Lochaber Redesign: Financial and Economic Appraisal (OBC Stage)

Version 1 (July 2026)

1.1 Overview

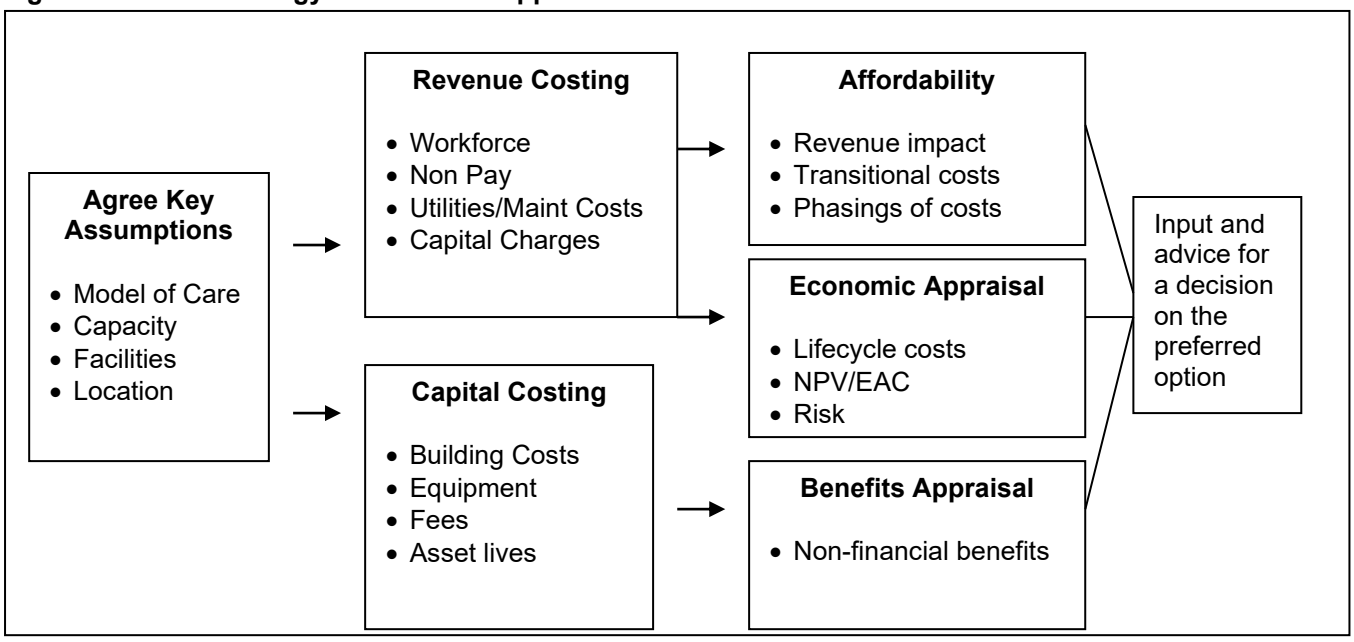
This section presents the financial implications of investment (both capital and revenue) and also provides the economic appraisal of the short-listed options. The methodology and assumptions applied to derive the comparative cost implications of the options are outlined below.

The outputs from the cost models identified in this section form the basis of both the financial and economic appraisals of the short-listed options. The financial appraisal will be the driver for assessing affordability whilst the economic appraisal will determine value for money. It does not always follow that the preferred option will be affordable so consideration of both appraisals is always necessary.

All current guidance has been followed in completing the financial and economic appraisals, principally the latest version of the Scottish Capital Investment Manual (SCIM), the HM Treasury Green Book and supplementary guidance.

The financial model for each option considers a number of key outputs from other parts of the business case including workforce requirements, revised footprint and design and uses these outputs to estimate the capital and revenue implications for each of the options being considered.

Figure 1.1 – Methodology for Financial Appraisal



1.2 Key Financial Assumptions

The financial model is driven by key assumptions which could have a material effect on the likely operating costs of the proposals eg

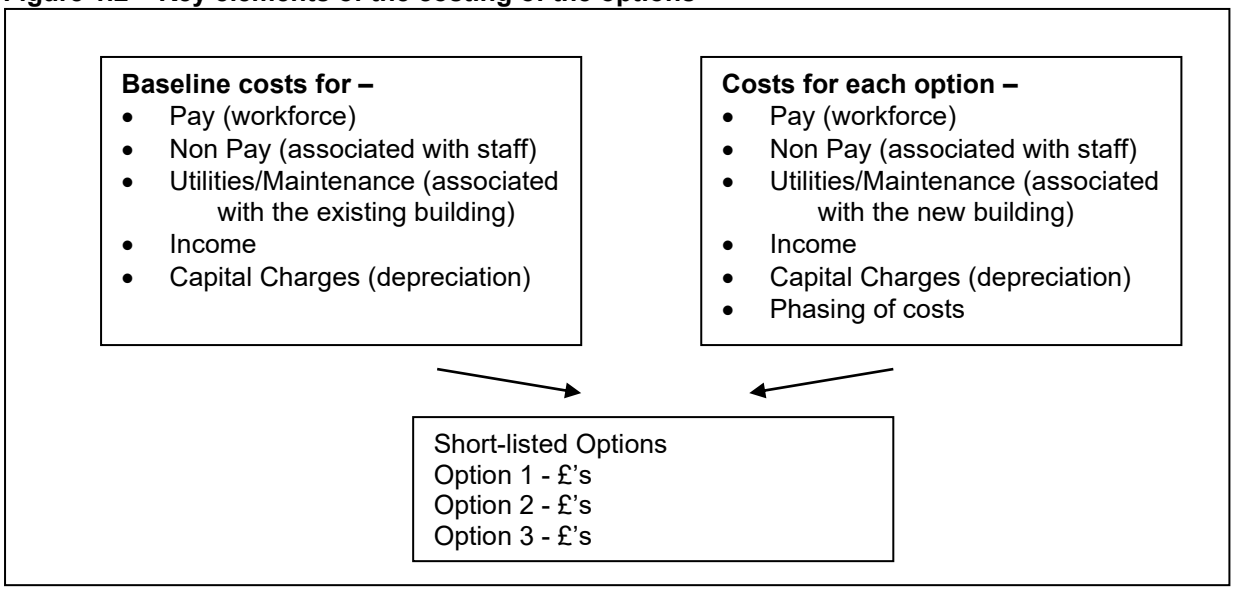
- Likely capital costs
- Projected capital charges (depreciation)
- Revenue costs (pay, non-pay and income streams) associated with the services affected by these options
- Variations in revenue costs as a result of these options
- Variations in income streams

1.3 Costing Methodologies

Each of the short-listed options has been costed with due consideration of the changes associated with each option and any changes in cost have been clearly identified and explained.

The following categories of cost have been considered for each option –

Figure 1.2 – Key elements of the costing of the options



1.4 Capital Costs

The capital costs have been considered and prepared for each option that has been identified by the professional cost advisors employed for this development project. These capital costs have been calculated using the brief and plans for each option. The following table summarises the main capital assumptions.

Figure 1.3 – Capital cost assumptions

- Costs have been calculated at Q1 2026
- Include building, infrastructure and service costs
- Includes estimates for all fees
- VAT has been added to the total capital cost but there may be an element that is recoverable for the fees incurred
- Inflation has been included at 10.5% dependent on the option timescale for build
- Optimism Bias included at 15.5%
- Includes equipment within the estimate of £5.36m which has been provided as a budget cost from NHS Assure equipping

Having applied the costing assumptions and methodologies to the options, the resultant capital expenditure is shown below

Figure 1.4 – Capital cost summary

Initial Capital Cost Implications:	Option 1: Do Nothing	Option 2: Core RGH Model	Option 3: Core RGH and Intensive Rehab	Option 4: Core RGH, Intesive Rehab & Elective	Option 4A: Core RGH, Intesive Rehab & Elective minus General Surgery	Option 5: Ambulatory Care
Professional Fees and NHS Project Team Fees	1,748,464	11,697,293	11,697,293	11,697,293	11,697,293	3,785,219
Construction	17,484,643	121,572,961	121,572,961	121,572,961	121,572,961	74,165,210
Equipment - Group 2 + 3 Client Direct	2,622,697	5,336,639	5,336,639	5,336,639	5,336,639	3,100,054
Inflation	1,092,790	14,553,722	14,553,722	14,553,722	14,553,722	8,343,154
Land Purchase		2,100,000	2,100,000	2,100,000	2,100,000	2,100,000
VAT	5,966,635	30,698,292	30,698,292	30,698,292	30,698,292	17,574,237
Optimism Bias	6,884,578	16,081,865	16,081,865	16,081,865	16,081,865	9,219,186
Initial Capital Costs Total	**35,799,807**	**202,040,772**	**202,040,772**	**202,040,772**	**202,040,772**	**118,287,060**
Transitional Period Costs		409,908	409,908	409,908	409,908	409,908
Costs of Embedded Accommodation						0
Total of Initial Capital Cost Implications	**35,799,807**	**202,450,680**	**202,450,680**	**202,450,680**	**202,450,680**	**118,696,968**

1.5 Recurrent Revenue Costs

This section includes the revenue costs associated with each of the short-listed options.

There is additional cost associated with the 'Do Nothing' Option as this reflects current operational cost pressures. The benchmark baseline used is the current operational budget. Any additional costs are measured against this baseline. The costs include capital charges (depreciation) where appropriate.

The assumptions used in the models for revenue costs for each of the options are shown in the table below and a list of all of the exclusions in appendix A.

Figure 1.5 – Revenue assumptions

- Costs have been calculated at 2025/2026 prices and using 2025/2026 budgets
- Where relevant, whole time equivalents have been considered for staffing levels
- Pay costs are inclusive of employer on-costs and allowances for leave.
- VAT is included where appropriate
- Utility costs have been estimated based on uplifted current costs to reflect increase floor area and changes to service delivery models
- Transition costs are all seen in the year of opening – 2031.
- Capital charges are based on the capital cost

Capital Charges

The capital charges for the options in this case are based on the estimates for capital expenditure provided by the professional cost advisors, Thomson Gray. The asset life attached to the entire build (other than land) is 60 years as per advice from internal staff.

In line with the current guidance, capital charges do not include a rate of return calculation.

The results of the capital charge calculations are summarised below.

Figure 1.6 – Capital Charges

Costs in £millions	Option 1: Do Nothing	Option 2: Core RGH Model	Option 3: Core RGH and Intensive Rehab	Option 4: Core RGH, Intesive Rehab & Elective	Option 4A: Core RGH, Intesive Rehab & Elective minus General Surgery	Option 5: Ambulatory Care
Depreciation	0.370	3.372	3.372	3.372	3.372	1.971
Total Recurring Costs	**0.370**	**3.372**	**3.372**	**3.372**	**3.372**	**1.971**

There is a capital charge impact due to the level of capital expenditure investment in each of the options. Options 2 to 4A are the same value with Option 5 being less due to build costs being lower.

Recurrent Pay & Non Pay Costs

There are staff costs associated with all parts of this development and for this OBC, the costs have been calculated based on 2025/26 pay scales including all employer's costs and also allowances for leave at 22.5% where appropriate.

Non pay consumables, has been considered from the costs of the current services with projections into the future based on pro-rata activity levels.

The costs for each option all have different assumptions for this OBC as they are driven by different service models.

Recurrent Property Costs

The following summarises the methods of calculating future costs for each of the elements.

- Based on existing site pro-rated for increase in footprint and service delivery model.

Table 1.7 below summarises the work done to capture all of the relevant pay and non pay costs with each of the options for Yr 5

Figure 1.7 – Recurrent Pay & Non Pay costs

Description	Option 1: Do Nothing		Option 2: Core RGH Model		Option 3: Core RGH and Intensive Rehab		Option 4: Core RGH, Intesive Rehab & Elective		Option 4A: Core RGH, Intesive Rehab & Elective minus General Surgery		Option 5: Ambulatory Care	
	Budget £'s	wte	Budget £'s	wte	Budget £'s	wte	Budget £'s	wte	Budget £'s	wte	Budget £'s	wte
Belford Radiology	845,602	12.89	845,602	12.89	845,602	12.89	845,602	12.89	845,602	12.89	481,431	8.00
Belford Pharmacy	305,841	4.87	305,841	4.87	305,841	4.87	305,841	4.87	305,841	4.87	238,767	4.10
Belford A & E	1,974,493	31.32	1,974,493	31.32	1,974,493	31.32	1,974,493	31.32	1,974,493	31.32	878,815	14.73
SDEC			118,976	1.90	118,976	1.90	118,976	1.90	118,976	1.90	118,976	1.90
Belford Medical Staff	762,847	4.03	762,847	4.03	762,847	4.03	762,847	4.03	762,847	4.03	361,451	2.00
Belford Medical - Assistant Practioner	38,475	0.88	38,475	0.88	38,475	0.88	38,475	0.88	38,475	0.88		
Belford Gen Surgery Medical	803,767	4.00	803,767	4.00	803,767	4.00	821,840	4.10	487,958	2.70	487,958	2.70
Belford Anaesthetics	750,413	3.80	750,413	3.80	750,413	3.80	804,631	4.00	786,558	4.00	397,596	2.20
ANP Team	513,764	5.43	513,764	5.43	513,764	5.43	513,764	5.43	513,764	5.43	36,363	0.40
Belford Renal Unit	305,832	5.24	425,399	7.43	425,399	7.43	425,399	7.43	425,399	7.43	425,399	7.43
Belford Resident Drs - Core Funded	426,756	4.00	426,756	4.00	426,756	4.00	426,756	4.00	426,756	4.00	-	0.00
Belford Rural Practitioners	628,327	3.50	843,754	4.70	843,754	4.70	843,754	4.70	1,130,989	6.00	843,754	4.70
Combined Assessment Unit	2,126,336	37.69	2,417,273	40.91	2,417,273	40.91	2,417,273	40.91	2,447,847	41.55	-	0.00
Day Case	317,333	6.17	339,230	6.46	339,230	6.46	369,804	7.11	369,804	7.11	369,804	7.11
Pre-Assessment	181,536	3.68	181,536	3.68	181,536	3.68	181,536	3.68	181,536	3.68	181,536	3.68
Ward 1	1,420,028	25.05	1,420,028	25.05	1,420,028	25.05	1,420,028	25.05	1,420,028	25.05	-	0.00
Rehab	-	0.00	-	0.00	132,603	1.60	132,603	1.60	132,603	1.60	-	0.00
Belford Opd	381,407	7.13	452,425	8.60	452,425	8.60	452,425	8.60	452,425	8.60	452,425	8.60
Belford Theatres	944,376	17.57	944,376	17.57	944,376	17.57	1,162,287	21.14	1,107,287	21.14	1,107,287	21.14
Belford Theatres											-	0.00
Belford Laboratory	581,367	6.64	581,367	6.64	581,367	6.64	581,367	6.64	581,367	6.64		
Belford Management	211,790	2.00	211,790	2.00	211,790	2.00	211,790	2.00	211,790	2.00	192,846	2.00
Belford Central Nursing	44,933	0.60	44,933	0.60	44,933	0.60	44,933	0.60	44,933	0.60	-	0.00
Belford Medical Records	733,764	18.00	733,764	18.00	733,764	18.00	733,764	18.00	733,764	18.00	366,882	9.00
Lochaber Community Midwifery	764,087	10.52	764,087	10.52	764,087	10.52	764,087	10.52	764,087	10.52	764,087	10.52
Obstetrics Ultrasound	124,387	1.85	124,387	1.85	124,387	1.85	124,387	1.85	124,387	1.85	124,387	1.85
Lochaber Macmillan Nursing	439,679	7.51	461,010	8.00	461,010	8.00	461,010	8.00	461,010	8.00	461,010	8.00
Lochaber Comm Occ Therapy	447,834	7.44	447,834	7.44	490,712	8.44	490,712	8.44	490,712	8.44	402,988	6.54
Ft William Clinic	263,248	5.40	263,248	5.40	263,248	5.40	263,248	5.40	263,248	5.40	263,248	5.40
Lochaber Invest + Treat Room	33,856	0.67	33,856	0.67	33,856	0.67	33,856	0.67	33,856	0.67	33,856	0.67
Lochaber Ooh	926,473	4.95	926,473	3.63	926,473	3.63	926,473	3.63	926,473	3.63	926,473	3.63
Lochaber Locality Manager	395,278	4.83	395,278	4.83	395,278	4.83	395,278	4.83	395,278	4.83	395,278	4.83
Lochaber Smoking Cessation	44,872	1.00	44,872	1.00	44,872	1.00	44,872	1.00	44,872	1.00	44,872	1.00
Alzheimer Link Workers	50,774	1.00	50,774	1.00	50,774	1.00	50,774	1.00	50,774	1.00	50,774	1.00
East Lochaber Comm Nursing	895,360	16.73	895,360	16.73	895,360	16.73	895,360	16.73	895,360	16.73	895,360	16.73
South + West Loch Comm Nursing	885,678	17.21	885,678	17.21	885,678	17.21	885,678	17.21	885,678	17.21	885,678	17.21
Mental Health Urgent Care	132,583	2.00	132,583	2.00	132,583	2.00	132,583	2.00	132,583	2.00	132,583	2.00
Cpn L.d. Lochaber	91,364	1.65	91,364	1.65	91,364	1.65	91,364	1.65	91,364	1.65	91,364	1.65
Mental Health Drug + Alcohol	154,163	2.87	154,163	2.87	154,163	2.87	154,163	2.87	154,163	2.87	154,163	2.87
Cpn Lochaber	588,894	11.46	588,894	11.46	588,894	11.46	588,894	11.46	588,894	11.46	588,894	11.46
Lochaber Comm Physiotherapy	632,355	11.57	632,355	11.57	655,939	12.12	655,939	12.12	655,939	12.12	547,647	9.87
Lochaber Rst Ooh	398,974	4.43	398,974	4.43	398,974	4.43	398,974	4.43	398,974	4.43	398,974	4.43
Dail Mhor House	490,237	9.24	490,237	9.24	490,237	9.24	490,237	9.24	490,237	9.24	490,237	9.24
Invernevis House	1,832,686	38.94	1,832,686	38.94	1,832,686	38.94	1,832,686	38.94	1,832,686	38.94	1,832,686	38.94
Mackintosh Centre	1,028,484	21.75	1,028,484	21.75	1,028,484	21.75	1,028,484	21.75	1,028,484	21.75	1,028,484	21.75
Moss Park Care Home	2,737,300	62.04	2,737,300	62.04	2,737,300	62.04	2,737,300	62.04	2,737,300	62.04	2,737,300	62.04
Cah Team - Loc	3,251,288	67.72	3,251,288	67.72	3,251,288	67.72	3,251,288	67.72	3,251,288	67.72	3,251,288	67.72
The Montrose Centre	432,727	9.92	432,727	9.92	432,727	9.92	432,727	9.92	432,727	9.92	432,727	9.92
Invernevis Day Care	76,289	1.80	76,289	1.80	76,289	1.80	76,289	1.80	76,289	1.80	76,289	1.80
Spoc Lochaber	77,288	2.05	77,288	2.05	77,288	2.05	77,288	2.05	77,288	2.05	77,288	2.05
Lochaber District Team	877,832	14.90	877,832	14.90	877,832	14.90	877,832	14.90	877,832	14.90	877,832	14.90
Telford Centre	1,005,284	20.79	1,005,284	20.79	1,005,284	20.79	1,005,284	20.79	1,005,284	20.79	1,005,284	20.79
Abbeyfield	3,607	0.00	3,607	0.00	3,607	0.00	3,607	0.00	3,607	0.00	3,607	0.00
Change Fund	55,814	0.00	55,814	0.00	55,814	0.00	55,814	0.00	55,814	0.00	55,814	0.00
ABRACH Team	-	0.00	-	0.00	-	0.00	-	0.00	-	0.00	-	0.00
Rehab Services											294,630	6.00
Facilities Assistants (Catering/Cleaning/Laundrette)	872,240	20.33	1,367,441	32.83	1,367,441	32.83	1,367,441	32.83	1,367,441	32.83	615,060	15.94
Belford Portering	215,192	4.40	221,382	5.41	221,382	5.41	221,382	5.41	221,382	5.41	111,477	2.70
Trades Team Lochaber	352,762	7.80	352,762	7.80	352,762	7.80	352,762	7.80	352,762	7.80	352,762	7.80
Raigmore - Cost for Emergency Attendance											1,889,188	
Raigmore - 22 Inpatient Beds											6,094,770	
Raigmore -12 Inpatient Rehab Beds											1,646,880	
Total - Pay Costs	**34,877,876**	**599.25**	**36,238,420**	**622.20**	**36,437,484**	**625.35**	**36,758,259**	**629.86**	**36,669,115**	**630.41**	**36,976,528**	**490.93**
Acute * based on current spend	1,382,582		1,382,582		1,382,582		1,382,582		1,382,582		1,382,582	
Community * based on current spend	1,732,368		1,732,368		1,732,368		1,732,368		1,732,368		1,732,368	
Facilities * based on current spend	276,466		307,046		307,046		307,046		307,046		245,885	
Ehealth Costs			30,000		30,000		30,000		30,000		30,000	
Grounds maintenance & waste			60,000		60,000		60,000		60,000		60,000	
Total - Non Pay Costs	**3,391,415**		**3,511,996**		**3,511,996**		**3,511,996**		**3,511,996**		**3,450,835**	
Total Recurring Costs	**38,269,292**	**599.25**	**39,750,415**	**622.20**	**39,949,479**	**625.35**	**40,270,255**	**629.86**	**40,181,111**	**630.41**	**40,427,363**	**490.93**

Summary

The overall recurring revenue impact of the proposals is shown below.

Figure 1.8 – Summary of Recurrent Revenue Impact

Costs in £millions	Option 1: Do Nothing	Option 2: Core RGH Model	Option 3: Core RGH and Intensive Rehab	Option 4: Core RGH, Intesive Rehab & Elective	Option 4A: Core RGH, Intesive Rehab & Elective minus General Surgery	Option 5: Ambulatory Care
Pay Costs	34.878	36.238	36.437	36.758	36.669	36.977
Non Pay Costs	3.391	3.512	3.512	3.512	3.512	3.451
Building Costs	0.308	0.356	0.356	0.356	0.356	0.324
Income						
Total Recurring Costs excluding Depreciation	**38.578**	**40.107**	**40.306**	**40.626**	**40.537**	**40.752**
Depreciation	0.370	3.372	3.372	3.372	3.372	1.971
Total Recurring Costs	**38.948**	**43.479**	**43.678**	**43.998**	**43.909**	**42.723**

The costs shown in the above table relate to the revenue requirement for the activity as at Yr 5. All Options have similar recurrent revenue consequences at this stage ranging from a difference between £3.78m to £5.05m

Costs in £millions	Current Funding	Option 1: Do Nothing	Option 2: Core RGH Model	Option 3: Core RGH and Intensive Rehab	Option 4: Core RGH, Intesive Rehab & Elective	Option 4A: Core RGH, Intesive Rehab & Elective minus General Surgery	Option 5: Ambulatory Care
Total Recurring Revenue Costs Net of Capital Charges	36.924	38.578	40.107	40.306	40.626	40.537	40.752
Required Net of Capital Charges	-	**1.654**	**3.183**	**3.382**	**3.703**	**3.613**	**3.828**
Capital Charges	0.370	0.370	3.372	3.372	3.372	3.372	1.971
Required for Capital Charges	-	-	3.002	3.002	3.002	3.002	1.601
Required Inc of Capital Charges	-	**1.654**	**6.185**	**6.384**	**6.705**	**6.615**	**5.429**

All options will require an additional source of revenue funding, ranging from £1.654m to £6.705m inclusive of Capital Charges.

1.6 Economic Appraisal

The Economic Appraisal calculation of Net Present Value (NPV) uses Equivalent Annual Cost (EAC) as a comparison of options where there are different life spans as the output is an annual figure which is easily compared.

The elements considered in the analysis are

- Initial capital expenditure for each option
- Relevant lifecycle costs for building and engineering works for each option
- Relevant equipment lifecycle costs
- Total revenue costs for each option excluding capital charges
- Income
- Non-recurring revenue costs

The key assumptions used within the economic appraisal include

Figure 1.9 – Economic Appraisal Assumptions

- The base year for the economic appraisal is the financial year 2025/2026
- Economic appraisal period is over 60 years
- Capital expenditure is assumed to be made over a maximum of five years 2025/2026 through to 2030/2031
- All non-recurrent costs are seen in the year of opening 2031
- VAT/Inflation and discounting are not considered within the economic appraisal but are included in the figures within the Financial Case.

The results of the economic appraisal for the options are shown below.

Figure 1.10 – NPV and EAC outcomes

Costs in £millions	Option 1: Do Nothing	Option 2: Core RGH Model	Option 3: Core RGH and Intensive Rehab	Option 4: Core RGH, Intesive Rehab & Elective	Option 4A: Core RGH, Intesive Rehab & Elective minus General Surgery	Option 5: Ambulatory Care
NPV	2,366	2,587	2,598	2,616	2,611	2,545
Non-Financial Appraisal Score	288.7	683.2	730.6	756.6	633.7	397
Cost Per NFA Score	8.20	3.79	3.56	3.46	4.12	6.41
Ranking	6	3	2	1	4	5

The analysis of the net present values (NPV) indicates that Option 1 – Do nothing - has the lowest life time costs. Option 4 would be the next favoured option in terms of EAC alone.

The favoured option based on the cost per benefit point is Option 4.

1.7 Summary of Key Output from Financial and Economic Appraisals

On a purely financial basis, the 'Do Minimum' option 1 does give the lowest recurrent revenue impact and also the lowest lifetime costs. This option is not capable of delivering the objectives of the development requirements and is only used as a baseline for measuring the other options.

All of the Options 2 through to 5 have similar recurrent revenue consequences and similar non-recurrent costs at OBC stage.

When the benefits scores are used to calculate a 'cost per benefit point', Option 4 is established as the favoured option.

Figure 1.11 – Revenue costs for preferred option

Costs in £millions	Option 1: Do Nothing	Option 4: Core RGH, Intesive Rehab & Elective
Pay Costs	34.878	36.758
Non Pay Costs	3.391	3.512
Building Costs	0.308	0.356
Captial Charges	0.370	3.372
Total Recurring Revenue Costs	**38.948**	**43.998**

For Yr 5 figures, the increase of £5.05m between the 'Do Nothing' baseline and the favoured option is as a result of:

- £1.8m associated with salary costs, mainly due to an increased floor space, provided an SDEC, intensive Rehab and increased elective surgery
- £121k, non pay costs associated with facilities costs due to increased floor space
- £48k Building Running costs
- £5m Capital Charges

Appendix A – exclusions, omissions or risks

- Building running costs could be understated given the base year for the projection. The Board recognises a risk around energy costs in Board wide planning and this is relevant to this OBC also.

- Decant costs have been based on the NTCH programme – these could be understated as NTCH didn't have the same level of services transferring from an existing site.

- Within Option 5 an estimate of additional costs associated with services being provided at other NHS Highland sites has been included – this is based on cost book information.

- Financial benefits associated with services transferring have yet to be developed but will be included within the development of the FBC.

- The workforce models assume recruitment of substantive staff to all posts – there is a risk that supplementary staffing may be required for difficult to fill posts resulting in a higher cost base.