Use	Not significant	X	
Guaranteed income for operator	Significant		X
Nature of the property	Significant		X
Penalties for poor performance	Significant		X
Obsolescence	Not significant		X
Residual value	Not significant	X	
Funding package	Significant		X

While the Board will retain some of the risk of ownership of the asset, from a financial perspective, these are unlikely to be significant – even if they were transferred to the operator, the operator's returns are unlikely to be materially affected. However, the risks that will be transferred to the operator could have a substantial impact on its financial returns. Therefore, we conclude that the risks and rewards of ownership of the facility will lie with the operator and as such the asset and corresponding liability should not be shown in the Board's accounts.

12.3 **Written Submission from External Auditor**

12.3.1 A copy of Audit Scotland's Final View is included in Appendix 15 The overall conclusion at this stage is stated below :

"In my view, and in the context of my preceding remarks :

- *the process followed to determine whether the body should account for the transaction on or off its balance sheet was in accordance with the current underlying guidance; and*

- *your final judgement on the accounting treatment is reasonable".*

13. PROJECT MANAGEMENT ARRANGEMENTS

13.1 NHS Ayrshire and Arran has established a robust Project Management Structure with clearly defined roles, Appendix 8. The key role being the Project Board, who will be responsible for setting and monitoring progress against the undernoted :

- The procurement process
- The resources required
- Timetable
- Objectives

13.2 The Core Project Steering Group has been appointed as follows :

- Project Director
- Project Accountant
- Estates Development Manager
- Consultant Representative
- Midwifery Representative
- Clinical Project Co-ordinator
- Partnership Representative
- Legal Adviser
- Financial Adviser
- Technical Adviser
- PFI Facilitator, SEHD

The core team's responsibilities cover the whole span of the project, co-ordinating all aspects of the project and reporting to the Project Board. The team is also responsible for project documentation, ensuring a comprehensive audit trail, and with clinical colleagues for all internal and external communications.

The team will project manage the scheme with the assistance of specialist advice from appointed advisers.

13.3 A Human Resources Strategy has been established, Appendix 16. This strategy demonstrates NHS Ayrshire and Arran's commitment to fully support staff through the transition and transfer of the Maternity Unit from Ayrshire Central Hospital to the new purpose built unit on the Crosshouse Hospital site.

14. BENEFITS ASSESSMENT AND BENEFITS REALIZATION PLAN

14.1 The undernoted summarizes the benefits to be delivered under the scheme

- Minimize clinical risk and create a safe, secure environment for mothers and their babies
- In-patient maternity services directly linked to essential services of a District General Hospital (e.g. Adult Intensive Care, Blood Transfusion, Laboratories, Medical Imaging and other acute hospital services)
- Development of an integrated birthing facility, comprising all major service components
- Clinical adjacencies / inter-relationship of department are addressed
- Able to respond flexibly to changes in patterns of care and the increasing expectations of women and their families
- Achievement of patient-focused service standards, aimed at improved delivery of high quality services
- Compliance with national document “A FRAMEWORK FOR MATERNITY SERVICES IN SCOTLAND” 3 Principle 9, Childbirth
- Enhanced choice, environment and facilities for women, their babies and family. Reference NCT 2003, Creating a Better Birth Environment : Women’s views about the design and facilities in Maternity Units : A National Survey 22
- Better use of staffing and financial resources
- Life Cycle maintenance is integral to the project
- Benefits realized within a short timescale
- Addresses the sub-optimal and inappropriate facilities currently utilized for the delivery of in-patient maternity services
- Negates the need to invest £3.5m in outstanding backlog maintenance over the next few years

14.2 The level of benefits delivered under the PFI option which would not be achieved under the publicly funded route can be summarized as follows :

- Proven VFM over the 30 year project life
- Life Cycle maintenance is integral to the project
- Realization of benefits within a short timescale
- Transfer of risk during design, build and management of the scheme

14.3 A Benefits Realization Plan has been prepared, see Appendix 17

15. HUMAN RESOURCES

15.1 The General Hospitals Division of NHS Ayrshire and Arran has a committed workforce, which currently delivers high quality services on its non-clinical services. The decision was therefore taken early in the project to confine the project operational responsibility for Facilities Management (FM) services to **"HARD"** FM services only. These will cover standard output specifications, as follows :

- General
- Estates
- Pest Control
- Utilities Management
- Helpdesk

No staff will transfer under the PFI contract. Therefore the "PUBLIC PRIVATE PARTNERSHIP IN SCOTLAND PROTOCOL AND GUIDANCE CONCERNING EMPLOYMENT ISSUES" [6] will not apply.

16. INFORMATION TECHNOLOGY

16.1 NHS Ayrshire and Arran recognises the role that modern information systems and related services play in contributing to excellent health care services and supporting health equipment initiatives. The NHS Ayrshire and Arran IM&T Strategy is determined to secure collaborative investment in modern information systems that are people focused and developed in conjunction with clinicians.

The strategy by necessity must be a dynamic, broad based and flexible document to allow the service to take forward IM&T as effectively as possible in the light of new developments, directives and needs over the next 5 years. It must reflect the vision of an integrated care record.

16.2 The project will require the consortia to install an IT infrastructure that meets statutory standards and is fully compatible with the existing and future IM&T Strategy. The consortia require to install at the points indicated on the room or location data sheets a twin CAT 6 cable. These to be run to a suitable Node(s). This project specification includes all cabling, data outlets, node cabinet(s), containment systems (including within existing hospital), fibre optic cabling and power requirements. Also termination, testing, commissioning and certification of cabling systems. It excludes any active equipment including hubs, routers, switches or servers.

17. EQUIPMENT

17.1 The consortia will include for Group 1 equipment in the construction of the new build and will also be expected to receive and fit all Group 2 items as identified by the Trust. The design must also cater for space for Group 3 equipment.

17.2 NHS Ayrshire and Arran has identified its anticipated requirements for Group 1 and 2 equipment for the new hospital on room data sheets for each room type in line with the schedule of accommodation. Group 3 and 4 equipment has also been included to provide the consortia with an indication of key items of equipment which will be included in each room.

17.3 The cost for the provision of new equipment is included in the public sector comparator and is contained within NHS Ayrshire and Arran's 10 year Capital Plan – 2004/05 to 2013/14. £1.2m over two years 2005/06 and 2006/07.

17.4 The equipment strategy has been developed in line with the SCIM Commissioning a Healthcare Facility manual and an Equipment Commissioning Group has been established.

18. RISK MANAGEMENT STRATEGY

18.1 Examination of Risks

NHS Ayrshire and Arran has undertaken a thorough examination of the risks associated with the project from the completion of the initial option appraisal to the development of the risk allocation matrix which forms the basis of negotiations with shortlisted bidders. In accordance with PFI, NHS Ayrshire and Arran has sought to transfer risk to the party best situated to manage it thus helping to ensure value for money.

18.2 Key Risk Categories

The key risk categories summarised in 8.0 details the risks retained by the public sector and those risks transferred to the private sector. These risks are both financial and non-financial in nature. The financial risks of the preferred option were quantified during the development of the Public Sector Comparator.

18.3 Risks Retained NHS Ayrshire and Arran

The table below summarises the key risks that are to be retained by NHS Ayrshire and Arran and their strategy for the management of these risks.

Risks Retained	Risk Management Strategy
Changes to either design, construction or services specification and re-configuration of accommodation or equipment at NHS Ayrshire and Arran request.	The Project Agreement provides a change mechanism for adjusting the unitary charge for such changes. Changes will be authorised by the General Hospitals Division, Chief Executive or his designated deputy.
Not achieving planning permission	NHS Ayrshire and Arran/AHL working jointly together with planners to ensure planning consent date achieved.
Regulatory changes in NHS directives or standards and discriminatory change in law and health sector regulations.	NHS Ayrshire and Arran will bear the financial effect of regulatory changes in NHS directives via adjustments to the unitary charge. It is not yet possible to quantify the effect of such changes, but the NHS Ayrshire and Arran will prioritise continuity of the contract so that funding of increases to the unitary charge would be met from other areas of NHS Ayrshire and Arran's budget.
Force Majeure	Force Majeure has been narrowly defined so minimising likelihood of FM event. This is a shared risk. NHS Ayrshire and Arran recognises that there are only limited opportunities to manage this risk. The compensation payable to AHL/Bank would be restricted to the level of outstanding senior lenders liabilities at the time of the Force Majeure event.
Inflation	The unitary charge is adjusted by a proportion (GDP divided by 1.5) in each year.
Labour disputes	NHS Ayrshire and Arran will retain

	responsibility for disputes, national and local, involving NHS staff.
Land acquisition	The land is wholly owned by the Scottish Ministers.
Interest rates	This risk which can be quantified by running interest rate sensitivities and is borne by NHS Ayrshire and Arran only up until contract signature.
Changes in quality standards, NHS Ayrshire and Arran requirements and activity/occupancy levels	These risks have been mitigated through the procurement process from the identification of suitable output specifications. Any required changes will be priced via an adjustment to the unitary charge. Activity levels will be a shared risk.

18.4 Principles in dealing with risks remaining with the public sector

In general, NHS Ayrshire and Arran intends to approach the risks remaining with the public sector according to the following principles:

- Commence with the current risk register and evaluation
- Explore actions to mitigate the likelihood of risk occurring or their impact should they occur
- Allocate responsibility for risks and contingencies
- Establish monitoring procedures (as part of the construction project and service performance monitoring systems)
- At regular intervals (6 or 12 months) review remaining risks and review remaining contingency

18.5 Monitoring and Reporting Procedures

Procedures will need to be established which identify instances where risks have occurred and where action is required. This may involve monitoring and reporting procedures to be introduced by NHS Ayrshire and Arran.

Such procedures will need to include agreed actions that can be implemented when events occur, for example reference to and including of the contract conditions.

18.6 Output from Management Procedures

The output from these management procedures will feed into the post project evaluation.

19. POST PROJECT EVALUATION PLAN

19.1 Agreement has been reached with the consortium on an indicative planned programme both through to Financial Close and the construction period. Appendix 18. The programmes identify all key milestones and timescales.

19.2 Regular meetings will be held to monitor progress of the works, against the programme. An agreed comprehensive monitoring system to be established based on checklists related to the master construction programme.

19.3 NHS Ayrshire and Arran has established a robust Project Management Structure (section 13.1) to monitor the progress and completion of the project. A Project Director has been appointed and a Divisional Representative will be designated to undertake the physical process of monitoring and recording progress of the works, against a regime of regular inspection, supplemented by meetings and discussion.

19.4 A Post-Project Evaluation Plan, Appendix 19 has been prepared to review the outcomes of the project once it is fully operational. The evaluation plan will be expressed against the project objectives and will be seen, as a mechanism to learn from and to improve project appraisal, design, management and implementation.

20. CONCLUSION

20.1 The economic analysis has shown that the PFI solution will deliver the Value for Money objectives and is affordable to NHS Ayrshire and Arran.

20.2 NHS Ayrshire and Arran approved the OBC for the scheme in November 2002. The Full Business Case has been subject to review both locally and nationally and all the substantial points have been satisfactorily resolved.

20.3 NHS Ayrshire and Arran and Ayrshire Hospitals Limited wish to sign the contract and reach financial close by the end of August 2004. This would allow a start on site, with construction expected to be completed by Spring/Summer 2006.

20.4 NHS Ayrshire and Arran formally requests Scottish Executive approval to proceed to sign the contract and reach financial close on the scheme.

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