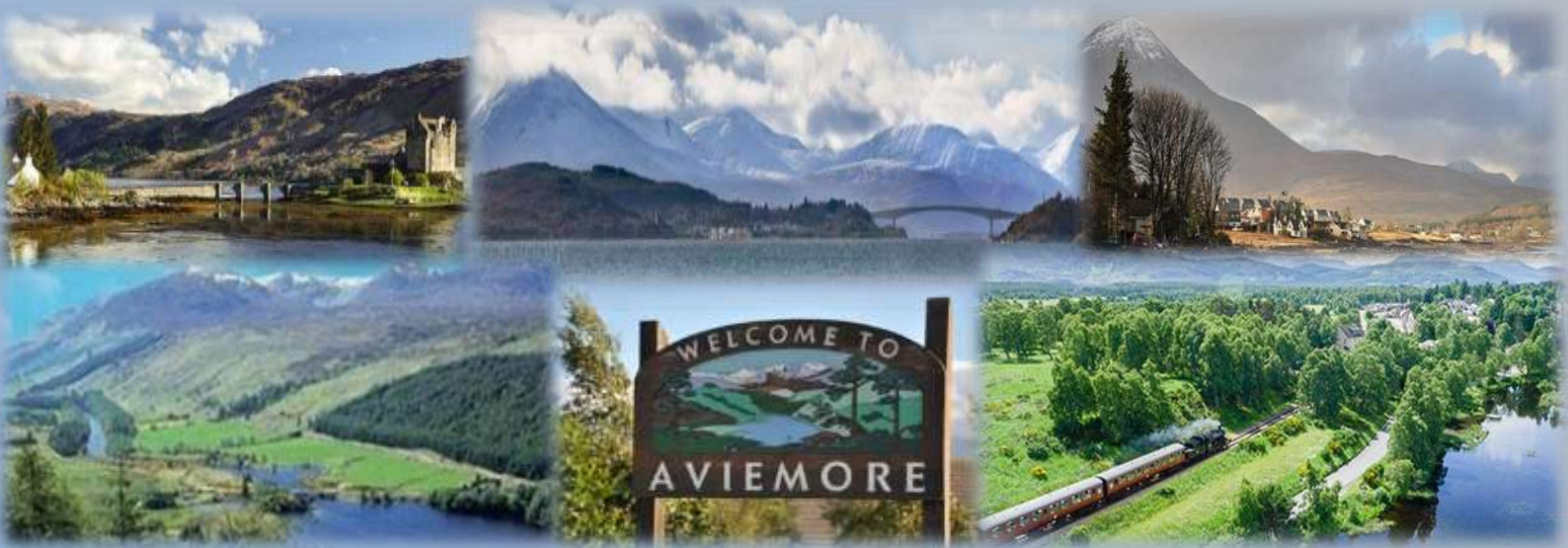




## FULL BUSINESS CASE



VERSION 8 – for publishing

14<sup>th</sup> June 2019

**The Modernisation of Community and Hospital Services**

in

**Badenoch & Strathspey**

and

**Skye, Lochalsh and South West Ross**

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## **1. PROJECT TITLE AND SUMMARY OF PROPOSED INVESTMENT**

**The title of the project is: “The *Modernisation of Community and Hospital Services in Badenoch & Strathspey and Skye, Lochalsh and South West Ross*”.**

- 1.1** This document presents the Full Business Case which has been developed by NHS Highland in accordance with the Scottish Government Health and Social Care Directorate Capital Investment Manual (July 2011, updated February 2017). It provides evidence that the proposed project highlights a strong strategic case for investment and that the proposals are robust, affordable and deliverable.
- 1.2** The purpose of the Full Business Case is to confirm that the procured offer represents the best value commercial solution for delivering the service redesign requirements. Therefore, through this document NHS Highland will demonstrate that the chosen options are sustainable, represent value for money, and that appropriate procurement routes and robust management arrangements are in place to deliver the changes effectively. The document also covers in more detail the necessary investment required as well as the progress to date with implementing some aspects of the proposals.
- 1.3** Fundamentally, this redesign programme is seeking to deliver high quality, safe and sustainable services for the future and which are consistent with Scottish Government Policies, including their 2020 vision.
- 1.4** The services delivered through the locality budgets for both Badenoch & Strathspey (£16.7m) and Skye, Lochalsh & South West Ross (£30.8m) districts have been subject to consideration and as appropriate redesign. Within these financial envelopes, the allocation of resources has been reviewed with disinvestments and investments identified which will deliver more flexible and sustainable care and services for the respective communities.
- 1.5** The foundations of the redesign are around disinvesting in buildings and outdated models of care and investing in staff, services and infrastructure to help more people stay at home or as close to home as possible. Shifting the balance of care will reduce reliance on in-patient hospital services and other institutional care. The services as redesigned will be more stable, more sustainable and deliver a better experience for our patients and wider communities.
- 1.6** The proposals include new and refurbished buildings which will better support the delivery of modern health and social care. This modernised estate will act as a springboard to enable both the outlined service redesign and remove barriers to enable improvements to care pathways on an ongoing basis.
- 1.7** In addition, the redesign programme will deliver a reduction in recurring revenue costs overall by circa £215k. This has reduced since Outline Business Case due to the impact of pay inflation, pressures within medical and adult social care staffing and the increased facilities management and life cycle costs of the new hospital facility in Broadford.
- 1.8** The proposals see a combined investment of circa £700k in community-based staffing to support enhanced front line community services, including: care-at-home, step up / step down beds in care homes and greater choice for palliative / end of life care. There will also be a grant allocation of £35k for the local transport solution in Badenoch & Strathspey.

- 1.9** Capital investment of £1,400k by the Highland Council has already been made to improve the residential care home (Wade Centre) in Kingussie where one step-up/step-down bed is now in operation, and further work is planned in 2019 for the residential care home (Grant House) in Grantown-on-Spey, including for the provision of two step-up/step-down beds.
- 1.10** In addition, capital funding of £4,637k is required from the Scottish Government Health and Social Care Directorate to facilitate the following developments:
- upgrades of Grantown-on-Spey Health Centre and Kingussie Medical Practice to accommodate the services that will remain in existing locations when the two hospitals close (£1,759k); and
  - redesign of Portree Hospital building and alterations to Broadford Health Centre to fully utilise existing space (£2,878k).
- 1.11** More generally opportunities to co-locate and integrate services will deliver a net reduction in the footprint by three NHS Highland owned buildings, one leased premises and three partner agency buildings with a reduction in back-log maintenance costs by circa £11m.
- 1.12** Based on the changed configuration of services an investment of £40,405k is required to build the community hospital 'Hubs' in Aviemore and Broadford through a revenue financed solution. This investment will provide strategically located, modern facilities, which will enable NHS Highland to deliver more community-based services to better meet the future needs of these communities. The new buildings will provide a more therapeutic environment for patients and visitors and improved working conditions for staff with all the associated benefits this will bring.
- 1.13** Capital funding of £1,591k is also required from the Scottish Government Health and Social Care Directorate for equipment procurement for the 2 new hospitals.
- 1.14** Implementing the proposed investment will also address a range of current deficiencies which exist across the services and accommodation, the most crucial of which are:
- Replacement of Ian Charles Hospital in Grantown-on-Spey, St Vincent's Hospital in Kingussie, Aviemore Health Centre and Scottish Ambulance Service base in Aviemore with new facilities in Aviemore (Hospital and Health Centre), including co-location of Scottish Ambulance Service;
  - Redesign of Portree Community Hospital as a Spoke to accommodate Portree Medical Practice (proposed from 2022), Urgent Care Centre, Outpatients, Scottish Ambulance Service and day care services; and
  - Replacement of Dr MacKinnon Memorial Hospital with a new Hospital Hub in Broadford continuing the co-location with the Scottish Ambulance Service.
- 1.15** This Full Business Case is the culmination of a huge amount of effort from local communities, staff and partner agencies. These exciting proposals are an exemplar of redesign of health and social care services across whole districts demonstrating the practical delivery of Scottish Government strategies and plans including delivery of their 2020 vision.

## 2. EXECUTIVE SUMMARY

### 2.1 Strategic Case

#### 2.1.1 Strategic Context and Case for Change

2.1.1.1 This Full Business Case covers two Health and Social Care Redesign Projects in two geographical areas within the NHS Highland board area: Badenoch & Strathspey and Skye, Lochalsh and South West Ross. The redesign proposals will deliver the ambitions of the Scottish Government's 2020 Vision:

*"Achieving sustainable quality in Scotland's Health Care" and the "Health and Social Care Delivery Plan" published in 2011.*

2.1.1.2 This document follows on from the joint Outline Business Case for the project bundle which was approved by the Scottish Government on 24th May 2018. The strategic case for change has been refreshed and the proposals remain fully consistent with national and local policy where there is a need for 'fundamental change' in response to continuing demographic, workforce and financial pressures.

#### 2.1.2 Preferred Solutions

2.1.2.1 The redesign of services in both areas will see investment to support enhanced front-line community services, including:

- care-at-home,
- flexible use community access beds in care homes;
- greater choice of where to die for people who are at the end of life;
- building two new hospital 'Hub' facilities (at Broadford and Aviemore); and
- co-location of diagnostic services with all inpatient services, which is not currently the case.

2.1.2.2 More generally opportunities to co-locate and integrate services as part of the redesign with a reliance on fewer buildings are part of the plans. Overall there will be a reduction in recurring revenue costs, back-log maintenance and the NHS Highland footprint.

2.1.2.3 Specifically, in Badenoch and Strathspey, the preferred solutions include a replacement Health Centre in Aviemore, to be co-located as part of the new 24 bed community hospital 'Hub' in Aviemore. The Ambulance base will form part of the new Hub.

2.1.2.4 Elsewhere in the area Health Centres and Ambulance bases will remain in existing locations. Some investment is required to refurbish and reconfigure Grantown and Kingussie Health Centres to accommodate services that will remain in the local area and are currently provided in the existing hospitals. The community hospital buildings in Grantown-on-Spey and Kingussie will close once alternative arrangements are in place.

2.1.2.5 For Skye, Lochalsh and South West Ross the configuration of the Portree Hospital building will include services from Portree Medical Practice including a day hospital service (one stop shop); integrated team base; outpatients and Scottish Ambulance Service. The 'one stop shop' will support people to remain at home through early

identification of frailty and care needs. The Portree facility will also continue to house the Urgent Care Centre.

**2.1.2.6** Additional capacity will be created with the introduction of 10 community beds to provide step up / step down and end of life care in North Skye. Meanwhile hospital beds will be maintained in Portree Hospital until the new arrangements are agreed and fully in place.

**2.1.2.7** The location of other GP Medical Practices / Health Centres and Ambulance Service is not changing.

**2.1.2.8** Access to accident and emergency services is not changing and will continue to be provided from Broadford.

### **2.1.3** *Implementation of Proposals and Change in Scope*

**2.1.3.1** Significant progress has been made since the approval of the Outline Business Case to further develop and implement some of the proposals and these are summarised.

**2.1.3.2** The impact of Sir Lewis Ritchie's 'Independent External View of Skye, Lochalsh and South West Ross Out of Hours Services' is described.

**2.1.3.3** There have been some slight changes in the scope including exciting developments in capsule endoscopy services which resulted in the decision at Outline Business Case stage not to build an endoscopy unit in the new hospital in Broadford.

**2.1.3.4** A further development is the move to roll out NHS Near Me in both areas. This uses video technology to deliver some outpatient appointments and reduce the need for travel.

**2.1.3.5** As designs have developed, it has become apparent that services to have been located in the converted roof space at Lochalsh Health Centre can be accommodated within the expansion proposed for Broadford Health Centre and therefore works to Lochalsh Health Centre have been removed from scope.

## **2.2** *Economic Case*

### **2.2.1** *Monetary Cost and Benefits of FBC Options*

**2.2.1.1** The preferred options identified for both projects at Initial Agreement stage and endorsed following public consultation, Board and Scottish Government approvals are outlined in Table 1. Different preferred solutions were identified for both projects.



**Table 1 – Short List and Preferred Options for both projects**

<b>Table 1:</b>	
<b>Short List of Options</b>	<b>Preferred Option</b>
Do Minimum	Neither
Community Resource Centre and Hospital Hub with Spoke (PREFERRED)	Skye, Lochalsh and South West Ross
Community Resource Centre and Hospital Hub (PREFERRED)	Badenoch & Strathspey

**2.2.1.2** For Full Business Case the economic appraisal for the preferred options has been updated with market-tested costs from the hubCo stage 2 submission and to reflect the final workforce plan and service model.

### **2.2.2 Outcome**

**2.2.2.1** Consistent with the outcome of the OBC, the results of the Economic Analysis consolidate the position of both preferred options, alongside that of the non-financial benefits. The proposals will deliver a redesign of services that is both affordable and sustainable. The preferred options remain consistent with the Initial Agreement and Outline Business Case and are as follows:

**2.2.2.2** Badenoch & Strathspey:

- Community Resource Centre and Hospital Hub.

**2.2.2.3** Skye, Lochalsh and South West Ross:

- Community Resource Hospital Hub and Spoke

## **2.3 Commercial Case**

**2.3.1** The Commercial Approach recommended for this proposed investment is detailed in Section 5. The reconfiguration and refurbishment of existing NHS facilities will be procured as traditional capital works using a competitive tender process, with design element in-house. The re-provision of staff accommodation in Broadford will be achieved via a lease arrangement working in partnership with the local housing association.

**2.3.2** The works in NHS operated care homes in Kingussie and Grantown are being funded and managed by The Highland Council.

**2.3.3** The Scottish Futures Trust Design, Build, Finance and Maintain (DBFM) approach will be used to procure the new build hospital ‘Hub’ elements of the project. Both new facilities will be developed as part of a bundle with a single project agreement. A special purpose company (DBFM Co) will fund construction and thereafter operate a 25-year service concession contract in return for an Annual Service Payment. The contract will run for 25 years and on completion the building will revert to the ownership of NHS Highland.

**2.3.4** The Private Sector Development Partner is responsible for providing all aspects of the design and construction of the new build facilities. hub North Scotland Ltd held a competition among its tier 1 supply chain and appointed the following contractors to support the design and build:

- Balfour Beatty PLC as Design and Build Contractor;
- Oberlanders / Rural Design as Architects;
- Rybka as Mechanical, Electrical and Plumbing engineers; and
- Waterman for Civil and Structural design.

**2.3.5** Facilities Management services, including planned and reactive property maintenance and lifecycle will be provided by Robertson Facilities Management. Soft Facilities Management services such as domestic, catering, portering and grounds maintenance will be provided directly by NHS Highland.

**2.3.6** There are no employees who are employed on services that will be transferred to the private sector under the proposals for this project, and therefore the Transfer of Undertakings (Protection of Employment) Regulations 1981 (TUPE) will not apply.

## **2.4 Financial Case**

- i. The Financial Case sets out all associated capital and revenue costs, assesses the affordability of the preferred options and the impact on NHS Highland's financial position.
- ii. The key financial movements from Outline Business Case are:
  - Construction cost – increase of £9,825k
  - Revenue savings – reduction of £291k
- iii. An explanation for this is provided in section 7.6 project monitoring.

### **2.4.1 New Hospital Builds**

**2.4.1.1** The capital investment required for the community hospital bundle is £40,405k, based on market tested costs. This includes £2,267k of design fees to be reimbursed to the NHS Highland Board and returned to Scottish Government at financial close.

### **2.4.2 Land Procurement**

**2.4.2.1** A capital allocation of £600k has been provided by the Scottish Government Health and Social Care Directorate to procure the land in Aviemore for the Badenoch and Strathspey community hospital. All transactions to procure the land were completed in February 2019. There is no other land purchase required.

### **2.4.3 Existing Site Reconfiguration**

**2.4.3.1** Reconfiguration of existing hospital sites are required to deliver the key outcomes of the service model. Grantown-on-Spey and Kingussie Health Centres require reconfiguring to accommodate the services that will remain in existing locations when the two hospitals close.

2.4.3.2 Portree Hospital building requires to be reconfigured in line with the new service model including Portree Medical Practice. Alterations are also required to Broadford Health Centre. Capital funding of £1,759k for Badenoch and Strathspey and £2,878k for Skye, Lochalsh and South West Ross is requested via approval of the Full Business Case.

2.4.3.3 In addition, the Highland Council are funding the refurbishment of their two care homes in Badenoch and Strathspey.

## 2.4.4 *Disposal of Surplus Sites*

2.4.4.1 Investment in the project will mean that ten buildings will be declared as surplus for disposal or use:

- five NHS Highland owned; St Vincent's Hospital (Kingussie), Ian Charles Hospital (Grantown-on-Spey), Health Centre (Aviemore), Dr Mackinnon Memorial Hospital (Broadford) and the Bungalow (Broadford);
- two leased by NHS Highland; Rathven Community Base (Aviemore) and Service Point (Broadford); and
- three owned or leased by partner agencies; Scottish Ambulance Service (Aviemore), The Highland Council (The Mall, Aviemore) and Portree Medical Practice.

2.4.4.2 The financial case assumes that any capital receipts associated with the disposal will be allocated to Scottish Government in accordance with CEL 32 (2010) and no benefit to NHS Highland is assumed in the financial model.

## 2.4.5 *Overall Affordability – Revenue*

2.4.5.1 Despite an increase in capital cost the proposal as a development of the Outline Business Case is affordable to the organisation and will deliver a planned recurring revenue saving of £215k.

2.4.5.2 Additional revenue funding of £989k recurring, £407k per annum interim and £231k non-recurring is required to implement the recommendations of Sir Lewis Ritchie's Independent External View of SLSWR Out of Hours Services.

## 2.5 *Management Case*

### 2.5.1 *Project Management Arrangements*

2.5.1.1 The two service redesign projects, existing site reconfiguration and new build hospital Design, Build, Finance and Maintain project are governed by a single Programme Board chaired by the Senior Responsible Officer. This provides assurance to the NHS Highland Board on key aspects of governance and internal control.

2.5.1.2 Each project is led by a Project Director supported by a project team comprising Project Managers, Operational Managers, Professional Leads, Clinical Advisors, Head of Finance, Staff-side representatives and supplemented by expert external advisors (Commercial, Economic, Technical, Legal, Financial and Insurance).

**2.5.1.3** The project is scheduled to achieve Financial Close of the Design, Build, Finance and Maintain (DBFM) contract for the two new hospitals at the end of May 2019, with construction commencing thereafter and the facilities operational by April 2021. Reconfiguration of existing sites and completion of all service redesign elements are scheduled for December 2022 and post-project evaluation will commence in January 2024.

## **2.5.2** *Change Management Arrangements*

**2.5.2.1** The change management arrangements are being led by the Heads of Community Services for the respective Operational Units and they are responsible for developing and implementing the transition plan for each project. HR sub groups have been set up to implement the workforce plan and early Building User Groups are in place to develop standard operating procedures for the new hospital facilities.

**2.5.2.2** Successful implementation of the service redesign projects is dependent on supporting technology and eHealth solutions, and the Deputy Head of eHealth is a member of both Project Teams and transition plan sub groups. Local operational staff will work closely with eHealth to deliver the changes required to support the new service model.

## **2.5.3** *Benefits Realisation*

**2.5.3.1** The project Benefits Realisation and Benefits Registers have been reviewed to confirm that each benefit is still appropriate and measurable. Where applicable interim measures have been collected to track progress. This demonstrates that positive progress has already been made on admission to care home later in life and reduced length of stay, increased provision of care at home, end of life care, reduction in community hospital readmissions and delivery of services closer to home. Badenoch and Strathspey introduced its first step up / step down bed in the Wade Centre care home in Kingussie, with work planned to provide two similar beds in Grantown-on-Spey.

**2.5.3.2** Some benefits not dependent on the new hospital builds have already been realised, such as older adult mental health in-patient services being provided in a more appropriate hospital and community settings (Badenoch & Strathspey), and delivery of end of life care in a homely setting (Skye, Lochalsh & South West Ross).

**2.5.3.3** In Skye, Lochalsh and South West Ross the fully integrated teams have had a significant impact on the reduced use of hospital and care home beds with a reduction in delayed discharges. A 'one-stop shop' multi-disciplinary approach in Portree Hospital has also been tested.

## **2.5.4** *Risk Management*

**2.5.4.1** Project risks have been actively managed by the Project Teams, monitored by the Programme Board and project risk workshops were undertaken in late 2018 with the risks being quantified and built in to the financial case.

**2.5.4.2** Despite robust risk management some high risks remain and the mitigation measures are summarised in section 7.4.

**2.5.4.3** Some risks have manifested in to issues, with the cost impact reflected in the financial case (section 6). The construction, facilities management and life cycle costs for the new build hospitals exceed the affordability cap at Outline Business Case stage. Notwithstanding this, the resulting Annual Service Payment revenue charge is within Outline Business Case levels.

## **2.5.5** *Commissioning*

**2.5.5.1** Commissioning arrangements are built in to the overall transition plan. Designated resource is in place to support the Operational Units and Project Teams to commission the new hospital and the reconfiguration of existing estate. Outline technical commissioning programmes are in place and will continue to be developed.

## **2.5.6** *Project monitoring and service benefits evaluation*

**2.5.6.1** The milestones for Post-Project Evaluation are set out in section 7.6. This process will be led by the Senior Project Manager.

**2.5.6.2** The project monitoring report captures any significant changes to costs and programme since Initial Agreement stage.

**2.5.6.3** Facilities management and life cycle costs for the new hospital in Broadford have increased above the New Project Request affordability cap which was the basis of costs in the Outline Business Case. These costs are significantly higher in comparison to a similar facility located in a more urban area where there is potential to achieve efficiencies in managing multiple sites.

**2.5.6.4** The increase in construction cost for the new hospitals from the figures quoted in the Outline Business Case is attributable primarily to inflation. At New Project Request (OBC) stage, the BCIS was predicting a negative or flat inflation forecast across the construction industry to programmed financial close, however actual construction inflation over this period is 12.07%.

**2.5.6.5** The ongoing uncertainty around Britain's exit from the European Union has impacted on work package procurement, resulting in returned prices above what would normally be expected.

**2.5.6.6** Within this context NHS Highland and hubCo have worked very hard to review in detail the stage 2 returned work packages in order to bring costs down to an affordable level. There has been a 11% reduction from the initial submission to the current construction cost.

**2.5.6.7** The movement in programme since Initial Agreement is due to conditions associated with the SLSWR element of the business case approval where further clarity was required, and this impacted on the whole project bundle.

## **2.6 Conclusion**

**2.6.1** This Full Business Case for the redesign of services in Badenoch & Strathspey and Skye, Lochalsh & South West Ross demonstrates that;

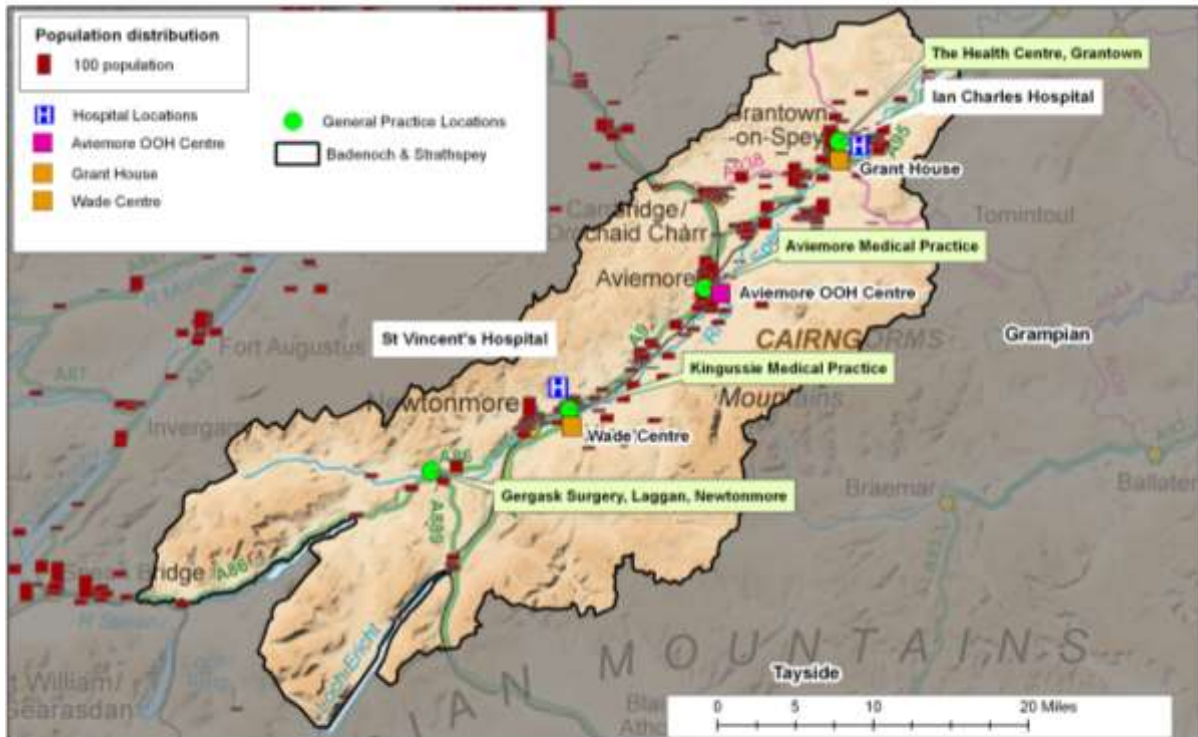
- The proposals are consistent with national and local policy;
- The chosen options are sustainable and represent value for money;
- The appropriate procurement routes are in place and the procured offer for the new hospitals represents the best value commercial solution;
- The proposals are affordable to the organisation; and
- Robust management arrangements are in place to deliver the changes effectively.

### **3. STRATEGIC CASE**

#### ***3.1 Introduction and Purpose***

- 3.1.1** This document has been prepared in accordance with the guidance given in the Scottish Government Health and Social Care Directorate's Scottish Capital Investment Manual (July 2011 and updated February 2017) and HM Treasury Green Book.
- 3.1.2** It follows on from the joint Outline Business Case for the project bundle approved by the NHS Highland Board on 28th November 2017 and subsequently endorsed by the Scottish Government Capital Investment Group on 24th May 2018 (Appendix 1).
- 3.1.3** This Full Business Case covers two Health and Social Care Redesign Projects located over two distinct geographical areas within the NHS Highland board area: Badenoch & Strathspey (Map 1) and Skye, Lochalsh and South West Ross (Map 2).

**Map 1 – Location of services within Badenoch and Strathspey**



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**Badenoch & Strathspey**

Directorate of Public Health  
Health Intelligence & Knowledge Team



Date: Nov 2012

**Grantown-On-Spey**

- Ian Charles Hospital site
  - Ian Charles Hospital
  - Grantown-on-Spey Medical Practice
  - Ian Charles Dental Clinic
- Grant House Care Home

**Aviemore**

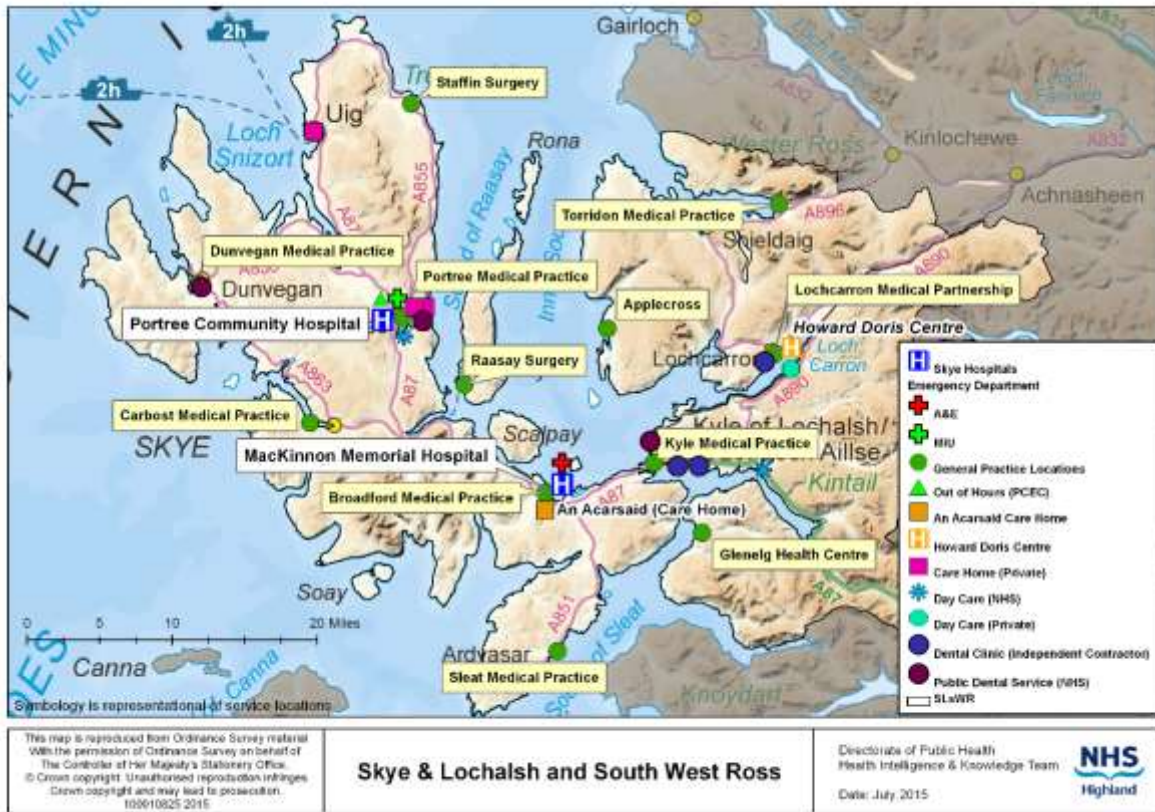
- Aviemore Health Centre /Out of Hours Centre
- Rathven House (office)
- Ambulance Station
- Glen Day Centre
- *The Mall (children's services)*

**Kingussie**

- St Vincent's Hospital
- Kingussie Medical Practice
- Wade Centre Care Home Laggan
- Laggan Medical Practice



**Map 2 - Location of services within Skye, Lochalsh and South West Ross**



**Portree**

- Portree Hospital
- Portree Medical Practice
- Portree Dental Clinic
- Tigh na Drochaid day care service
- Independent Care / Nursing Homes
  - Budh Mhor
  - Home Farm

**Broadford**

- Mackinnon Memorial Hospital
  - A&E
  - Ambulance Base
  - Bungalow (admin base)
- Broadford Health Centre
- Highland Council Service Point
- NHH Care Home
  - An Arcasaid

**Kyle**

- Lochalsh Health Centre
  - Kyle Medical Practice
  - Dental clinic

## **3.2 Strategic Case Overview**

**3.2.1** The strategic case for change, as set out in the Outline Business Case, has been reviewed and refreshed to reflect relevant strategic documents and any changes to the proposals.

**3.2.2** These two service redesign projects will deliver the ambitions of the Scottish Government's 2020 Vision to deliver "Safe, effective and person-centred care which supports people to live as long as possible at home or in a homely setting" (2010).

**3.2.3** It was published just in advance of local NHS Highland discussions which were underway on the need to redesign local services. It was also one of the key drivers behind NHS Highland's early move to integrate health and social care in partnership with the Highland Council in 2012, through a Lead Agency model, whereby NHS Highland through the Highland Health and Social Care Partnership delivers all adult social care services and The Highland Council delivers all children's services (except Paediatrics and Child and Adolescent Mental Health Services) through a Partnership Agreement.

**3.2.4** The case for change is further strengthened by the increasing challenges to sustain current models of health and social care services. This is true across the country, and indeed beyond, and is further reflected in The National Clinical Strategy for Scotland, published in February 2016; and the Health and Social Care Delivery Plan published in December 2016.

**3.2.5** The Health and Social Care Delivery Plan sets out the transformation required for health and social care to make care and services sustainable for the future. The plan is designed to help address the combination of:

- rising demands being faced by health and care services;
- the changing needs of an ageing population;
- increasing costs;
- increasing staffing pressures; and
- unprecedented financial challenges.

**3.2.6** It also acknowledges the need to 'continue to evolve our health and care services to meet new patterns of care, demand and opportunities from new treatments and technologies' Further it highlights the requirement to focus on actions around three key areas:

- reducing inappropriate use of hospital services;
- shifting resources to primary and community care; and
- supporting capacity of community care.

**3.2.7** These key areas very much resonate with the objectives of the boards redesign proposals and serve to illustrate how forward thinking the board was when discussions to redesign services first got underway in 2012/13.

**3.2.8** Other important publications since the submission of the Outline Business Case include the Chief Medical Officer's Report on 'Practising Realistic Medicine' (April 2018). This further highlights the need to put the person receiving health and care at the centre of decision-making and encourages a personalised approach to their care. This is particularly relevant to the proposals for end of life care described in this business case. The key aims of reducing harm, waste and tackling unwarranted variation underpinning

Realistic Medicine are also central to our philosophy and shape the proposals serving communities in Badenoch and Strathspey and Skye, Lochalsh and South West Ross.

**3.2.9** Bringing things right up to date the Report by the Auditor General “NHS in Scotland 2018” published in October 2018, further highlighted the need for ‘fundamental change’.

**3.2.10** These publications further strengthen the focus on out of hospital care and less reliance on institutional care, together with greater use of technology services and transformational changes.

**3.2.11** A new General Medical Services Contract started on 1st April 2018 and will be completed over a three-year transition period. The proposals for both re-design areas have been reviewed to ensure that they meet any new requirements since the Outline Business Case was approved. Services enhanced under the new GP contract will come within our redesign building infrastructure and multi-disciplinary team approach.

**3.2.12** Our proposals have also been reviewed in line with the emerging regional agenda and have been shown to be a good fit both on the case for change and for the model of services being proposed.

**3.2.13** Both redesign projects were referenced in and are in line with the NHS Highland Board’s three-year Quality and Sustainability Strategy and Plan 2017/18 to 2019/20, published in May 2017 which set out several strategic goals including to:

- ensure services are sustainable (workforce challenges);
- provide services and facilities to meet 21st century health and social care needs;
- provide high quality, integrated and cost-effective services; and
- reduce waste and inefficiency across services.

### ***3.3 Conditions to be met as part of the Full Business Case***

**3.3.1** In her letter to the board following the public consultations in 2014, the Cabinet Secretary for Health, Wellbeing and Sport highlighted several conditions to be met as part the redesign:

#### **Badenoch & Strathspey**

- Ensure that workable transport solutions are in place
- Step-up/step-down beds to be created in both local communities prior to the closure of the hospitals
- Community and care at home provision to be in place
- Continue to involve local stakeholders and make sure they are fully informed

#### **Skye, Lochalsh and South West Ross**

- Confirm arrangements for the necessary expansion of capacity for care at home and community services
- Further integration of health and social care
- Commitment for the provision of palliative and respite care
- The need for transport solutions
- New arrangements to be fully tested and up and running before any changes to the current service provision are made.

**3.3.2** When the Capital Investment Group approved the Initial Agreement on 2nd November 2016, they highlighted two further specific areas which required clarification prior to the submission of the New Project Request (NPR);

- Confirm whether endoscopy services be included within the 'Hub' in Broadford; and
- Confirm confidence in the ability to commission an increase in care home capacity.

### **3.4 Overview of Proposals and Updates on Implementation**

- iv. Since the submission of the Outline Business Case, work has been ongoing to implement elements of the redesign proposals. The focus has been on developing additional community services, infrastructure and improved communication and co-ordination across hospital and community.
- v. The redesign of services in both areas will see investment to support enhanced front line community services, including care-at-home, flexible step-up/step-down beds and greater choice for palliative/end of life care with appropriate transport solutions. These enhanced community services are already being implemented and tested.
- vi. More generally opportunities to co-locate and integrate services will deliver a reliance on fewer buildings. Overall there will be a reduction in both recurring revenue costs and back-log maintenance costs.
- vii. The proposals and key elements of the plan specific to each area are summarised below. Any changes to the scope are also explained. The more detailed description of current services was set out in the Initial Agreement documents and only briefly covered here where relevant to do so.

#### **3.4.1 Badenoch & Strathspey**

##### **3.4.1.1 Background and Summary of the Proposals**

- i. The district is covered by one Integrated Team which is made up of the range of health and social care professionals who work flexibly across all services. Currently, staff are located across a number of different bases but under the new arrangements it will allow them to co-locate with a single point of access for service users and other partner agencies.
- ii. In terms of investment in community services, this will mean:
  - 85% increase in Community Nursing staff numbers (58% of this already in place following the transfer of older adult mental health beds);
  - 62% increase in Community Mental Health staff numbers (28% of this already in place following the transfer of older adult mental health beds);
  - 26% increase to Care at Home service resource;
  - 26% increase in Out of Hours nursing staff numbers;
  - 24% increase in the Allied Health Professional team; and
  - Investment in community transport infrastructure will double.
- iii. In addition, NHS Highland manages two care homes in the area (the buildings are owned by Highland Council): 20 bed Grant House in Grantown-on-Spey, and 10 bed

Wade Centre in Kingussie. The proposal includes creating step-up/step-down bed(s) to avoid hospital admissions in these locations.

- iv. The preferred solution also includes a replacement Health Centre in Aviemore, to be co-located as part of the new 24 bedded community hospital 'Hub' in Aviemore. Under the new arrangements The Scottish Ambulance base will also relocate to the new facility as well as the Highland Council Care and Learning team.
- v. Otherwise the locations of Health Centres and Scottish Ambulance Service bases will remain in existing locations. As part of the proposals investment is sought to refurbish both Grantown Health Centre (owned by NHS Highland) and Kingussie Health Centre (owned by the practice). Ian Charles Dental unit (Grantown-on-Spey) will remain in its existing location.
- vi. All the community hospital inpatient care for the district will be provided from the new hospital in Aviemore. For the first time, this will allow 24/7 medical care to be co-located with inpatient services and diagnostics. Medical input will be provided by the local GPs through a Service Level Agreement.
- vii. The hospital will provide a range of services including X-ray, Urgent Care, Outpatients, and Allied Health Professional Services. The integrated team will be co-located in the new facility. The Out of Hours centre for Badenoch and Strathspey will remain in Aviemore with staff based in the new hospital.

#### ***3.4.1.2 Updates on Implementing Proposals***

##### **Re-provision of consultant-led older adult mental health beds, Kingussie**

- i. The proposal to remove older adult mental health consultant-led beds from Lynwilg Ward (St Vincent's, Kingussie) was successfully completed in March 2017. This has brought significant benefits with more people now being cared for at home or in their local community.
- ii. The change was delivered through a combination of increasing community services and slight increased bed capacity in New Craigs Mental Health Hospital (Inverness) in line with the clinical model and workforce plan. The new arrangements are safer, more sustainable and person-centred.
- iii. The staff from Lynwilg have all been appropriately redeployed including into posts consistent with the new community-based model and is working well.

##### **NHS Highland managed care homes**

- iv. A step-up/step-down bed has been in operation in the Wade Centre in Kingussie since January 2018 following refurbishment funded by The Highland Council.
- v. In Grant House (Grantown-on-Spey) a preferred option for the provision of two step-up/step-down beds has also been identified, design work and the tender process is complete and work is expected to commence within the first half of 2019. The refurbishment, which is funded and managed by The Highland Council, had experienced a slight delay due to a poor tender response and was re-tendered to ensure the price represented value for money.

## Care at Home

- vi. A redesign of care at home across the district was completed in October 2017. The purpose was to increase both quality and capacity through greater use of independent sector care at home providers for maintenance of ongoing packages of care. In doing so this will release NHS Highland staff to provide a reablement service helping to get people back to being independent and to stay independent. Additional financial investment of £105k is identified to further support this outcome.
- vii. A wider review of all care at home packages is also underway. This is to ensure that all clients are receiving the right level of care to meet their needs and that the wider available options to support people at home, including those provided by communities and the Third Sector are being considered.
- viii. There is a move away from rigid scheduling, whereby care is delivered in pre-set units of time to a more person-centred approach. This is based on meeting outcomes and promoting a more flexible use of the available care at home capacity. The expected benefits are that it will create additional time for caring for more people at home in general and provide greater flexibility in supporting people with complex needs. These developments will support both a reduction in time spent in hospital and increase time spent at home before admission to a care home where necessary.

## Palliative<sup>1</sup> and End of Life Care<sup>2</sup>

- ix. This is another important area where the redesign proposals will bring significant benefits to local communities by providing more flexible end of life care for people based on their choice as far as possible.
- x. Badenoch and Strathspey is the first site in Highland to pilot the new End of Life Care framework, encompassing joint working between hospital, care homes and community teams. This is progressing in partnership with Marie Curie, MacMillan Cancer Care, Highland Hospice and Independent Care Home and Care at Home providers. A local project group has been set up and a successful application has been made to MacMillan Cancer Care to secure an additional project leadership resource, with the post holder starting in January 2019. Our vision and strategy document is available if required.
- xi. The redesign will improve the required community support, raise awareness of the issues, improve multi-disciplinary approaches and arrange necessary education and training well in advance of 2020.
- xii. It is worth noting that across Badenoch and Strathspey approximately 54% of expected deaths occur in a hospital rather than the persons own home or a homely setting. A significant number of people die in an acute hospital setting some distance from their family and community. The data consistently demonstrates that people dying in their own home in Badenoch & Strathspey is lower than the Scottish average. Our proposals will reverse this trend so that being at home in one's final days is a

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<sup>1</sup> Palliative care refers more broadly to the care of those with a life limiting condition which is advancing towards the last year of life;

<sup>2</sup> End of life care refers to the time when the person's expected death is imminent and is expected to happen within the next few months, weeks or days.

high quality deliverable option. Positive progress is already being made in this area (section 7.3).

### Health Centres

- xiii. Updated concept design proposals for Granttown Health Centre (owned by NHS Highland) have been agreed with the Practice. This reconfiguration and small extension is necessary to have a workable solution to de-couple the Health Centre from the hospital, accommodate Outpatient, Physiotherapy and Minor Injury services that will be retained in Granttown-on-Spey once Ian Charles Community Hospital closes and will provide sufficient capacity to deliver services in line with the new General Medical Services Contract (April 2018). Funding is requested from Scottish Government as part of this Business Case.
- xiv. Work is progressing with Kingussie Medical Practice (which the Practice own) to accommodate additional services and support the local relocation of Physiotherapy and Outpatient services in Kingussie once the St Vincent's Hospital closes. Work is progressing positively. A detailed floor plan has been developed and funding contribution agreed.

### Hospital Bed Numbers

- xv. At Outline Business Case we confirmed 24 beds in the new facility. Twenty of these beds will be accessed direct by GPs which is a tried and tested model in Highland. The remaining four beds will be available for flexible use by the community teams to provide step up/step down care, day care services and quiet space for patients and their families. All bedrooms will be fully fitted with bedhead services to ensure maximum flexibility to respond to changing service needs and projected future demand.

### Transport & Access

- xvi. A local group has been set up to oversee the development of a Transport and Access Plan and is independently chaired. On behalf of the local community transport company Aberdeen University carried out an Independent Assessment and as a result, solutions have been identified and funding was included as part of the Outline Business Case. This includes an agreement in principle with the Badenoch & Strathspey Transport Company to complement commercial transport by transporting patients/relatives where required during the in hours period. The new facility will act as a 'hub at the hospital' for both commercial and community transport providers and will include a bus stop, live timetabling, and provision for walking and cycling.

#### *3.4.1.3 Change in Scope*

### NHS Near Me Appointments

- i. Since the submission of the Outline Business Case, NHS Highland has progressed proposals to deliver more outpatient appointments using Video Technology for patients to connect with their clinicians. There will be opportunities for patients to access such appointments in Granttown-on-Spey, Kingussie and Aviemore. The aim is also to offer appointments to patients in their own home or in a place of their choosing subject to sufficient broadband speeds.

### 3.4.2 *Skye, Lochalsh & South West Ross*

#### Summary of the Proposals

- i. As stated in the Outline Business Case, the overall location of GP Medical Practices / Health Centres and Scottish Ambulance Service bases is not changing.
- ii. It is proposed to co-locate the Portree Medical Practice and the Scottish Ambulance Service (North Skye) team with the North Skye Integrated Teams within the Portree 'Spoke', further supporting integrated working, sharing workload, skills maintenance and professional support. The Portree facility will also continue to house the Urgent Care Centre and outpatient services.
- iii. Portree Medical Practice will be working closely with the integrated team and geriatrician to provide a 'one stop shop' to support people to remain at home through early identification of frailty and care needs. A range of other services will be provided including intravenous therapies and rehabilitation.
- iv. In the new model the new hospital 'Hub' will be built in Broadford providing all 'acute' and rehabilitation inpatient care (24 beds). The 24/7 medical input to the inpatients will be by Rural Practitioners (RPs). There will be some specialist input from visiting consultant surgeon and geriatrician.
- v. It will also host the main diagnostics, Accident & Emergency and Out of Hours centre for the area. It will be staffed and equipped to provide stabilisation, assessment, initial management and treatment 24/7.
- vi. The Scottish Ambulance Service will be co-located in the new Broadford facility, as they currently are. The preferred site for the 'Hub' is owned by NHS Highland and is adjacent to Broadford Health Centre. The health centre will also be the main base for integrated health and social care teams in the area with staff relocating from the Broadford service point and the Broadford bungalow. The health centre will also include space for larger meetings.
- vii. Whilst there are three fully integrated teams in place for Skye, Lochalsh and South West Ross there is a need to further invest to increase capacity and support greater co-location. This will be achieved through reconfiguration of services, noting that some of these changes can only be implemented once the new hospital is in place. They include;
  - Increase in generic health and social care support worker establishment from 1.7WTE to 6.3WTE;
  - Allied Health Professionals workforce to increase by 1.6 WTE (to 17.7 WTE);
  - Community Mental Health workforce to increase by 1 WTE (to 12.2 WTE); and
  - Commissioning 10 additional community beds in care homes to provide step up / step down and end of life care.

#### 3.4.2.1 *Updates to current proposals*

##### Sir Lewis Ritchie Recommendations

- i. The Sir Lewis Ritchie external view was published in May 2018 and work has continued since then to implement the recommendations. Although the terms of reference excluded the redesign, some inter-dependencies exist with some elements



of this Full Business Case. The timescales to deliver the Sir Lewis work are not aligned to the key milestones of this project and there are a number of significant uncertainties remaining over the detail of how the recommendations will be delivered and what the full impact will be. It is important that this does not delay the implementation of the many other aspects of the service redesign in Skye, Lochalsh & South West Ross, or Badenoch & Strathspey, as the resulting inflation impact would lead to an increase in the capital cost of the hospital builds, potentially risking the affordability of the entire bundle. This Full Business Case therefore focuses on the detail and costs associated with implementing the proposals as agreed at Outline Business Case stage to allow the majority of workstreams to proceed. Appendix 2 provides an outline of the Sir Lewis recommendations, the elements that interact with the proposals in this Full Business Case and the costs and other consequences associated with their implementation.

### Care Homes

- ii. NHS Highland are committed to ensuring that sufficient alternative resilient provision is provided in North Skye prior to any closure of inpatient beds at Portree Hospital. An additional 10 community beds will be provided in the North of Skye. Negotiations with a local care home provider have been positive however have been put on hold pending the outcome of a formal option appraisal with the North Skye community.
- iii. A step up / step down bed has been in place in NHS Highland's An Acarsaid 10-bed residential home in Broadford since 2012. While options to provide an additional flexible use bed were shown to be unachievable, work is nearing conclusion to make An Acarsaid dual registered. This will enable nursing level care to be provided in the home and overall support more people being cared for locally.

### Care at Home

- iv. A redesign of care at home is underway and this will lead to embedding care at home in the local teams to improve responsiveness and professional supervision. The philosophy as described for Badenoch and Strathspey (section 3.4.1.2) similarly applies for Skye, Lochalsh and South West Ross.

### Palliative / End of Life Care

- v. A common approach to the delivery of palliative and end of life care is also being taken across both proposals. It is focussed on delivering choice, including greater support in people's own homes. This is part of a Highland-wide approach. In Skye, Lochalsh and South West Ross the community teams have already been able to support more care being delivered in a person's own home with 61.5% of end of life care being delivered in a homely setting during 2017 (section 7.3).

### Hospital Bed Numbers, Broadford

- vi. In the Outline Business Case NHS Highland confirmed that the new hospital in Broadford would have 24 beds. This was supported by an external demographic study.

### Integrated Community Team

- vii. The Integrated Teams in Skye, Lochalsh and South West Ross have played a significant role in reducing reliance on hospital beds. In the year from 2016/17 to 2017/18 there has been a 15% reduction in delayed hospital discharges and a

reduction in the number of patients being readmitted to hospital. The supporting data is set out in the benefits register (section 7.3.2).

### Reconfiguration of Existing Facilities

- viii. At Outline Business Case we confirmed that we would make best use of the existing estate by converting the current attic space at Broadford and Lochalsh (Kyle) Health Centres. This was to provide a meeting and event space (in Kyle) and a base for the Integrated Care Team (in Broadford). Concept design work for the Full Business Case has concluded that it is possible to accommodate all office and meeting space requirements in the Broadford attic conversion, therefore we are no longer proposing to carry out any alterations to Lochalsh Health Centre in Kyle.
- ix. The bungalow that currently houses the local management team, which is adjacent to Dr Mackinnon Memorial Hospital, will be demolished as part of the hospital 'Hub' construction. The staff based there will relocate to the new office space in Broadford Health Centre (as above).

### Portree 'Spoke' Facilities

- x. At Outline Business Case we confirmed that Portree Medical Practice will move from their leased building into the Portree 'Spoke' facility, co-locating with other health and care services. Work on the Portree Hospital building will start after the new community hospital is operational in April 2021 and only once the new community beds are fully up and running in the North of Skye.
- xi. As part of the new arrangements, the practice will develop day assessment services for the North of Skye. This will provide access to the multidisciplinary team (GP, nurse, social work, physiotherapist, and occupational therapist) to address any patients' medical and social care needs in a single visit. This will reduce the likelihood of the patient having to be admitted to a hospital in-patient bed in Broadford, community bed in the North or to travel to see different people at separate appointments. Testing of this new service got underway in Summer 2018 and has been positively evaluated. Further development of the services is being undertaken over the next year through Realistic Medicine funding.

### Transport & Access

- xii. A short-life working group was set up to examine the transport impact of changes to services due to the redesign. This group has reviewed the number of appointments impacted by x-ray-dependent outpatient services being relocated from Portree to Broadford, and the corresponding change to outpatient services relocating from Broadford to Portree). If all clinics run to full capacity, this could affect up to 33 patients per week (on average). The group is now putting in place measures to mitigate the impact of these relocations and NHS Highland has committed to working with the revived Skye, Lochalsh and South west Ross Transport & Access Group to achieve this.
- xiii. The introduction of NHS Near me clinics (section 3.4.2.2) and provision of community beds locally all reduce issues relating to travel and impact positively.
- xiv. Transport and access needs have been considered in the infrastructure for the new hospital site. As part of the planning application a full Transport Assessment has taken place, informing the number of car parking spaces at the site and including the provision of cycle stands and electric car charging. Further negotiations with the

planning authority have resulted in provision being made in the design to allow local buses to come to site as soon as the new hospital is operational. A bus stop, turning circle and drop off zone is provided on the hospital site to accommodate this and any potential future community or voluntary transport solutions. A level pedestrian route will link Broadford Health Centre to the new hospital via the new bus stop. Any costs associated with this will be included within the hospital 'Hub' Design, Build, Finance and Maintain solution.

- xv. The Broadford Health Centre works will include provision of additional parking to accommodate staff relocating there, and NHS Highland intends to retain some land at the Mackinnon Memorial site to provide 'overflow' parking.

### **3.4.2.2 Change in Scope**

#### **Endoscopy Service**

- i. As stated in the Outline Business Case, a review conducted by the NHS Highland Clinical Lead for Endoscopy recommended an alternative and more innovative solution for diagnostic endoscopy. Since Outline Business Case a trial of PillCam (capsule endoscopy) has now taken place in Skye, offering a solution that allows more patients to be investigated locally, which is less invasive, more sustainable and will reduce travel.
- ii. Pillcam, now known as ScotCap, has progressed to be a national programme supported by the Scottish Government Health Department. It is being run as part of a Consortia, comprising Quality and Performance, Transforming Outpatients, Digital Health and Care, Highlands and Islands Enterprise and National Services Scotland.
- iii. The programme will work through a series of hubs, one of which will be in Broadford and another in Ullapool, Wester Ross.

#### **NHS Near Me Appointments**

- iv. Since the submission of the Outline Business Case, NHS Highland has progressed proposals to deliver more outpatient appointments using Video Technology for patients to connect with their clinicians. There will be opportunities for patients to access such appointments in Portree and Kyle, supported by local staff, as well as at home or in a place of their choosing subject to sufficient broadband speeds. The NHS Near Me clinic rooms in Portree and Kyle have been operational since December 2018 and February 2019 respectively. NHS Near Me clinics will also be able to be provided from the new hospital 'Hub' facility when it opens.

## **3.5 Case for Change**

**3.5.1** NHS Highland has previously described some of the compelling reasons why services need to change to make them more sustainable for communities in Badenoch and Strathspey and Skye, Lochalsh and South West Ross. These were set out in public consultation materials and covered in more detail in the Initial Agreement documents and updated in the Outline Business Case. In summary the original drivers underpinning the proposals remain the same:

- the population is ageing
- workforce and resources are not matching need
- community based services must be strengthened with less reliance on hospital

- beds
- lack of choice and flexibility for palliative and end of life care
- current arrangements are not optimising the benefits of integration and co-location
- better use of technology to reduce the need for travel
- medical support is not co-located with some inpatient services
- better use of resources and sustainability by consolidating services across fewer but better sites and in particular 24/7 locations
- significant back-log maintenance for buildings
- assets not strategically located or co-located

**3.5.2** There have been no changes to these key drivers and the current challenges particularly around staffing only serve to further highlight the pressing need to bring in sustainable models of care.

**3.5.3** The investment objectives underpinning the proposed new model of service provision are detailed in the **Outline Business Case** (table 4, page 24):

- Integrated health and social care
- Improve user experience
- Improve access to services and care
- Flexible, responsive and preventative care
- Make best use of resources
- Improve quality of accommodation
- Improve safety of service delivery

### **3.5.3.1 Operational Issues**

#### **Badenoch & Strathspey**

- i. While there continues to be part-time X-Ray in Ian Charles Hospital the equipment is obsolete, and it is unlikely to continue until the new hospital is open and will not be replaced.
- ii. The closure of Lynwilg Ward (St Vincents Hospital, Kingussie) in March 2017 was ahead of schedule and was directly related to workforce sustainability.

#### **Skye, Lochalsh and South West Ross**

- iii. Since the submission of the Outline Business Case there were staffing pressures across all disciplines in Portree Hospital.
- iv. This resulted in times when the Urgent Care Centre was not able to open. The number of beds able to be used was also reduced at times (to as few as two and no more than six) for the majority of 2018. During summer 2018, staff shortages became so severe that consideration had to be given to transfer all patients from Portree to Broadford. A solution was found but would have incurred significant cost and reputational damage.

## **3.6 External Factors**

### **3.6.1 Badenoch & Strathspey**

**3.6.1.1** Construction of a new 40-bedded Private Care Home in Grantown-on-Spey by Parklands opened incrementally from July 2018.

### **3.6.2 Skye, Lochalsh and South West Ross**

**3.6.2.1** There continues to be challenges to source housing for staff on Skye. Since Outline Business Case NHS Highland has entered in to an agreement with Lochalsh and Skye Housing Association to lease four recently completed 1-bed units in Broadford. This will help to alleviate the pressure in the short term and provides a potential solution for provision of on call and student accommodation associated with hospital services in Broadford once Mackinnon Memorial Hospital closes.

## **3.7 Conclusion on the Strategic Case for Change**

**3.7.1** The demographic challenges alone mean that the current configuration of services is not sustainable. The work to redesign health and social care services in both areas will deliver the ambitions of the 2020 Vision and is fully consistent with the actions highlighted in the Health and Social Care Delivery Plan published in 2016.

**3.7.2** More recently the report published by Audit Scotland “NHS in Scotland 2018” (October 2018) clearly describe how the NHS is under significant pressure with the need for change and longer-term planning.

**3.7.3** Both redesigns are underpinned by strengthening of primary and anticipatory care and community-based services as close to home as possible. This will support a reduction in hospital admissions and length of stay as well as less time spent in institutional care.

**3.7.4** The redesign of services builds on significant progress made by NHS Highland to date to integrate health and social care service as well making services safer and more efficient through the board’s programme of quality improvement work. The collaborative approach to co-design solutions for end of life and palliative care has the potential to be pioneering. The work on redesigning care at home and developing step-up / step down beds is also well advanced.

**3.7.5** All the national publications and reports continue to promote models of care that support more people at home or in a homely environment with less reliance on hospital inpatient care. Our proposals are fully consistent with such ambitions.

**3.7.6** The NHS Highland Board firmly believes that the exciting and innovative proposals outlined within this Full Business Case, which are scheduled to be completed in 2022, demonstrate the practical delivery of the Scottish Governments 2020 vision and will be exemplar redesigns of health and social care at scale.

## 4. ECONOMIC CASE

### 4.1 Overview

**4.1.1** In line with the Outline Business Case and with agreement from Scottish Government Health and Social Care Directorate, the Economic Case presented within this Full Business Case is confined to analysis of the do-minimum/do-nothing option and the preferred options (as described within the Initial Agreements and Outline Business Case). It is worth noting that the OBC does not seek to re-run the site option appraisals which were included as part of the formal Public Consultations.

**4.1.2** The Economic Case below does not consider the additional impact of implementing the recommendations made in Sir Lewis Ritchie's Independent View. This is described in detail in Appendix 2.

### 4.2 Initial Agreement Options

**4.2.1** The options considered and outcomes obtained at Initial Agreement for each of the projects is described in 4.2.1.1 (Badenoch & Strathspey) and 4.2.1.2 (Skye, Lochalsh & South West Ross) below. Weighted benefit scores were compared with Net Present Costs to help assess trade-offs between costs and benefits. This enabled options to be compared in terms of value for money.

#### 4.2.1.1 Badenoch and Strathspey

- i. The results from the Initial Agreement analysis are shown in table 2 below:

<b>Option</b>	<b>Weighted Benefits Score</b>	<b>Net Present Cost over 60 years £million</b>	<b>Cost (NPC) per Benefit Point £000</b>
Do Minimum	250	83.1	332
Community Resource Centre and Hospital Hub with Spoke	463	68.4	148
Community Resource Centre and Hospital Hub (PREFERRED)	913	65.2	71

- ii. The “Community Resource Centre and Hospital Hub” option was expected to provide best overall value for money. It has a very high Weighted Benefit Score, indicating that it is expected to perform well in terms of delivering the benefits required from the project. Furthermore, the adoption of optimistic or pessimistic scoring scenarios did not change the ranking of options which further indicated a robust result.
- iii. It was also recognised at that stage in the development of the options that the capital and revenue costs used in the calculation of Net Present Costs could only be indicative. Therefore, further sensitivity analysis was undertaken by examining the increase or decrease in costs that would be needed to bring about a change in the ranking of options.
- iv. It was clear that even if the “Do Minimum” option could be significantly reduced in terms of its capital and revenue costs, due to its very poor non-financial weighted benefit score it would remain poor value for money compared to the other two options. Furthermore, the Net Present Cost of the “Community Resource Centre and Hospital Hub with Spoke” option would need to reduce by around 50% for it to compete with the “Community Resource Centre and Hospital Hub” option in terms of its Cost per Benefit Point. Notwithstanding the preliminary nature of the current capital and revenue cost estimates this was not considered a realistic or plausible assumption.

#### 4.2.1.2 *Skye, Lochalsh and South West Ross (SLSWR)*

- i. The results from the Initial Agreement analysis are shown in table 3 below:

<b>Table 3: Initial Agreement Analysis - SLSWR</b>			
<b>Option</b>	<b>Weighted Benefits Score</b>	<b>Net Present Cost over 60 years £million</b>	<b>Cost (NPC) per Benefit Point £000</b>
Do Minimum	400	106.6	267
Community Resource Hub and Spoke (PREFERRED)	800	94.2	118
Community Resource Hub	788	106.4	135

- ii. The “Community Resource Hub and Spoke” option was expected to provide best overall value for money. It had a very high Weighted Benefit Score, indicating that it is expected to perform well in terms of delivering the benefits required from the project.
- iii. As per the Badenoch and Strathspey analysis the preferred option retained its superior performance in terms of Cost per Benefit Point in both optimistic and pessimistic scoring scenarios.

### 4.3 Short-list of implementation options

**4.3.1** The short list of options presented at Outline Business Case and considered in this Full Business Case (FBC) is restricted to the following:

**4.3.2** Badenoch & Strathspey (B&S):

- Do Minimum – referenced as Option 1 for FBC
- Community Resource Centre and Hospital Hub (PREFERRED) – Referenced Option 2 for FBC

**4.3.3** Skye, Lochalsh and South West Ross (SLSWR):

- Do Minimum – Referenced as Option 1 for FBC
- Community Resource Hub and Spoke (PREFERRED) –Referenced Option 2 for FBC

### 4.4 Monetary costs and benefits of FBC options

**4.4.1** In line with the Outline Business Case, the revenue costs presented in Table 5 are for the full service re-design model. The economic appraisal has been updated with market-tested costs from the hubCo stage 2 submission and to reflect the final workforce plan and service model.

#### 4.4.1.1 Capital Costs

i. The capital costs attributable to each of the options are set out in table 4 below:

Table 4	B&S		SLSWR	
	Option 1	Option 2	Option 1	Option 2
INITIAL COSTS				
Opportunity Cost	Nil	Nil	Nil	Nil
Land	Nil	556,000	Nil	Nil
Reconfiguration existing estate	Nil	1,759,000	Nil	2,878,000
Capital Backlog	5,544,000	250,000	5,457,912	250,000
Capital New Build	Nil	19,728,835	Nil	20,676,370
Equipment/ICT	Nil	1,053,900	Nil	536,768
Transition Period Costs	Nil	445,000	Nil	442,000
Costs of Embedded Accommodation	Nil	Nil	Nil	Nil
<b>Total</b>	<b>5,544,000</b>	<b>23,792,735</b>	<b>5,457,912</b>	<b>24,783,138</b>

ii. Assumptions:

- All costs above are based upon 2<sup>nd</sup> Quarter 2019.
- Capital costs are based upon hubCo stage 2 submission.



- The analysis of risk retained by NHS Highland is contained in section 7.4.3, showing £500k retained risk over and above hubCo Stage 2 price.
- The Capital New Build Cost is inclusive of hubCo risk of 1%.
- It is assumed that some backlog maintenance will be required on the existing properties until the new facilities become operational. A nominal value of £250k is assumed across both projects.

#### 4.4.1.2 Revenue costs

- i. The revenue costs attributable to each of the options for both projects are summarised in table 5 below:

Table 5 REVENUE COSTS	B&S		SLSWR	
	Option 1	Option 2	Option 1	Option 2
LCC estimated annual value	111,298	123,295	96,925	125,150
Facilities Management PPM	101,180	133,402	65,909	274,297
Clinical services	16,085,601	15,923,093	30,074,275	29,782,667
Hotel services	491,337	490,337	523,931	475,000
Transport	17,000	35,000	0	0
Building running costs	417,180	436,402	254,540	538,297
Net income contribution	Nil	-96,000	Nil	-40,000
Transition period revenue	Nil	Nil	Nil	Nil
Embedded accommodation	Nil	Nil	Nil	Nil
Displacement costs (externalities)	Nil	Nil	Nil	Nil
<b>Total recurring revenue</b>	<b>17,011,118</b>	<b>16,788,831</b>	<b>30,852,746</b>	<b>30,755,964</b>

- ii. Assumptions:

- The revenue values for each option 2 is the value in the first full year of operations which in 2021/22.
- Building running costs include for hard FM associated with both new build and retained estate.
- The area of the new build associated with the hubCo new build projects is 7,478m<sup>2</sup>. Comprising 4,192m<sup>2</sup> for B&S and 3,286m<sup>2</sup> for SLSWR.
- The area of retained estate for B&S within the services redesign model is 814m<sup>2</sup>.
- The area of retained estate for SLSWR within the services redesign model is 1,871 m<sup>2</sup>.

- iii. In summary the area of the facilities retained and new build for the options is as follows in table 6 below:

<b>Table 6</b>	<b>B&amp;S</b>		<b>SLSWR</b>	
<b>AREA ANALYSIS</b>	<b>Option 1</b>	<b>Option 2</b>	<b>Option 1</b>	<b>Option 2</b>
Area of New Build facilities (DBFM)	Nil	4,192	0	3,286
Area of Existing facilities disposed (m2)	0	4,245	0	2,006
Area of Existing facilities retained (m2)	5,059	814	3,877	1,871
Total GIFA of Redesign model	5,059	5,006	3,877	5,157

#### 4.5 Non-Financial Appraisal

**4.5.1** The Non-Financial Appraisal conducted at Initial Agreement stage has been carried forward for the OBC and is as follows in table 7 below:

<b>Table 7</b>	<b>B&amp;S</b>		<b>SLSWR</b>	
<b>Benefits Scores from IA</b>	<b>Option 1</b>	<b>Option 2</b>	<b>Option 1</b>	<b>Option 2</b>
Benefits Scores from IA Consensus	250	913	400	800

#### 4.6 Net Present Cost and Equivalent Annual Cost of Options

**4.6.1** The inputs noted in the sections above have been applied over a 60-year operational period and applied to the basic GEM in table 8 below. These show only limited change from the OBC reported values.

<b>Table 8</b>	<b>B&amp;S</b>		<b>SLSWR</b>	
<b>Net Present Costs (60yrs)</b>	<b>Option 1</b>	<b>Option 2</b>	<b>Option 1</b>	<b>Option 2</b>
Net Present Costs (£m')	466.4	466.8	834.7	850.66
Equivalent Annual Costs (£m)	17.41	17.42	31.16	31.75

**4.6.2** In each case the Net Present Cost (NPC) and Equivalent Annual Cost (EAC) is similar for the “do minimum” and the proposed new services re-design models of care.

#### 4.7 Cost Benefit Analysis (cost per benefit point)

**4.7.1** To establish the best performing option in terms of both cost and benefit the NPC and EAC are divided by the consensus benefits score in table 9 below:

<b>Table 9</b>	<b>B&amp;S</b>	
<b>Cost per Benefit Point</b>	<b>Option 1</b>	<b>Option 2</b>
Net Present Costs £m per Benefit Point	1.866	0.511
Rank	2	1
Equivalent Annual Costs £m per BP	0.070	0.019
Rank	2	1

<b>SLSWR</b>	
<b>Option 1</b>	<b>Option 2</b>
2.087	1.063
2	1
0.078	0.040
2	1

**4.7.2** In each case the new model of care is significantly better value for money than the do-minimum.

## 4.8 Sensitivity Analysis

**4.8.1** Table 10 below shows the optimistic, pessimistic and consensus scores obtained at Initial Agreement Stage.

<b>Table 10</b>	<b>B&amp;S</b>	
<b>Benefits Scores from IA</b>	<b>Option 1</b>	<b>Option 2</b>
Benefits Scores from IA Consensus	250	913
Benefits Scores from IA Optimistic	313	913
Benefits Scores from IA Pessimistic	188	825

<b>SLSWR</b>	
<b>Option 1</b>	<b>Option 2</b>
400	800
438	838
363	763

**4.8.2** The outcome of the cost benefit analysis (Table 10 above) is tested in Tables 11 and 12 below using both the optimistic and the pessimistic scores to establish whether the outcomes are sensitive to the range of benefits scores.

<b>Table 11</b>	<b>B&amp;S</b>	
<b>Sensitivity on Benefits Score Optimistic</b>	<b>Option 1</b>	<b>Option 2</b>
Net Present Costs £m per Benefit Point	1.490	0.511
Rank	2	1
Equivalent Annual Costs £m per BP	0.056	0.019
Rank	2	1

<b>SLSWR</b>	
<b>Option 1</b>	<b>Option 2</b>
1.906	1.015
2	1
0.071	0.038
2	1

<b>Table 12</b>	<b>B&amp;S</b>	
<b>Sensitivity on Benefits Score Pessimistic</b>	<b>Option 1</b>	<b>Option 2</b>
Net Present Costs £m per Benefit Point	1.866	0.511
Rank	2	1
Equivalent Annual Costs £m per BP	0.070	0.019
Rank	2	1

<b>SLSWR</b>	
<b>Option 1</b>	<b>Option 2</b>
2.087	1.063
2	1
0.078	0.040
2	1

**4.8.3** In summary, the ranking remains unchanged and the preferred option for both geographic areas is OBC/FBC Option 2 services re-design model.

#### **4.9 *Conclusion Identifying the Preferred Option (each project)***

**4.9.1** Consistent with the outcome of the OBC, the results of the Economic Analysis consolidate the position of both preferred options, alongside that of the non-financial benefits. The proposals will deliver a redesign of services that is both affordable and sustainable. The preferred options remain consistent with the Initial Agreement and Outline Business Case and are as follows:

**4.9.2** Badenoch & Strathspey:

- Community Resource Centre and Hospital Hub.

**4.9.3** Skye, Lochalsh and South West Ross:

- Community Resource Hospital Hub and Spoke

## **5. THE COMMERCIAL CASE**

### **5.1 Overview**

**5.1.1** This section outlines the commercial arrangements and implications for the Project bundle and includes responding to the following questions:

- The procurement strategy – the appropriate procurement routes for the projects;
- The scope and content of the proposed commercial arrangements;
- Risk allocation and apportionment between public and private sector;
- The payment structure and how this will be made over the lifetime of the Project; and
- The contractual arrangements for the Project.

### **5.2 Procurement Strategy**

#### **5.2.1 Procurement Route**

**5.2.1.1** The service re-designs are quite separate projects with unique elements; they each comprise significant new build facilities and a considerable element of alteration and refurbishment works to existing premises.

**5.2.1.2** The Scottish Capital Investment Manual (SCIM) guidance proposes that the default position for delivering new build community health facilities for Badenoch & Strathspey and for Skye, Lochalsh and South West Ross, both having an equivalent capital value in excess of £750,000 should be via the Scottish Futures Trust (SFT) hub initiative.

**5.2.1.3** The hub initiative in the North Territory is provided through a joint venture company (hub North Scotland Limited) bringing together local public sector participants, SFT and a Private Sector Development Partner (PSDP).

**5.2.1.4** The North Territory DBFM Co PSDP is Alba Community Partnerships, a consortium between Galliford Try PLC and Sweett Equitix.

**5.2.1.5** All investment in hub projects will comply with relevant Scottish Government and European Union procurement regulations.

**5.2.1.6** The procurement route identified to deliver the new Community Hospitals in Aviemore (Badenoch and Strathspey) and Broadford (Skye, Lochalsh and South West Ross) will be based on the SFT's revenue funded hub standard form Design, Build, Finance, Maintain (DBFM) contract.

**5.2.1.7** In order to achieve maximum value for money, both Aviemore and Broadford facilities will be bundled together under a single Project Agreement (PA) arrangement.

**5.2.1.8** The Scottish Government has confirmed indicative funding support for a revenue financed project and the major part of this commercial case focuses on these arrangements.

5.2.1.9 The project bundle also comprises of alteration and refurbishment works to existing premises in order to support the redesign and reconfiguration of services outlined in sections 2.4.3 and 2.4.4. Table 13 below shows the procurement route for these dependency projects which require an investment of £4.8m.

**Table 13 – Procurement Route for Dependency Projects**

<b>Table 13 - Procurement Route for Dependency Projects</b>				
<b>Project</b>	<b>Procurement Route</b>	<b>Description</b>	<b>Timing</b>	<b>Dependency</b>
Grantown Health Centre	In-house design, traditional capital, standard NEC3 contract	Refurbishment of health centre and separation from Ian Charles Hospital.	2021/22	Retain outpatient, physiotherapy and minor injuries services in Grantown when inpatient facility at (Ian Charles Hospital) closes
Kingussie Health Centre	Capital grant (premises owned by GP practice)	Refurbishment of health centre and small extension.	2020/21	Retain services in Kingussie when inpatient facility at (St Vincents Hospital) closes, e.g. physiotherapy, outpatients
Broadford Health Centre	In-house design, traditional capital, standard NEC3 contract	Refurbishment of upper floor / attic space to provide office accommodation and meeting rooms. Utilisation of capacity within existing estate, reducing GIFA required for new hospital. Associated car parking.	2020/21	Provision of office accommodation for teams currently located in Mackinnon Memorial Hospital, adjacent bungalow and Broadford Service Point.
Staff Accommodation	Lease of accommodation from Local Housing Authority	Provision of overnight and on-call accommodation for visiting clinicians and students.	2021/22	This accommodation is currently provided in Mackinnon Memorial Hospital. Initially this was to be relocated to the refurbished bungalow however that is to be demolished as part of new hospital build.

<b>Table 13 (cont.) - Procurement Route for Dependency Projects</b>				
<b>Project</b>	<b>Procurement Route</b>	<b>Description</b>	<b>Timing</b>	<b>Dependency</b>
Reconfiguration of Portree Hospital building	In-house design, traditional capital, standard NEC3 contract	Refurbishment of Portree Hospital to provide base for integrated teams currently in multiple locations, and to accommodate GP practice (GP building currently leased).	2021/22 – 2022/23	Refurbishment of space currently occupied by inpatient ward and x-ray department.

## **5.2.2** *EU Rules and Regulations*

**5.2.2.1** The Scottish Futures Trust oversaw the procurement of a Private Sector Development Partner for the North Territory through the Official Journal of the European Union, leading to the establishment of hub North Scotland Ltd in 2011.

**5.2.2.2** Under hubCo there is no further need to advertise in the Official Journal of the European Union (OJEU), provided that the work to be procured is within the scope of the OJEU Notice, and that the European Union's particular procurement processes, regulations, directives and the like are followed, particularly in the appointment supply chains contractors, designers and advisors. Procurements are thereafter conducted via the hubCo process as described at 5.2.4 below.

## **5.2.3** *Procurement Plan*

**5.2.3.1** The hubCo Procurement process for a Private Sector Development Partner (PSDP) was conducted by SFT in conjunction with teams representing the public sector Participants in each of the (5) hubCo Territories.

**5.2.3.2** hubCo held a competition amongst its tier 1 supply chain and has appointed Balfour Beatty PLC as Design and Build Contractor for the project. Following a separate procurement exercise, Robertson Facilities Management have been provisionally appointed as FM Provider.

## **5.2.4** *hubCo Procurement Process*

**5.2.4.1** NHS Highland prepared and submitted a New Project Request (NPR) to hubCo asking hubCo to prepare a Stage 1 Submission for the project, and detailed the Affordability Cap, specific requirements, and a detailed Project Brief. The NPR was accepted by hubCo on 30 May 2017.

5.2.4.2 Hubco submitted the Stage 1 submission on 13 October 2017. An addendum was submitted on 16th January 2018 and this was accepted by NHS Highland on 29th January 2018 (refer to **Outline Business Case**, Appendix 17).

5.2.4.3 Hubco is developing the Stage 2 submission which includes the design, plans and drawings, a Stage 2 Pricing Report, a draft Project Agreement, financial model, commitment letters and a programme from Stage 2 Approval to Financial Close. The Board has 60 Business Days (effectively three months) to review the submission and approve or reject it. Approval is determined by achievement of Approval Criteria although the Board can reject on other specified grounds including failure of the Track Record Test.

5.2.4.4 Following Stage 2 approvals, hubCo and the Board will work together to conclude the project contract in accordance with the timetable for execution of the Project Agreement which was submitted at Stage 2. The Stage 2 Project Management Fee for an approved DBFM Co will be paid in the service charge or lease payment.

## 5.2.5 *Advisors*

5.2.5.1 A Technical Advisor has been appointed to assist the Project Teams with predicting the costs of construction but also in providing estimated figures on the future (life cycle) costs the building will incur and other services. The procurement was separately carried out through a High Level Information Pack (HLIP) under the Health Facilities Scotland (HFS) Framework Scotland 2 (FS2) Lead Advisor Framework Contract, and was carried out in collaboration with HFS, through the Quick Quote facility on the Public Contracts Scotland portal.

5.2.5.2 HLIPs were sent to all those on the Lead Advisor Framework list, and responses were evaluated in accordance with the criteria described in the mini-competition invitation. Evaluation was done by a panel comprising two experienced representatives of the Board, and an external member. Currie & Brown was duly appointed Technical Advisor for the project.

5.2.5.3 Legal, Financial and Insurance Advisors have been procured to assist the Project Team with the specific legal, financial and insurance arrangements comprised in the hub process and in the Hub Agreement. These procurements were conducted by the Board through the preparation of Invitations to Tender based on a scope of works informed by experience on recent hub projects and was sent to consultants who were experienced in the hub process. The terms of the engagements were adapted from the now lapsed SFT National Advisor Framework for consultants, and SFT's terms of engagement for consultants.

5.2.5.4 Pinsent Masons PLC have been appointed as legal advisor, and Caledonian Economics Ltd have been appointed as financial advisor.

5.2.5.5 The Board has also appointed Clark Thomson (Willis) Limited as Insurance Advisors in respect of the various insurance requirements described within the hub Agreement.

## 5.3 *Proposed Procurement Timescales*

5.3.1 The procurement timetable is outlined at table 14 and accords with the project plan (section 7.1.1.3).



<b>Table 14: Procurement Timetable</b>		
<b>Stage</b>	<b>Duration</b>	<b>End Date</b>
NPR issued by NHS Highland		11-May-17
NPR approved by hubco		30-May-17
Stage 1 development	8 months	
Stage 1 approval by NHS Highland		29-Jan-18
Stage 2 development	15 months	
Stage 2 Pricing Report and Financial Model by hubco		Apr-19
Stage 2 Technical Submission by hubco		Apr-19
NDAP, AEDET review		Apr-19
Stage 2 KSR by SFT		07-May-19
NHS Highland Board minute of approval		14-May-19
Funder's credit approval letter		16-May-19
Stage 2 approval by NHS Highland		20-May-19
Dry run of FC protocols (financial model, Libor swap)		23-Apr-19
Financial Close		30-May-19
Mobilisation works B&S and SLSWR		June 2019
B&S Construction commencement		July 2019
B&S Construction completion		Feb 2021
B&S Operations commencement		Apr 2021
SLSWR Construction commencement		July 2019
SLSWR Construction completion		Mar 2021
SLSWR Operations commencement		Apr 2021

## **5.4 Scope and Content of Proposed Commercial Arrangements**

**5.4.1** The purpose of this section is to specify the scope and content of the proposed works/services included within the proposed commercial arrangements. Note that this may be different from the scope and content of the overall Project which may include works or services that are not part of any commercial arrangements.

### **5.4.1.1 Scope of Works/Services**

- i. The Private Sector Development Partner (PSDP) is responsible for providing all aspects of the design and construction of the facilities.
- ii. Hard Facilities Management (FM) services, including planned and response property maintenance and lifecycle will be provided by the PSDP.
- iii. The Board retains responsibility for the named Authority Maintenance Obligations, including soft FM such as cleaning, catering, portering and external grounds maintenance, but also maintenance and replacement of floor, wall and ceiling finishes, and portable appliance testing of the Board's own equipment.
  - Group 1 items of equipment, which are generally large items of permanently installed plant or equipment, will be supplied, installed, maintained and replaced

- by DBFM Co;
  - Group 2 items of equipment, which require to be fixed to the building structure, will be supplied by the Board, installed by DBFM Co and maintained and replaced by the Board; and,
  - Group 2a items of equipment will be supplied and installed by DBFM Co, and maintained and replaced by the Board;
  - Group 3 items of equipment are supplied, installed, maintained and replaced by the Board.
  
- iv. The responsibility and interface of equipment and soft FM in the operational facility is a key consideration of the service provision. To facilitate this, an 'Equipment Responsibility Matrix' has been prepared, detailing all equipment by description, group reference, location and responsibility between the Board and DBFM Co in terms of supply, installation, maintenance and replacement over the course of the 25-year operational period. To facilitate joint working arrangements between NHS Highland Board and the FM services provider an 'Interface Responsibility Matrix' articulates responsibility at a practical operational level and supplements the Project Agreement.
  
- v. NHS Highland has a Service Level Agreement with Health Facilities Scotland to manage the procurement of group 2, 3 and 4 equipment.

## 5.5 National Design Assessment Process

### 5.5.1 Project Information

- 5.5.1.1 The design has been developed to RIBA stage E as required for hub stage 2. Table 15 provides a checklist of information requirements at this stage of the Project's development. Please refer to the Glossary in Section 9 for description of terms.

<b>Table 15 Checklist of Project information requirements</b>	
<b>Design Information Requirements</b>	<b>Confirmation that information is available (Yes, No, n/a)</b>
Site Feasibility Studies or Master plan (≥ 1:1000).	Yes. Supplementary Planning Guidance to Local Development Plan.
Analysis of site option(s)	Yes.
List of relevant design guidance to be followed – SHPNs, SHTMs, SHFNs, HBNs, HTMs, HFNs, Including a schedule of any key derogations.	Yes. Referenced within Authority Construction Requirements.
Evidence that Activity Data Base (ADB) use is fully utilised.	Yes. Used for room data sheets and equipment lists.

<b>Table 15 Checklist of Project information requirements</b>	
<b>Design Information Requirements</b>	<b>Confirmation that information is available (Yes, No, n/a)</b>
Geometric models. Proprietary 3D Building Information Modelling (BIM) with 2D pdfs cut from the models to the above noted levels of definition / scales	Yes. Key requirements are set out in the ACRs.
Design Statement, with any updates in benchmarks highlighted.	Yes.
Evidence of completion of self-assessment on design in line with the procedures set out in the design statement.	Yes. FBC Design Statement assessments undertaken for both projects in Jan 2019.
Completed Achieving Excellence Design Evaluation Toolkit (AEDET) review at current stage of design development.	Yes, undertaken for both projects in Jan 2019.
Evidence of Local Authority Planning consultation on their approach to site development and alignment with Local Development Plan.	Yes. Engagement with Highland Council and CNPA throughout the project.
Risk Register detailing benefits and risks analysis.	Yes. Refer to section 7.4
Photographs of site showing broader context.	Yes.
Building Research Establishment Environmental Assessment Method (BREEAM) Healthcare pre-assessment.	Yes. Refer to Appendix 3.
Evidence that relevant Equality Act, Dementia, Health Promotion and Equality commitments are incorporated.	Yes. See Authority Construction Requirements. Local access panels involved in design stakeholder meetings.
Developed brief	Yes. See Authority Construction Requirements.

<b>Table 15 Checklist of Project information requirements</b>	
<b>Design Information Requirements</b>	<b>Confirmation that information is available (Yes, No, n/a)</b>
Outline Design study should be coordinated and include relevant multi-discipline input, including but not limited to: Architecture, Building Services, Structural, Fire, Landscape design concepts; including diagrams and sketches demonstrating the key proposals to assess alignment with brief.	Yes. Site plans and hyperlinks to visualisations are included in Appendix 4.

## **5.5.2 Recommendations**

**5.5.2.1** In their supporting statement at Outline Business Case, Health Facilities Scotland and Architecture & Design Scotland outlined some recommendations which the Board has taken account of during the development of the designs for Full Business Case. NHS Highland's response to some of the key recommendations is summarised in Table 16 below.

**5.5.2.2** NHS Highland and DBFM Co have engaged with Health Facilities Scotland (HFS) and Architecture & Design Scotland (A&DS) throughout stage 2 development. Detailed discussion has taken place at key planning and design development stages and their advice has been taken on board in respect of the design and Authority Construction Requirements. HFS and A&DS are currently preparing their Full Business Case report as part of the National Design Assessment Process (NDAP) - Appendix 5.

<b>Table 16 NHS Highland response to NDAP Recommendations at OBC stage</b>	
<b>NDAP Recommendation</b>	<b>NHS Highland response</b>
<ul style="list-style-type: none"> <li>Design of the wider landscape to be developed to better support accessibility, way finding to the entrance and community use of the grounds for health promotion.</li> </ul>	Completed. Key stakeholders being consulted on the design include the local access panels, community and voluntary groups. This has been challenging on the Broadford site due to size and topography.

**Table 16 NHS Highland response to NDAP Recommendations at OBC stage**

NDAP Recommendation	NHS Highland response
<ul style="list-style-type: none"> <li>• Internal layouts to be developed to bring cohesion and quality to the user experience;</li> <li>• Waiting areas to provide a range of environments to cater for different needs</li> <li>• Arrival and circulation routes to provide appropriate welcome with informal accessible spaces</li> <li>• Check design location and capacity of sanitary and changing facilities</li> <li>• Develop circulation strategy to better enable safety, security, privacy/dignity and resilience</li> <li>• Develop mortuary facilities as per SHPN16-01</li> </ul>	<p>Internal layouts completed, and key areas assessed at Full Business Case AEDET / Design Statement workshop. Detailed designs developed with input from Health Facilities Scotland and local access panels where appropriate.</p> <p>A changing places WC has been provided in the new Broadford facility as there are none available locally. There are already 2 changing places in Aviemore available for public use. Should visitors and patients of the B&amp;S hospital require access to a changing place it has been agreed with the local access panel that this can be accommodated on the inpatient ward.</p> <p>The mortuary facilities at both sites include a body store, viewing room and nearby accessible WC in line with SHPN16-01.</p>
<ul style="list-style-type: none"> <li>• Ensure the facilities for service and support areas are not decreased in material quality and do not impact the initial impression of the service for all.</li> </ul>	<p>The design has been developed to ensure the material quality and impression is consistent throughout. This will ensure all building users will experience the arrival and progression through the building in a similar manner regardless of which form of arrival or departure is taken.</p>
<ul style="list-style-type: none"> <li>• Ensure the design of timber cladding is developed to ensure a robust case for its use and that any risks are managed through detailing and operational procedures</li> </ul>	<p>Noted. The external cladding has been further developed and now includes elements of render, zinc and timber. All cladding has been thoroughly detailed for robustness for inclement weather and fire safety.</p>
<ul style="list-style-type: none"> <li>• Technical design to be developed to better support the safety, sustainability and engineering requirements</li> </ul>	<p>The design team has taken account of NDAP feedback during stage 2 design development and have worked through this jointly with NHS Highland.</p>

**5.5.2.3** Workshops were held in January 2019 with the wider stakeholder groups to evaluate the designs at planning application / stage 2 using the Achieving Excellence in Design

Evaluation Toolkit and the Design Statement. These were very positive with the outcome that overall the designs meet the targets set at the start of the process.

## 5.6 Risk Allocation

### 5.6.1 Key Principles

5.6.1.1 The risk allocation shown in Table 17 shows the potential allocation of risk between the parties. This is shown as percentage allocation.

<b>Table 17 - Risk Allocation</b>			
<b>Risk Category</b>	<b>Potential allocation of risk</b>		
	Public	Private	Shared
Client / Business risks [title, ground conditions where not disclosed]	100%	0%	
Design	0%	100%	
Development and Construction [note dark ground and contamination risks remain with public]	10%	90%	✓
Transition and Implementation [commissioning, migration Board responsibility]	75%	25%	✓
Availability and Performance	0%	100%	
Operating	90%	10%	✓
Revenue	10%	90%	✓
Termination	50%	50%	✓
Technology and Obsolescence	50%	50%	✓
Control	100%	0%	
Financing	0%	100%	
Change in Law	90%	10%	✓

<b>Table 17 - Risk Allocation</b>			
<b>Risk Category</b>	<b>Potential allocation of risk</b>		
	Public	Private	Shared
Other Project risks	100%	0%	

- 5.6.1.2** Business and title risks sit with NHS Highland.
- 5.6.1.3** Design risk sits with DBFM Co, however ongoing authority's maintenance obligations during operation may give DBFM Co relief on certain designed components.
- 5.6.1.4** Development and construction risk predominantly sits with DBFM Co, but for example a number of delay and compensation events could entitle DBFM Co to compensation if the events materialised and this would be reflected in a revised Annual Service Payment (ASP) calculation.
- 5.6.1.5** Transition and implementation is a shared risk subject to compliance with the authority's requirements and agreed commissioning timetable.
- 5.6.1.6** Availability and performance risk predominantly sits with DBFM Co; however, availability or performance failures that arise as a result of an excusing clause could give DBFM Co relief from payment deduction.
- 5.6.1.7** Operating risk predominantly sits with the Board under the PA provided facilities are maintained as required within operational functionality definitions.
- 5.6.1.8** Variability of revenue risk is a shared risk subject to adjustments of the annual service payment under the PA. In addition, NHS Highland is responsible for a number of pass through costs (costs charged to the DBFM Co that are the responsibility of the NHS Board and passed to the authority for payment with no mark-up) such as energy and utility usage and direct costs such as local authority business rates, all of which are subject to different factors such as indexation.
- 5.6.1.9** Termination risk is a shared risk within the PA with both parties (DBFM Co and the Board) being subject to events of default that can trigger termination. In addition, NHS Highland has an additional right of voluntary termination subject to the project agreement.
- 5.6.1.10** Technology and obsolescence risk predominantly sits with DBFM Co however NHS Highland could be exposed through specification and derogation within the ACR's, obsolescence through service change during the period of functional operation and Relevant or Discriminatory changes in law under the PA.
- 5.6.1.11** Change of control, for example termination due to a reason stated within the PA sits with the Board.
- 5.6.1.12** Financing risks predominantly sits with DBFM Co subject to the PA however relevant changes in law, compensation events that compensate DBFM Co and changes under the PA all may give rise to obligation on NHS Highland to provide additional funding.

Authority voluntary termination may also bring an element of reverse risk transfer due to aspects of the funding arrangement with the funder.

**5.6.1.13** Legislative risks are shared dependant on whether the relevant change is in law or a change only affecting NHS policy, for example SHTMs. Whilst DBFM Co is responsible to comply with all laws and consents, the occurrence of Relevant changes in law as defined in the PA can give rise to compensate DBFM Co.

## **5.7** *Payment Structure*

**5.7.1** The Board will pay for the construction of the facilities by way of an annual service payment (ASP).

**5.7.2** A standard contract form of payment mechanism will be adopted within the Project Agreement with specific amendments to reflect the relative size of the facilities at Aviemore and Broadford, respective availability standards, core times, gross service units (number of service units applied to each functional area) and a range of services specified in the service requirements.

**5.7.3** The Board will pay the ASP to DBFM Co on a monthly basis in arrears for only the buildings they are contracted with, calculated subject to adjustments for previous over/under payments, deductions for availability failures and performance failures and other amounts due to DBFM Co. Where any payment is in dispute then the Board will pay only parts or sums which are not in dispute.

**5.7.4** The Board has a contractual right to set-off any sum due to it under the Project Agreement against payments otherwise due to DBFM Co.

**5.7.5** The ASP is subject to indexation as set out in the Project Agreement by reference to the retail prices index published by the Government's National Statistics Office. Indexation will be applied to the ASP on an annual basis. The base date will be the date on which the project achieves Financial Close.

**5.7.6** Costs such as utilities usage charges (heating, water and electrical power) and operational insurance premiums may be treated as pass through costs and, as such, are arranged by DBFM Co but added to the Monthly Service Payment as applicable. In addition, the Board is directly responsible for arranging and paying all connection, line rental and usage telephone and broadband charges. Local Authority rates are being paid directly by the Board.

**5.7.7** DBFM Co is obliged to monitor its own performance and maintain records documenting its service provision both in terms of the Project Agreement and the Territory Partnering Agreement. The Board will carry out performance monitoring on its own account and will audit DBFM Co's performance monitoring procedures in terms of the Project Agreement. Arrangements for this are detailed in section 7.5.3.

**5.7.8** The payment structure will follow the standard form hub contract in the following areas: Risk contingency management by the Public Sector. This takes the form of a costed risk analysis and will be managed by the Board.

- Contract variations - as standard PA;
- Disputed payments – as standard PA;
- Payment indexation – As standard PA/paymech schedule;



- Utilities and service connection charges – as standard pass through cost; and
- Performance incentives – as standard paymech provision

## **5.8 Contractual Arrangements**

**5.8.1** This section outlines the contractual arrangements for the procurement, including the use of a particular contract, the key contractual issues for the commercial deal, and any personnel implications.

### **5.8.1.1 Type of Contract**

- i. The Contract will be based on the hub standard DBFM Contract version 2.5 June 2018, with amendments and derogations agreed and approved by SFT.

### **5.8.1.2 Key Contractual Issues**

- DBFM Co will delegate the design and construction delivery obligations of the PA to its Tier 1 Building Contractor under a building contract. A collateral warranty will be provided in terms of other key sub-contractors having a design responsibility. DBFM Co will also enter into a separate agreement with a FM Service Provider to provide hard FM service provision.
- Following NHS Highland and DBFM Co entering into the project agreement (PA), the Board will also enter into occupancy agreements with Aviemore Medical Practice, The Highland Council and the Scottish Ambulance Service relevant to their occupation of space within the facility. Statements of Agreement have been signed by these organisations (section 6.18.5).
- NHS Highland's Asset Management Group (BCR) has approved that NHS Highland will provide its share of participant subordinate debt equity to support the development. This investment will be provided for through a Scottish Government Health and Social Care Directorate (SGHSCD) capital allocation at Financial Close.
- The NHS Highland Board will procure the grant of a license from the Scottish Ministers to DBFM Co in line with the standard contract position.
- The contract term will be 25 years.
- 'Termination of Contract' - as NHS Highland will own both the Aviemore site and the site at Skye then both buildings will remain in ownership of the NHS Highland throughout the term, but be contracted to DBFM Co to allow them to construct and operate the building for the duration of this contract. On expiry of the contract each of the facilities will revert to NHS Highland on behalf of The Scottish Ministers.
- Compensation on Termination generally follows the standard contract position.
- The Aviemore site was acquired by NHS Highland in February 2019. A planning application for the development was submitted on 3 August 2018 and this was approved by the Planning Committee on 22 February 2019. Extremely positive feedback was received, and the Decision Notice was received on 17 April 2019.
- The site for the hospital in Broadford is currently in the ownership of NHS Highland. An application for detailed planning permission was submitted on 27 September 2018. We expect that this application will be determined by delegated authority in April 2019.
- The Service Level Specifications will detail the standard of output services required and the associated performance indicators. DBFM Co will provide the services in accordance with its method statements and quality plans which indicate the manner in which the services will be provided.
- NHS Highland will be responsible for the costs to DBFM Co of any additional

maintenance and/or corrective measures if the design and/or construction of the facilities and/or the components within the facilities do not meet the authority's construction requirements. Where appropriate, deductions will be made from the monthly service payment in accordance with the payment mechanism.

- NHS Highland (the Authority's) maintenance obligations comprise of repairs and making good of all interior walls and ceiling finishes and, where appropriate, repairs and/or replacement of carpets and other non-permanent floor coverings in accordance with the frequency cycles stated in the PA. In addition NHS Highland is responsible for inspection and testing of electrical appliances. Failure by NHS Highland to carry out the authority's maintenance obligations would result in a breach of the agreement and entitle DBFM Co to carry out the works and be reimbursed.
- Not less than two years prior to the expiry date an inspection will be carried out to identify the works required to bring the facilities into line with the hand-back requirements which are set out in the PA. Any works required following this inspection is completed by the Service Provider, and paid for out of the Maintenance Reserve Account held by DBFM Co.
- DBFM Co will be entitled to an extension of time on the occurrence of a delay event and to an extension of time and compensation on the occurrence of compensation events (in either case, during the carrying out of the Works). DBFM Co is relieved of the Board's right to terminate the PA for non-performance on the occurrence of relief events. This reflects the Standard Contract position.
- NHS Highland has set out its construction requirements in a series of documents termed Authority's Construction Requirements (ACRs). DBFM Co is contractually obliged to design and construct the facilities in accordance with the ACRs.
- The Board has a monitoring role during the construction process and only by way of the agreed review procedure and/or the agreed change protocol will changes occur.
- NHS Highland and DBFM Co will jointly appoint an independent tester who will also perform an agreed scope of work that includes such tasks as undertaking regular inspections during the works, certifying completion, attending site progress meetings and reporting on completion status, identifying non-compliant work, reviewing snagging progress as well as a range of other independent functions. The Board also intends to appoint a construction supervisor to monitor construction works. This role will be a pair of eyes for the Authority's Representative and will not relieve DBFM Co of their responsibility to manage the construction and monitor the quality of workmanship.
- The Board will work closely with DBFM Co to ensure that the detailed design is completed prior to financial close. Any areas of design that do remain outstanding will, where relevant, be dealt with under the reviewable design data (RDD) and procedures as set out within the review procedure.
- The PA details the respective responsibilities towards malicious damage or vandalism to the facilities during the operational term. NHS Highland has an option to carry out a repair itself or instruct DBFM Co to carry out rectification.

## **5.9 Personnel Implications**

- 5.9.1** There are no employees who are wholly or substantially employed on services that will be transferred to the private sector under the proposals for this Project, and therefore the Transfer of Undertakings (Protection of Employment) Regulations 1981 (TUPE) will not apply.

## **6. FINANCIAL CASE**

### **6.1 Introduction**

**6.1.1** This section sets out all associated capital and revenue costs, assesses the affordability of the preferred option and assesses the impact on NHS Highland's financial position.

**6.1.2** The preferred options are:

- Badenoch & Strathspey (B&S) – Option 3 Community hospital and resource centre in a central location in Aviemore.
- Skye, Lochalsh and Wester Ross (SLSWR) – Option 2(b) 'Hub' new-build in Broadford with 'Spoke' in Portree.

**6.1.3** It is proposed that the B&S and SLSWR schemes will be bundled together to form the B&S & SLSWR DBFM (Design, Build, Finance and Maintain) project being procured through Hub North Scotland by NHS Highland (NHS).

**6.1.4** The financial case for the preferred options will set out the following key sections.

- Statement of Consolidated Comprehensive Net Expenditure
- Capital costs and associated funding
- Revenue costs and associated funding
- Statement on overall affordability
- Financing and Subordinated debt
- Risks
- The agreed accounting treatment and ESA10 implications

**6.1.5** The additional impact of implementing the recommendations made in Sir Lewis Ritchie's Independent View of SLSWR Out of Hours Services is included but shown separately. This is described in detail in Appendix 2.

### **6.2 Capital Costs and Funding**

**6.2.1** The total capital cost of the project includes the cost of the building, land procurement, equipment and subordinated debt.

**6.2.2** At New Project Request (NPR) stage, the agreed affordability cap based on benchmarked costs total £34.27m (£30.58m at 2016/17 prices before inflation, reference section 7.6).

**6.2.3** The affordability cap is assessed on the total cost of the project bundle. Costs have been apportioned to each project based on gross internal floor area (GIFA).

**6.2.4** The capital costs and associated funding are identified in table 18.

**Table 18: Capital Costs and Associated Funding**

<b>GIFA sqm</b>	<b>4192</b>	<b>3286</b>	<b>7478</b>
<b>Capital Costs</b>	<b>B&amp;S £000's</b>	<b>SLSWR £000's</b>	<b>Total £000's</b>
<b>Costs</b>			
Build Cost incl Fees	19,729	20,676	<b>40,405</b>
Risk Allowance	250	250	<b>500</b>
Equipment	1,054	537	<b>1,591</b>
Subdebt	207	162	<b>369</b>
Land	556		<b>556</b>
Existing site reconfiguration	1,759	2,878	<b>4,637</b>
<b>Total Capital Cost</b>	<b>23,555</b>	<b>24,503</b>	<b>48,057</b>
<b>Source of Funding</b>			
Hubco DBFM Funding	19,729	20,676	<b>40,405</b>
SGHSCD - Capital	3,369	3,415	<b>6,783</b>
SGHSCD-Risk Allowance	250	250	<b>500</b>
SGHSCD ODEL Capital	207	162	<b>369</b>
<b>Total Funding Sources</b>	<b>23,555</b>	<b>24,503</b>	<b>48,057</b>

### **6.3 Build Costs**

**6.3.1** Although the project is planned to be financed as a DBFM scheme and therefore revenue funded, the cost of construction and associated infrastructure are shown as capital costs.

### **6.4 Build Design Fees**

**6.4.1** In line with Scottish Futures Trust guidance the Board has funded the hubCo design team and survey fees during stage 1 and 2 development (£2,003k). The cost of this was covered by NHS Highland's core capital allocation from the Scottish Government Health and Social Care Directorate (SGHSCD). The remaining stage 2 development fees due to be paid at stage 2 acceptance are expected to be £264k.

**6.4.2** These costs will be reimbursed to the Board and subsequently the Scottish Government Health and Social Care Directorate at financial close (May 2019).

### **6.5 Land Procurement**

**6.5.1** A capital allocation of £556k has been incorporated into the NHSH formula capital plan that will be used to procure the land for the B&S project. The land procurement was concluded in February 2019. There is no land purchase required for the SLSWR project.

### **6.6 Equipment**

**6.6.1** A capital allocation of £1,054k for B&S and £537k for SLSWR including VAT is required to fund the equipping costs associated with the 2 new community hospitals. It is expected that group 1 and 2a equipment (defined in section 5.4.1.1) will be funded through the

hubco model and group 2, 3 and 4 equipment requires to be funded by a capital allocation from the Scottish Government Health and Social Care Directorate.

**6.6.2** Equipping costs associated with existing site configuration are included in section 6.7.2.

## **6.7 Existing Site Reconfiguration**

**6.7.1** Reconfiguration of existing sites are required to deliver the key outcomes of the service model (section 5.2.1.9). Portree Hospital requires reconfiguring to support the 'spoke' model and work is required at Broadford Health Centre to provide office and meeting space. Grantown and Kingussie Health Centres require reconfiguring to accommodate the services that will remain in existing locations when the two hospitals close.

**6.7.2** A capital allocation of £1,759k for B&S and £2,878k for SLSWR is required from Scottish Government Health and Social Care Directorate.

## **6.8 Subordinated Debt Investment**

**6.8.1** DBFM projects are funded via 91% senior debt (the lender) and 9% subordinated debt (the participants).

**6.8.2** The relevant shares of subordinated debt finance across the participants are shown in table 19 below:

<b>Table 19: Analysis of Subordinated Debt</b>				
	<b>Senior debt</b>	<b>Sub debt</b>	<b>£'000</b>	<b>Rolled up interest £000s</b>
	91%	9%		
Capital cost			40,405	
Costs funded by senior debt 91%			36,715	
Costs funded by sub debt 9%			3,690	
<b>Participant</b>		<b>Sub debt</b>	<b>£'000 cash injection</b>	<b>£'000</b>
Hubco		60%	2,214	
NHS Highland		10%	369	18,671
Scottish Futures Trust		10%	369	18,671
Hub Charitable Foundation		20%	738	
<b>Total Sub debt</b>		<b>100%</b>	<b>3,690</b>	<b>37,342</b>

**6.8.3** Subordinated debt will be invested at financial close and Scottish Government Health and Social Care Directorate has agreed to provide a non-core capital allocation (ODEL) totalling £369k to fund NHS Highland subordinated debt commitment.

## **6.9 Disposal of Surplus Sites**

**6.9.1** Investment in the project will mean that ten buildings will be declared as surplus for disposal or use:

- five NHS owned; St Vincent’s Hospital (Kingussie), Ian Charles Hospital (Grantown-on-Spey), Health Centre (Aviemore), Dr Mackinnon Memorial Hospital (Broadford) and the Bungalow (Broadford);
- two leased by NHS Highland; Rathven Community Base (Aviemore) and Service Point (Broadford); and
- three owned or leased by partner agencies; Scottish Ambulance Service (Aviemore), The Highland Council (The Mall, Aviemore) and Portree Medical Practice.

**6.9.2** The financial case assumes that capital receipts associated with any disposals will be allocated to Scottish Government Health and Social Care Directorate in accordance with CEL 32 (2010) and no benefit to NHS Highland is assumed in the financial model.

**6.9.3** Table 20 identifies the land and buildings that will be subject to the disposal process.

<b>Table 20: Existing Land and Buildings Earmarked for Disposal</b>		
<b>Site</b>	<b>Land/Buildings</b>	<b>NBV</b>
St Vincent’s Hospital, Kingussie	Land and Buildings	£473k
Aviemore Health Centre	Land and Buildings	£281k
Ian Charles Hospital, Grantown-on-Spey	Partial Land and Buildings	£456k
Rathven Community Base, Aviemore	Building	Leased (£35k per annum)
Dr Mackinnon Memorial Hospital, Broadford	Partial Land and Buildings	£701k
Service Point, Broadford	Building	Leased (£15k per annum )

**6.9.4** Both hospital and health centre are located on the Ian Charles hospital site and work is planned to separate the two buildings and reconfigure the health centre. Impairments of £838k have been applied from 2018/19 to both B&S and SLSWR buildings and thereafter, the buildings allocated for disposal will have their depreciation accelerated.

**6.9.5** The Broadford bungalow will not be subject to disposal as the land forms part of the site for the new hospital development. The building will be demolished as part of the hub DBFM project.

**6.9.6** NHS Highland intends to retain some of the land at Dr Mackinnon Memorial Hospital, Broadford to provide overflow staff parking. The remainder of the land and associated buildings will be declared surplus.

## 6.10 Statement on Overall Affordability – Capital

**6.10.1** The current financial implications of the project in capital terms as presented in the above tables confirm the projects affordability. The position has been continually monitored and updated during the development of the hub DBFM stage 2 and Full Business Case.

**6.10.2** The capital costs identified in table 18 have corresponding capital allocations identified either through DBFM revenue funding, NHS Highland capital funding or Scottish Government Health and Social Care Directorate Out of Delegated Expenditure Limit (ODEL) funding.

**6.10.3** NHS Highland is committed to the project and has incorporated the necessary capital consequences in both the 5-year capital plan and the Local Development Plan.

**6.10.4** An assessment of risk has been applied to the capital financial model see Table 21 below. Group 1 and 2a Equipment is included in the CAPEX.

**Table 21: CAPEX and Associated Costs**

<b>Table 21: CAPEX &amp; Associated Costs</b>			
<b>Capital Cost</b>	<b>Total £000's</b>	<b>Total at OBC £000's</b>	<b>Movement from OBC £000's</b>
Construction cost	38,138	32,880 <sup>3</sup>	5,258
<i>Additional Itemised costs</i>			
<b>Total Construction costs</b>	<b>38,138</b>	<b>32,880</b>	<b>5,258</b>
Fees	2,267	1,391	876
<i>Additional Itemised costs</i>			
<b>Total fees &amp; other costs</b>	<b>40,405</b>	<b>34,271</b>	<b>6,134</b>
Furniture cost	1,034	943	91
IT cost	477	435	42
Medical Equipment cost	80	73	7
<b>Total furniture &amp; equipment</b>	<b>1,591</b>	<b>1,450</b>	<b>141</b>
Risk Allowance (quantified risk)	500	3,346	-2,846
<b>Total Estimated costs within Hub/ NPD contract</b>			
Reduction to financing requirement from capital contributions			
<b>Total estimated net cost of capital contributions</b>			

<sup>3</sup> £30.58m plus 12.07% uplift for inflation

## **6.11 Revenue Costs and Funding**

**6.11.1** The strategic aims of both the B&S and SLSWR projects are a redesign of health and social care services supported by redevelopment of the estate infrastructure in each locality.

**6.11.2** The service model for each project is different, however the estate infrastructure for the two proposed new hospitals are a single DBFM 'bundle' project.

**6.11.3** The financial model will describe the individual service models for each project with one underpinning DBFM model showing associated charges allocated to each project.

## **6.12 Recurring Funding Requirements – DBFM Contract**

**6.12.1** The preferred way forward is procured through a revenue solution by way of a hubCo DBFM contract for which an Annual Service Payment (ASP) charge will be payable. The ASP charge is the amount of money paid by the public sector procuring body to hubCo over the duration of the contract. ASP charge payments begin once the project is fully operational. The total ASP charge payment will comprise some or all of the following components:

- Construction costs (including VAT where applicable)
- Private sector development costs (including staffing, advisory and lender's advisory fees)
- Financing interest (which is necessary to fund the project through construction)
- Financing fees
- Running costs for the project's Special Purpose Vehicle (SPV) during construction including insurance costs and management fees.
- SPV running costs during operations, including insurance costs and management fees
- Lifecycle maintenance costs
- Hard facilities maintenance (FM) costs

**6.12.2** Current guidance describes availability of funding from Scottish Government Health and Social Care Directorate to fund certain elements of the Annual Service Payment as follows:

- 100% of construction costs
- 100% of private sector development costs
- 100% of Special Purpose Vehicle (SPV) costs during the construction phase
- 100% of SPV running costs during the operational phase
- 50% of lifecycle maintenance costs

**6.12.3** The ASP charge for the B&S and SLSWR bundle has been provided by hubCo based on market tested costs at stage 2 of £40,405k.

**6.12.4** The ASP charge is calculated on the total bundle stage 2 cost. There is therefore a requirement to split out the various components of the ASP charge across both projects. The method of allocating ASP charge costs between the two projects is shown in table 22 below.



**6.12.5** The ASP charge, lifecycle and hard FM costs are calculated on the basis of the information provided by hubco just prior to their formal stage 2 submission.

<b>Table 22: Allocation of ASP Components to Bundled Projects</b>			
<b>Contributions to ASP Charge</b>	<b>Allocation Method</b>	<b>B&amp;S</b>	<b>SLSWR</b>
Capex	Gross Internal Floor Area (GIFA at stage 2)	4,192 sq m	3,286 sq m
SPV Costs	Gross Internal Floor Area (GIFA at stage 2)	4,192 sq m	3,286 sq m
Lifecycle costs	Stage 2 contract rate	£22.5 per sq m + vat	£32.83 per sq m + vat
Hard FM costs	Stage 2 contract rate	£20.74 per sq m + vat	£60.87 per sq m + vat

**6.12.6** An analysis of the ASP charge funding breakdown by organisation and project is shown in table 23. From 2020/21 the 'smoothed' ASP figure is shown for the SGHSCD contribution to the ASP.

<b>Table 23: Analysis of Funding Support</b>			
<b>Contributions to ASP – First full year of operations – excl VAT</b>	<b>ASP £000's</b>	<b>SGH SCD Support %</b>	<b>SGH SCD Support £000's</b>
ASP	3,150	100	3,150
Lifecycle Costs	35	50	18
Hard FM Costs	332	0	0
<b>Total</b>	<b>3,517</b>		<b>3,168</b>
SPV Costs	210	100	210
<b>Total ASP incl SPV</b>	<b>3,727</b>		<b>3,378</b>
<b>Contributions to ASP – 2021/2022 thereafter “smoothed”- excl VAT</b>	<b>ASP £000's</b>	<b>SGH SCD Support %</b>	<b>SGH SCD Support £000's</b>
ASP	3,424	100	2,970
SPV Costs	286	100	286
Lifecycle Costs	226	50	168
Hard FM Costs	332	0	0
<b>Total</b>	<b>4,378</b>		<b>3,424</b>

### **6.13 Badenoch & Strathspey Project**

#### **6.13.1 Recurring Funding Requirements**

- i. At Outline Business Case stage, greater financial focus was directed across the whole locality with key financial changes being defined by the service model and workforce plan along with more detailed analysis of asset costs.
- ii. For Full Business Case the service and workforce models have been reviewed and updated for current prices. In addition, more robust information on facilities management, lifecycle and utilities costs are available.
- iii. The recurring revenue costs for the B&S model are shown in table 24 below. A detailed table of workforce costs can be found in Appendix 6.

<b>Table 24: Recurring Revenue Costs - Badenoch &amp; Strathspey Model</b>				
<b>Revenue Costs</b>	<b>Badenoch &amp; Strathspey</b>			
	<b>Option 1 Do Minimum</b>		<b>Option 2 New Build Aviemore Site</b>	
	<b>£000's</b>	<b>WTE</b>	<b>£000's</b>	<b>WTE</b>
<b>Total Service Model Costs</b>	<b>16,610</b>	<b>208</b>	<b>16,352</b>	<b>200</b>
<b>ASP Charge Costs</b>				
Cap Ex	0	0.00	1,648	0.00
SPV	0	0.00	160	0.00
Hard FM	0	0.00	87	0.00
LifeCycle Costs	0	0.00	94	0.00
<b>Total ASP Charge Costs</b>	<b>0</b>	<b>0</b>	<b>1,990</b>	<b>0</b>
<b>Total Asset Related Costs</b>	<b>706</b>	<b>0</b>	<b>816</b>	<b>0</b>
<b>Income</b>				
NHSH Depreciation	(424)		(508)	0
SGHSCD Capital	0		(1,809)	0
SGHSCD LifeCycle	0		(47)	0
Income from Partners	0		(96)	0
<b>Total Income</b>	<b>(424)</b>		<b>(2,460)</b>	<b>0</b>
<b>Total Recurring Revenue Costs</b>	<b>16,892</b>		<b>16,698</b>	

- iv. Table 24 shows that the project can be funded within the existing budget for locality services and will deliver a recurrent saving of £194k.

### **6.13.2 Income from Public Sector Partners**

- i. The building will be occupied by other public sector partners in addition to NHS Highland. At Outline Business Case stage partners signed 'Statements of In Principle Agreement' based on New Project Request costs and the briefed Schedule of Accommodation. For Full Business Case the cost allocation has been updated in line with the final as-drawn Schedule of Accommodation and the updated costs as outlined in section 6.12.
- ii. All public sector partners are Hub North participants and therefore entitled to a share of ASP charge contributions.
- iii. All charges to partners are based on their allocation of the Gross Internal Floor Area (GIFA) in the as-drawn Schedule of Accommodation, adjusted for 24 hour operation where appropriate.
- iv. An analysis of costs set against each partner is shown in table 25 below. The costs for NHS Highland have been included for completeness.

<b>Table 25: Allocation of Costs to Public Sector Partners</b>						
<b>Badenoch &amp; Strathspey</b>	<b>NHS Highland</b>	<b>Public Dental Service</b>	<b>Aviemore Health Centre</b>	<b>Scottish Ambulance</b>	<b>Highland Council</b>	<b>Total</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
GIFA (sqm)	3,320	59	545	144	125	4,192
Percentage (GIFA)	79.19%	1.42%	12.99%	3.43%	2.97%	100%
<b>ASP</b>						
Heat, Light & Power	76	1	7	4	2	90
Rates	140	2	-	5	5	152
Waste Services	6	0	1	0	0	8
Insurance	18	0	3	1	1	23
Telecommunications	10	0	3	1	1	15
Hard FM	69	1	11	3	3	87
Lifecycle	37	1	6	2	1	47
Grounds Maintenance	16	0	3	1	1	20
Soft FM (Cleaning)	243	2	17	4	4	270
<b>TOTAL</b>	<b>616</b>	<b>8</b>	<b>51</b>	<b>21</b>	<b>16</b>	<b>712</b>

### **6.13.3 Non Recurring Funding Requirements**

- i. There will be non-recurring revenue costs in the form of removal / commissioning costs. These costs total £611k and have been identified in the Board's revenue financial plan.
- ii. Table 26 shows details of non-recurring costs associated with the project.

<b>Table 26: Non Recurring Costs</b>	<b>B&amp;S £000's</b>
Decant costs	50
Non Capital Costs	100
Temporary Accommodation	10
Redeployment Costs	150
Removal costs	30
Contribution to Developer Costs	109
Advisor Fees	157
Insurance during construction	5
<b>Total of Non Recurrent Revenue costs</b>	<b>611</b>

#### **6.13.4 Statement on Overall Affordability - Revenue**

- i. The current financial implications of the project in revenue terms as presented in the above tables confirm the project's affordability at hubCo stage 2 and will deliver a planned recurring revenue saving of £194k.
- ii. NHS Highland is committed to the project and has incorporated the revenue consequences including savings into the revenue financial plan and Local Development Plan.

#### **6.13.5 Summary of Cashflow of All Costs and Funding**

- i. Tables 27 and 28 show a consolidated capital and revenue statement across the lifespan of the project and first year of operation. The project plan (section 7.1.1.3) assumes that construction works will be complete by February 2021 and occupancy will commence in April 2021.

<b>Table 27: Cost of Preferred Option - Cashflow</b>								
<b>Costs</b>	2017-18 £000's	2018-19 £000's	2019-20 £000's	2020-21 £000's	2021-22 £000's	2022-23 £000's	2023-24 £000's	2024-25 £000's
<b>Capital</b>								
Equipment				1,054				
Sub Debt			207					
Land		556						
Existing Site Reconfiguration				257	1,502			
<b>Total Capital Cost</b>	<b>0</b>	<b>556</b>	<b>207</b>	<b>1,311</b>	<b>1,502</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Recurring Revenue</b>								
Service Model	16,610	16,610	16,610	16,610	16,352	16,352	16,352	16,352
ASP Charge					1,829	1,829	1,829	1,829
Asset Related	706	706	706	706	816	816	816	816
<b>Total Recurring Revenue</b>	<b>17,316</b>	<b>17,316</b>	<b>17,316</b>	<b>17,316</b>	<b>18,997</b>	<b>18,997</b>	<b>18,997</b>	<b>18,997</b>
<b>Non Recurring Revenue</b>								
Advisor Fees	45	61	52					
Asset Related Costs				461				
Redeployment Costs				50	100			
Backlog Maintenance	83	83	83					
<b>Total Non-Recurring Revenue</b>	<b>128</b>	<b>144</b>	<b>135</b>	<b>511</b>	<b>100</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total Costs</b>	<b>17,444</b>	<b>18,016</b>	<b>17,658</b>	<b>19,138</b>	<b>20,600</b>	<b>18,997</b>	<b>18,997</b>	<b>18,997</b>

<b>Table 28: Sources of Funding - Cashflow</b>								
<b>Sources of Funding</b>	<b>2017-18 £000's</b>	<b>2018-19 £000's</b>	<b>2019-20 £000's</b>	<b>2020-21 £000's</b>	<b>2021-22 £000's</b>	<b>2022-23 £000's</b>	<b>2023-24 £000's</b>	<b>2024-25 £000's</b>
Existing Budgets	16,892	16,892	16,892	16,892	16,892	16,892	16,892	16,892
Estates Maintenance Budget	83	83	83					
Formula Capital - NHS	469	1,041	476	424	474	474	474	474
SGHSCD Capital				1,311	1,502			
ODEL Capital - SGHSCD			207	0	34	34	34	34
ASP - SGHSCD					1,648	1,648	1,648	1,648
ASP Lifecycle SHGSCD					47	47	47	47
Public Sector Partners					96	96	96	96
<b>Total Sources of Funding</b>	<b>17,444</b>	<b>18,016</b>	<b>17,658</b>	<b>18,627</b>	<b>20,694</b>	<b>19,191</b>	<b>19,191</b>	<b>19,191</b>
<b>Rec Benefit to Board Savings Plan</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-511</b>	<b>94</b>	<b>194</b>	<b>194</b>	<b>194</b>

## **6.14 Skye, Lochalsh & Wester Ross Project**

### **6.14.1 Recurring Funding Requirements**

- i. At Outline Business Case stage greater financial focus was directed across the whole locality with key financial changes being defined by the service model and workforce plan along with more detailed analysis of asset costs.
- ii. For Full Business Case the service and workforce models have been reviewed and updated for current prices. In addition, more robust information on facilities management, lifecycle and utilities costs are available.
- iii. The recurring revenue costs for the SLSWR model are shown in table 29. A detailed table of workforce costs can be found in Appendix 6.

- iv. The additional impact of implementing the recommendations made in Sir Lewis Ritchie's Independent View is included as a separate item. This is described in detail in Appendix 2.

<b>Table 29: Recurring Revenue Costs – Skye, Lochalsh &amp; South West Ross Model</b>				
<b>Revenue Costs</b>	<b>Skye, Lochalsh &amp; South West Ross</b>			
	<b>Option 1 Do Minimum</b>		<b>Option 2 New Build</b>	
	<b>£000's</b>	<b>WTE</b>	<b>£000's</b>	<b>WTE</b>
<b>Total Service Model Costs</b>	<b>30,649</b>	<b>374</b>	<b>30,308</b>	<b>371</b>
<b>Sir Lewis Ritchie Report Costs</b>	<b>1,397</b>	<b>24</b>	<b>1,397</b>	<b>24</b>
<b>ASP Charge Costs</b>				
Cap Ex	0	0.00	1,292	0.00
SPV	0	0.00	126	0.00
Hard FM	0	0.00	200	0.00
LifeCycle Costs	0	0.00	108	0.00
<b>Total ASP Charge Costs</b>	<b>0</b>	<b>0</b>	<b>1,725</b>	<b>0</b>
<b>Total Asset Related Costs</b>	<b>380</b>	<b>0</b>	<b>961</b>	<b>0</b>
<b>Income</b>				
NHSH Depreciation	(202)	0	(677)	0
SGHSCD Capital	0	0	(1,418)	0
SGHSCD LifeCycle	0	0	(54)	0
Income from Partners	0	0	(40)	0
<b>Total Income</b>	<b>(202)</b>		<b>(2,189)</b>	<b>0</b>
<b>Total Recurring Revenue Costs</b>	<b>32,224</b>	<b>398</b>	<b>32,202</b>	<b>395</b>

- v. Table 29 shows that excluding the impact of the Sir Lewis Ritchie report, the project can be funded within the existing budget with a balance of £21k.
- vi. The recurring financial impact on NHS Highland of implementing the Sir Lewis Ritchie recommendations is estimated at £1,397k<sup>4</sup>. Further costs are expected to be incurred by the Scottish Ambulance Service and NHS24, estimated at £500k and £24k respectively. Additional funding is required from Scottish Government Health and Social Care Directorate for this.

<sup>4</sup> £989k recurring plus £407k per annum required on an interim basis until the option appraisal on the provision of community beds is concluded



### 6.14.2 Income from Public Sector Partners

- i. The Hub and Spoke buildings will be occupied by the Scottish Ambulance Service in addition to NHS Highland. At Outline Business Case stage partners signed 'Statements of In Principle Agreement' based on New Project Request costs and the briefed Schedule of Accommodation. For Full Business Case the cost allocation for the hospital Hub has been updated in line with the final as-drawn Schedule of Accommodation and the updated costs as outlined in section 6.12.
- ii. All public sector partners are Hub North participants and therefore entitled to a share of ASP charge contributions.
- iii. All charges to partners are based on the Gross Internal Floor Area (GIFA) in the as-drawn schedule of accommodation plus the additional sqm for the redevelopment of Portree Hospital.
- iv. An analysis of costs set against each partner is shown in table 30 below. The costs for NHS Highland have been included for completeness.

<b>Table 30: Allocation of Costs to Public Sector Partners</b>				
<b>Skye, Lochalsh &amp; South West Ross Hub</b>	<b>NHS Highland</b>	<b>Portree MP</b>	<b>Scottish Ambulance</b>	<b>Total</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
GIFA (sqm) Hub	3,091		195	3,286
GIFA (sqm) Spoke	1,381	542	277	2,200
Percentage (GIFA)	82%	10%	9%	100%
ASP Charge				
Heat, Light & Power	99	5	4	108
Rates	74	1	2	77
Waste Services	3	0	0	4
Insurance	31	–	2	33
Telecommunications	3	–	0	4
Hard FM	188	–	12	200
LifeCycle	51	–	3	54
Grounds Maintenance	19	–	1	20
Soft FM (Cleaning)	209	4	6	219
<b>Total</b>	<b>678</b>	<b>9</b>	<b>31</b>	<b>718</b>

### 6.14.3 Non-Recurring Funding Requirements

- i. There will be non-recurring revenue costs in the form of removal/commissioning costs. The costs associated with the preferred option total £579k and have been identified in the Board's revenue financial plan.
- ii. Additional non-recurring funding of £231k is required in 2019/20 from the Scottish Government Health and Social Care Directorate to implement the recommendations of the Sir Lewis Ritchie External View of SLSWR Out of Hours Services.
- iii. Table 31 shows details of non-recurring costs associated with the project.

<b>Table 31: Non Recurring Costs</b>	<b>SLSWR £000's</b>
Decant costs	50
Non Capital Costs	161
Removal costs	30
Off-site works	46
Advisor Fees	157
Temporary Accommodation	30
Reployment Costs	100
Insurance during construction	5
Sir Lewis Ritchie Report	231
<b>Total of Non Recurrent Revenue costs</b>	<b>810</b>

### 6.14.4 Statement on Overall Affordability – Revenue

- i. The current financial implications of the preferred option in revenue terms as presented in the above tables confirm the projects affordability and will deliver a planned recurring revenue saving of £21k.
- ii. NHS Highland is committed to the project and has incorporated the revenue consequences including savings into the revenue Financial Plan and Local Development Plan.
- iii. An additional £1,397k<sup>5</sup> recurring and £231k non-recurring is required from the Scottish Government Health and Social Care Directorate to implement the recommendations of the Sir Lewis Ritchie External View of SLSWR Out of Hours Services.

### 6.14.5 Summary of Cashflow of All Costs and Funding

- i. Tables 32 and 33 show a consolidated capital and revenue statement across the lifespan of the project and first year of operation. The project plan assumes that construction works will be complete by March 2021 and occupancy will commence in April 2021.

<sup>5</sup> £989k recurring plus £407k per annum required on an interim basis until the option appraisal on the provision of community beds is concluded

Table 32: Cost of Preferred Option - Cashflow								
Costs	2017-18 £000's	2018-19 £000's	2019-20 £000's	2020-21 £000's	2021-22 £000's	2022-23 £000's	2023-24 £000's	2024-25 £000's
<b>Capital</b>								
Equipment				537				
Sub Debt			162					
Land								
Existing Site Reconfiguration				641	1,491	746		
<b>Total Capital Cost</b>	<b>0</b>	<b>0</b>	<b>162</b>	<b>1,177</b>	<b>1,491</b>	<b>746</b>	<b>0</b>	<b>0</b>
<b>Recurring Revenue</b>								
Service Model	30,649	30,649	30,649	30,308	30,308	30,308	30,308	30,308
Sir Lewis Ritchie Report <sup>6</sup>			1,397	1,397	1,397	1,397	1,397	1,397
ASP Charge					1,600	1,600	1,600	1,600
Asset Related	380	380	380	380	961	961	961	961
<b>Total Recurring Revenue</b>	<b>31,029</b>	<b>31,029</b>	<b>32,426</b>	<b>32,085</b>	<b>34,265</b>	<b>34,265</b>	<b>34,265</b>	<b>34,265</b>
<b>Non Recurring Revenue</b>								
Fees	45	60	52					
Asset Related Costs				671				
Redeployment Costs					150			
Backlog Maintenance								
Sir Lewis Ritchie Report			231					
<b>Total Non-Recurring Revenue</b>	<b>45</b>	<b>60</b>	<b>283</b>	<b>671</b>	<b>150</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total Costs</b>	<b>31,073</b>	<b>31,089</b>	<b>32,871</b>	<b>33,933</b>	<b>35,907</b>	<b>35,011</b>	<b>34,265</b>	<b>34,265</b>

<sup>6</sup> £989k recurring plus £407k per annum required on an interim basis until the option appraisal on the provision of community beds is concluded

<b>Table 33: Sources of Funding - Cashflow</b>								
<b>Sources of Funding</b>	<b>2017-18 £000's</b>	<b>2018-19 £000's</b>	<b>2019-20 £000's</b>	<b>2020-21 £000's</b>	<b>2021-22 £000's</b>	<b>2022-23 £000's</b>	<b>2023-24 £000's</b>	<b>2024-25 £000's</b>
Existing Budgets	30,827	30,827	30,827	30,827	30,827	30,827	30,827	30,827
Estates Maintenance Budget								
Formula Capital NHS	247	262	254	202	202	202	202	202
SGHSCD Capital				1,177	1,491	746		
SGHSCD - Revenue Funding 'Sir Lewis Ritchie Report' <sup>7</sup>			1,628	1,397	1,397	1,397	1,397	1,397
ODEL Capital - SGHSCD			162		475	475	475	475
ASP – SGHSCD					1,292	1,292	1,292	1,292
ASP Lifecycle SHGSCD					54	54	54	54
Public Sector Partners					40	40	40	40
<b>Total Sources of Funding</b>	<b>31,073</b>	<b>31,089</b>	<b>32,871</b>	<b>33,603</b>	<b>35,778</b>	<b>35,033</b>	<b>34,287</b>	<b>34,287</b>
<b>Rec Benefit to Board Savings Plan</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-330</b>	<b>-129</b>	<b>21</b>	<b>21</b>	<b>21</b>

### **6.15 Accounting Treatment and ESA10**

i. This section sets out the following:

- The accounting treatment for the B&S and SLSWR project for the purposes of NHS Highland's accounts under the International Financial Reporting Standards.
- How the scheme will be treated under the European System of Accounts 2010.

<sup>7</sup> £989k recurring plus £407k per annum required on an interim basis until the option appraisal on the provision of community beds is concluded

## **6.16 Accounting Treatment**

- i. The project will be delivered under a DBFM service concession contract over a 25 year term with NHS Highland retaining the assets for no additional financial consideration at the end of the contract term.
- ii. The DBFM contract is defined as a service concession under the International Financial Reporting Interpretation Committee 12 (IFRIC 12) and will be 'on balance sheet' in NHS Highland's accounts.
- iii. This position will be confirmed by NHS Highland's appointed financial advisors for the DBFM development.
- iv. The main accounting treatment required for the DBFM contract will be in line with the Capital Asset Accounting Manual.
- v. As the facility will appear on NHS Highland's balance sheet, the building asset will incur capital charges. NHS Highland anticipates that it will receive an additional ODEL allocation from SGHSCD to cover the cost of capital charges.

## **6.17 European System of Accounts 2010 (ESA10)**

- i. The service concession contract follows the hub DBFM standard form to ensure that it delivers a 'non-government asset' classification within the national accounts under ESA10 rules.
- ii. This classification ensures that the operator is bearing most of the risk attached to the scheme, including construction, availability and demand.
- iii. The standard hub DBFM legal documentation has been drafted so that construction and availability risk are transferred to hubco. NHS Highland will retain the demand risk.
- iv. There are no capital contributions being allocated to the project that may affect the ESA10 classification.

## **6.18 Stakeholder Support**

**6.18.1** Both B&S and SLSWR projects have been subject to major service change consultation and participant bodies have been involved in the programmes since inception.

**6.18.2** There are several public sector organisations that will occupy space within the new buildings and therefore are liable for a share of the cost associated with their occupancy. All occupants have been involved in design development and have defined the floor space that they require to deliver their services.

**6.18.3** Specifically, the public sector bodies occupying space in the new buildings are:

- Badenoch & Strathspey – Highland Council, Scottish Ambulance Service, Aviemore Health Centre.
- Skye, Lochalsh & South West Ross – Scottish Ambulance Service.

**6.18.4** Scottish Capital Investment Manual guidance asks Boards to confirm at Full Business Case that all participant bodies have given their specific and explicit commitment to the

project in the form of a signed agreement; in this case an Occupancy Agreement. This provides the necessary assurance that the participants have been satisfactorily engaged in developing the scheme, that they have a clear understanding of the financial implications of the proposed commercial arrangements and that they are committed to supporting the project with the appropriate resources.

**6.18.5** Occupancy Agreement Heads of Terms have been received from all participants and these are shown in Appendix 7.

## 7. MANAGEMENT CASE

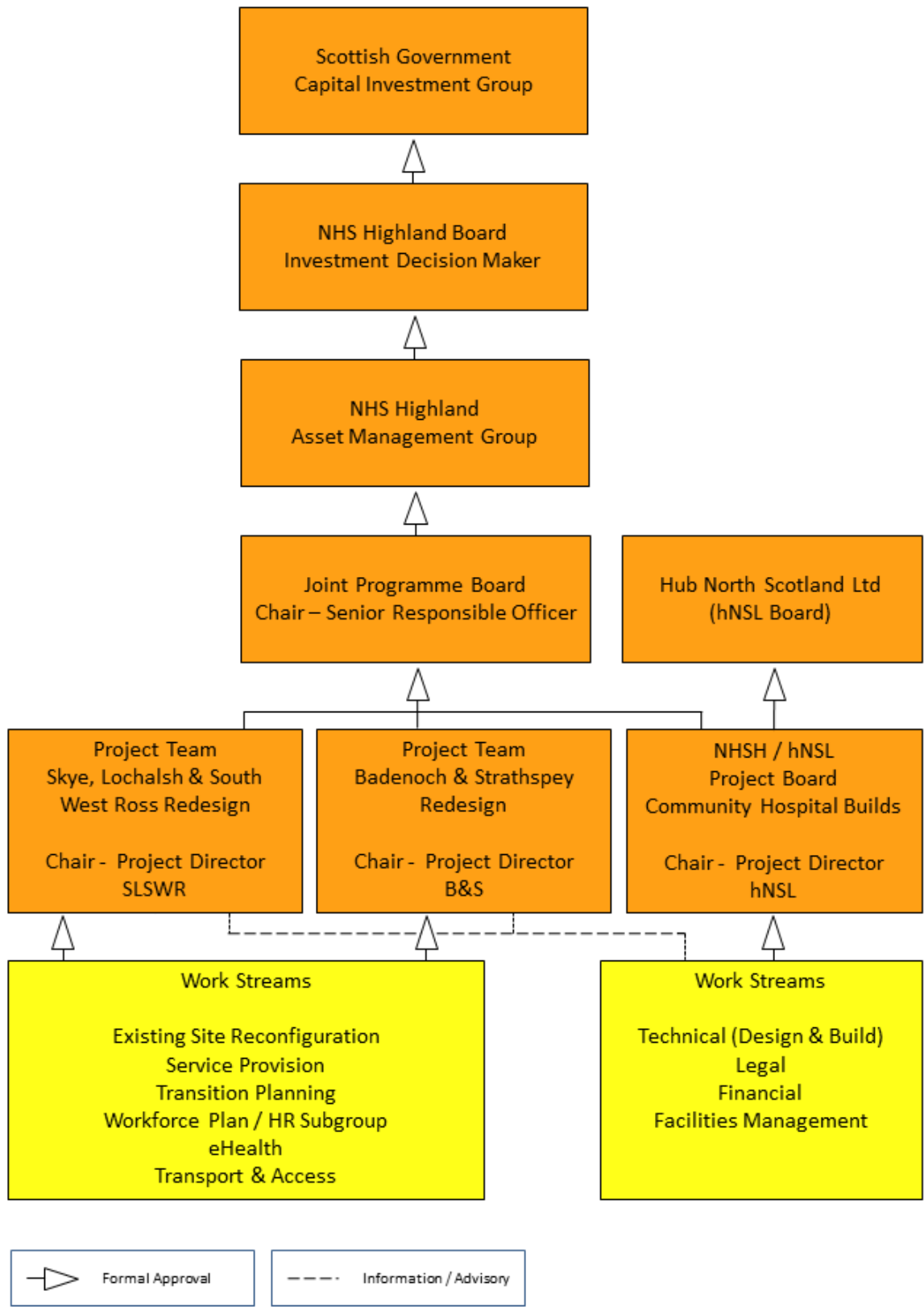
**7.1** The Management Case sets out the governance arrangements in place to deliver this programme of major service change and associated infrastructure. It evidences the appropriate leadership, senior management, project management and internal governance structures.

### **7.1.1 Project Management Proposals**

#### **7.1.1.1 Reporting Structure and Governance Arrangements**

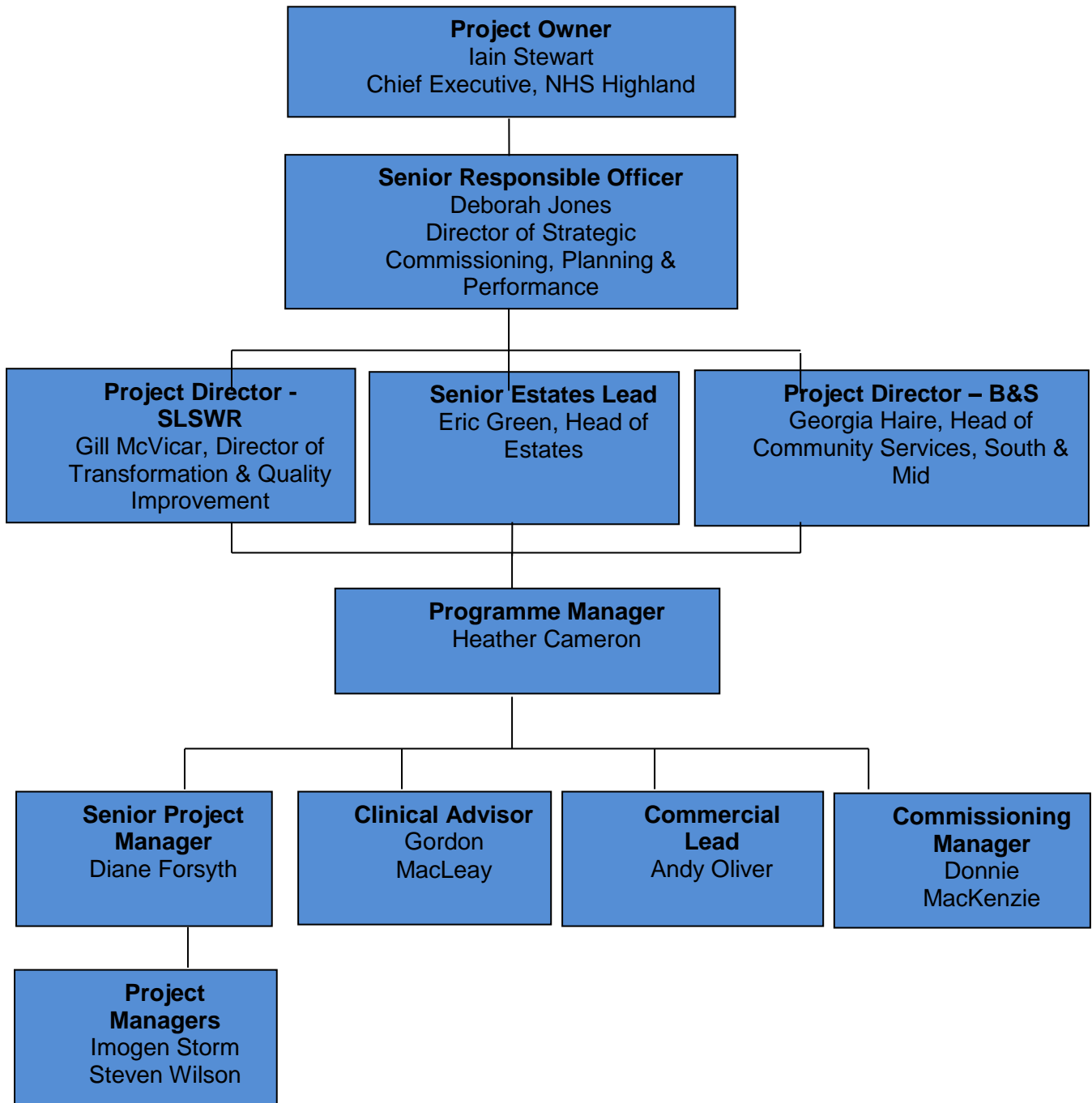
- i. The modernisation of community and hospital services in Badenoch & Strathspey (B&S) and Skye, Lochalsh & South West Ross (SLSWR) is a complex programme of work being delivered by 2 project teams and a joint NHS Highland / hub North Scotland Ltd (NHSH/hNSL) project board.
- ii. The B&S and SLSWR project teams are responsible for delivery of the service change and existing estate reconfiguration works, and the NHSH/hNSL project board is responsible for the design, build, finance and maintenance of the 2 new build community hospitals. These project teams and project board report to an overarching Joint Programme Board responsible for the governance of the whole programme of work contained within this Full Business Case (FBC). The governance arrangements for the Programme bundle are set out in (Figure 1).
- iii. Further information on the role, remit and membership of the Joint Programme Board, Project Teams and NHSH/hNSL Project Board is provided (Appendix 8). The role and remit of the Joint Programme Board was updated in September 2018 to ensure that the governance role in respect of the FBC was clear to all members.
- iv. The project work streams and arrangements for the management of the hubCo contract are included in the **Outline Business Case** (section 8.1 page 58 and Appendix 8 of the OBC). As is typical of hubCo projects the NHSH/hNSL Project Board also reports to the hub North Scotland Ltd Board in respect of performance monitoring of the hNSL delivery team, submission of the stage 2 proposal and approval to enter in to the Project Agreement. NHS Highland membership of the NHSH/hNSL Project Board includes the Senior Estates Lead, Programme Manager, Senior Project Manager, Commercial Lead and a Senior Project Lead from each of the service redesign Project Teams. This ensures that the delivery of the new build community hospitals is embedded in to the overall service redesign programme.
- v. The designation and reporting arrangements for key project individuals is identified (Figure 2).

**Figure 1 – Governance Arrangements**





**Figure 2 – Reporting Structure within NHS Highland**



### 7.1.1.2 *Key roles and responsibilities*

- i. Full details of the assessment of project complexity and evidence of the skills and experience of key project roles was provided in the **Outline Business Case** (section 8.1 page 62 and Appendix 14 page 140 of OBC). This remains largely unchanged and therefore this section will focus on any gaps and provide an update of the outstanding recruitment needs as identified in the Outline Business Case.
- ii. Evidence of the skills and experience of key project individuals involved in the detailed implementation phase of the project is provided (Appendix 9). This includes the Commissioning Manager and the Operational Unit Area Managers who have a lead role in delivering the service change and workforce transition arrangements (section 7.2.1).
- iii. **Contracts Manager:** NHS Highland are working with Argyll & Bute Council who have resource with the relevant experience to undertake this role. We propose to engage them to carry out the technical contract management and monitoring of the hub DBFM contract.

### 7.1.1.3 *Project plan and key milestones*

- i. A project master programme is provided (Appendix 10). A summary is detailed below (Table 34)

<b>Table 34: Summary of Key Project Milestones</b>	
<b>OBC Approval by CIG</b>	Complete May 2018
<b>Operational &amp; service transition planning</b>	December 2017 – March 2019
<b>FBC Approval by CIG / Stage 2 Approval</b>	May 2019
<b>Financial Close of hubCo contract</b>	May 2019
<b>Implementation of service transition plan</b>	June 2019 – April 2021
<b>Reconfiguration of Kingussie Medical Practice and Broadford Health Centre</b>	June - Dec 2020
<b>Construction &amp; commissioning of new hospitals</b>	July 2019 - March 2021
<b>New community hospitals operational</b>	April 2021
<b>Reconfiguration of Grantown Health Centre</b>	April 2021 – Jan 2022
<b>Reconfiguration of Portree</b>	April 2021 - Dec 2022
<b>Service change fully implemented</b>	Jan 2023
<b>Post project evaluation</b>	Jan 2024

## **7.2 Change Management Arrangements**

### **7.2.1 Operational and Service Change Plan**

- 7.2.1.1** The operational and change management arrangements for the redesign of community services are being led by the respective Heads of Community Services for South & Mid (B&S Project Director) and North & West (SLSWR Deputy Project Director). These posts have overall management responsibility for the delivery of health and care services in the areas affected by the change and have been embedded in the projects from the start.
- 7.2.1.2** Transition plan working groups were put in place in early 2018, chaired by the Heads of Community Services. The working groups meet at least quarterly reporting directly to the Project Teams, and transition planning is a standing item on the agenda. Membership of the working groups includes clinical service leads, operational managers, commissioning manager, estates project managers and eHealth. The transition plans for each project are included in Appendix 11.
- 7.2.1.3** Key to the service change is the implementation of the workforce plan which outlines the change in staffing required to deliver the new service model. The operational unit Area Managers are responsible for delivering this workforce change and are core members of the respective Project Teams, supported by the Clinical Advisor. These individuals' experience and suitability for the above roles is evidenced in section 7.1.2.
- 7.2.1.4** Confirmation of current staffing levels for each service and required future staffing and skill mix to deliver the new service model is set out in each workforce plan. These have been reviewed and the updated plans for each service change are included (Appendix 12). The workforce plans have informed the staffing costs in the Financial case (section 6.11).
- 7.2.1.5** The implementation of the workforce plans is managed through the Human Resources subgroups (HRSG) set up for each service change. These are chaired by the Area Managers and supported by the Operational Unit's HR Managers with progress reported to the Project Teams. The HRSGs have agreed terms of reference and a high-level implementation plan is included in the overall transition plan (Appendix 11). To inform transition arrangements the HRSGs are in the process of undertaking a training needs analysis, and the workforce transition will be implemented in line with NHS Highland Organisational Change policies.
- 7.2.1.6** Early Building User Groups (BUG) were set up in the latter half of 2018 bringing service leads together to discuss and agree how the new hospital buildings will be managed. Initially the BUGs have focussed on feeding in to the detailed design, e.g. security and nurse call, and discussion will move to detailed transition and commissioning as construction nears completion. The BUGs are generating a list of Standard Operating Procedures to be developed in preparation for opening.
- 7.2.1.7** There are several key dependencies between this programme of work and ongoing NHS Highland developments in technologies and eHealth . The Deputy Head of eHealth is a member of both Project Teams and transition plan working groups, and there is an eHealth section in the transition plans that sets out actions and timelines for eHealth developments to meet the project plan (section 7.1.1.3). The Senior Responsible Officer for this project bundle is also executive lead for eHealth

development and has a key role in ensuring that the various pieces of work are co-ordinated to achieve the desired outcomes within the time required. Specifically, in terms of eHealth, key actions being progressed as part of the transition plan are:

- Scanning of inpatient and GP records to reduce requirement for storage of paper records;
- Implementation of Electronic Patient Record and associated technology so that the service is paper light prior to moving to the new build;
- Introduction of a community system (MORSE) which has been piloted by the Inverness community teams and is being rolled out in Badenoch & Strathspey in 2019; and
- Confirmation of current systems used and agreement on technology to support functions in new build e.g. shared reception.

**7.2.1.8** Other interconnected digital projects include NHS Near Me, and the operational units are working closely with the NHS Near Me team in respect of the roll out of remote consultations in each area. The relevant milestones relating to this project are included in the master programme (Appendix 10).

**7.2.1.9** The process for transition of building maintenance provision from NHS Highland teams to an FM provider will be managed through a collaborative partnering approach to ensure a smooth transition with appropriate service continuity. The move to a DBFM contract impacts on the current porter / handyperson roles in the existing hospitals and this is taken account of in the workforce plans. There are no TUPE transfers intended (section 5.9).

**7.2.1.10** A significant part of the NHS Highland estate is now managed by separate FM providers and in recognition of this the Estates Operational Department structure has been reorganised and a dedicated Estates Officer is in place to manage all NHS Highland FM properties.

**7.2.1.11** Under the proposed new arrangements, laundry facilities will not be re-provided in either hospital, and the laundering service for the hospital will take place at other NHS Highland sites. It was explored whether this change could happen in advance of the new hospitals opening, however it was determined that further work is required at these other sites to provide the required capacity before any change can be made.

**7.2.1.12** As identified in the OBC the preferred catering option for B&S is traditional production and for SLSWR is a regeneration kitchen. The specialist kitchen design and equipment are being procured as group 1 as part of the hubCo DBFM package, and workforce change management arrangements are captured in the transition plan and workforce plan.

## **7.2.2** *Stakeholder Engagement and Communication Plan*

**7.2.2.1** Our communications and engagement approach and plans have been reviewed in preparation for this FBC. This includes stakeholders, a review of activities to date and outline of future plans (Appendix 13).

**7.2.2.2** The plan also takes account of engagement and sign off required from internal stakeholders, particularly in relation to the development of the new build community hospitals.

**7.2.2.3** Monthly stakeholder engagement workshops took place during the OBC stage to progress the concept design for the new hospitals, and relevant lead and advisor stakeholders have reviewed and input to the detailed design. Internal stakeholders, public sector partners and external advisors were all involved in this process and were asked to comment on and sign off the design at key decision points (general arrangement 1:200 plan, detailed room layout 1:50 designs, detailed mechanical, electrical and plumbing designs and schedules).

**7.2.2.4** Joint technical meetings took place monthly with NHS Highland and hubCo during stage 2 development to conclude the Authority Construction Requirements and detailed design. These will continue up until financial close of the DFBM contract. In addition to the Participant Technical Advisor, NHS Highland has identified a Design Lead who is responsible for co-ordinating feedback from internal technical stakeholders on design verification. This includes mechanical, electrical, water, fire safety, environment and sustainability, health and safety, control of infection and eHealth.

### **7.3 Benefits Realisation**

**7.3.1** During the development of the Full Business Case the Benefits Realisation Plans for each project were reviewed and updated by the Project Teams confirming who is responsible for the delivery of each benefit and what actions are necessary to realise them (Appendix 14). Benefits is a standing item on the Project Team agenda where progress on realising the project benefits is reported.

**7.3.2** The supporting Benefits Registers (Appendix 15) were reviewed again to ensure that all baseline data has been collected and confirm that each identified benefit is still appropriate and measurable. Where appropriate, data has been collected to provide an interim measure at FBC stage which allows the Project Teams to track progress on achieving the benefit. This has demonstrated positive progress in achieving the following:

- Greater number of people being cared for in their own home – increase in care at home provision in B&S
- Reduced length of stay in hospital – decrease in delayed discharges in SLSWR
- Admission to care home later in life – positive progress across Highland
- Flexible use of new step up / step down beds – 1 bed up and running in B&S
- Reduced number of hospital admissions (unscheduled care) – decrease in emergency hospital admissions in B&S
- Dementia friendly inpatient facilities – dementia champions in post and audit tool carried out as baseline
- End of life care; service users will have greater choice of where to die - target met in SLSWR, positive progress in B&S
- Delivery of services closer to home / increased capacity for access to specialist outpatient clinics locally – NHS Near Me clinics up and running in SLSWR and planned for B&S in 2019
- Increased access to on site specialist mental health input for older adults (B&S) - benefit realised. This has released staffing resource to support community services.
- Improved anticipatory care planning and collaboration – reduction in readmissions in B&S and SLSWR
- Improved quality of accommodation – design of new hospitals has met the target score set as part of the National Design Assessment Process (section 5.5)

**7.3.3** Benefits realisation will remain a standing item on the Project Team agendas as the projects move forward, and progress against the Benefits Plan will be tracked in the monthly “highlight” progress reports. Data on the interim measures will be collected annually to track progress. It is recognised that some benefits will not be realised until after the new hospitals are built as it is only at that point that resource will be freed up to enhance some community services. Benefits realisation will form a key part of the project monitoring and evaluation (section 7.6).

## **7.4 Risk Management**

**7.4.1** The risk registers developed by each Project Team at Outline Business Case stage have been regularly monitored at each monthly Project Team and quarterly Programme Board and adjusted as required. Project Team and Programme Board risk register workshops took place during October to December 2018, carrying out a full review of project and programme level risks, the mitigation strategies and action undertaken, and the risk ratings were updated accordingly. In conjunction with NHS Highland hNSL have also updated the bundle and site-specific risks in relation to the delivery of the two new community hospital builds.

**7.4.2** A quantified risk register has been produced for the new build hospitals in line with latest Scottish Capital Investment Manual guidance and the output has informed the financial and economic cases for this Full Business Case.

**7.4.3** The programme level and project specific risk registers for the wider service redesigns (Appendix 16) was ratified by the Programme Board in January 2019. The quantified risk register for the DBFM new build hospitals is attached (Appendix 17).

**7.4.4** Despite robust risk management throughout the project some high risks remain for the programme bundle and the mitigation measures in place for these are summarised in table 35.

**7.4.5** Some risks have manifested in to issues, with the cost impact reflected in the financial case (section 6). The construction, facilities management and life cycle costs for the new build hospitals exceed the affordability cap at Outline Business Case stage.

**7.4.6** Following market testing and detailed work in partnership with the preferred Facilities Management (FM) provider during stage 2, the updated costs presented by the provider exceeded the affordability cap significantly, with a marked increase in SLSWR. This resulted in a change to the preferred FM provider relatively late in stage 2. The new provider is experienced in working with hubCo DBFM contracts and currently provides FM services to several other NHS Highland hospitals. NHS Highland, hubCo and Scottish Futures Trust have worked closely with the new provider since January 2019 to review the service level specification and this has resulted in a slight decrease in cost, although still over cap.

**7.4.7** Following market testing the build cost for the 2 hospitals exceeded the NPR cap significantly, and inflation is a major factor. A due diligence and value engineering exercise was carried out during February and March 2019 and this has reduced the build cost by 11%, although it still exceeds cap.

**7.4.8** Notwithstanding the two issues above, the resulting Annual Service Payment cost is sitting just below Outline Business Case level due to a lower than expected borrowing rate. It is this cost that determines project affordability.

**7.4.9** An explanation of the variance between OBC and FBC costs is provided in section 7.6.

**7.4.10** This is in the context of a very challenging financial position for NHS Highland and the need to make savings across the organisation has potential to impact on the resource available for reinvestment in community services.

<b>Table 35: Key Risks for Programme Bundle</b>		
<b>Risk Rating</b>	<b>Risk</b>	<b>Mitigation</b>
ISSUE	1.4.1 Ongoing building maintenance costs are higher than projected	Alternative provider identified. Service Level Specification has been reviewed with input from SFT and costs have reduced slightly
ISSUE	4.1.1. Construction costs may exceed the likely funding allocation for the bundle, which is £30.58m for the 2 projects.	Accommodation requirements reviewed and adjusted early stage 2 to maximise flexible use of space, reducing footprint / cost. Robust programme management to minimise impact of inflation. Change orders monitored and reported to Project Team / Board. VE and due diligence exercise completed with joint review of work package detail
20 RED	4.1.6. Ongoing requirement to make recurring savings, reducing the resource available for service investment	Ring-fence released revenue to support service change. Ensure robust costing of workforce plan / service change.
ISSUE	5.1.1. Inflation costs rise above those projected	Robust programme management to minimise impact. hNSL sub-contractor package prices include inflation. Not to exceed construction cost confirmed which includes inflation.
ISSUE	5.1.3 Change in European Accounting (ESA 10) rules result in hub DBFM procurement route being redesigned, delaying project	Accelerated programme and governance process agreed with NHS Highland Board and Scottish Government to conclude FBC approval and Financial Close of contract before change is implemented (May 2019).
20 RED SLSWR specific	3.3.4. Unable to recruit in traditional manner to support enhanced community and care-at-home plan	Progress the workforce plan, use of self-directed support, explore all options consistent with NHSH Care Strategy. Funding provided to Scottish Care to develop the independent sector.

## **7.5 Commissioning**

**7.5.1** Commissioning can be divided into two important and overlapping processes that need to be planned and coordinated to ensure the successful completion and operation of the new facilities.

**7.5.2** For clarity, commissioning has been described in two separate streams within this section of the Full Business Case:

- Technical Commissioning; and,
- Functional Commissioning (Client direct requirements to bring facilities into operation).

### **7.5.3 *Technical Commissioning***

**7.5.3.1** Technical commissioning of the new hospital facilities will be led by DBFM Co and will be completed prior to handover of the facilities to NHS Highland. NHS Highland will work with DBFM Co to ensure the successful delivery of a detailed programme for each facility which will ensure readiness for the functional commissioning led by NHS Highland to commence.

**7.5.3.2** A copy of the outline Technical Commissioning Programme for the hospital projects is detailed in Appendix 18. This will be further developed jointly by DBFM Co and NHS Highland.

**7.5.3.3** NHS Highland will ensure there is adequate monitoring from a technical perspective through the use of a project supervisor throughout construction (as described in section 5.8.1.2), and involvement of the NHS Highland Estates Compliance Team to monitor aspects of the technical commissioning phase. This will involve for example, an increase in site visits with more site observations at regular stages and liaison with the Tier 1 representatives.

### **7.5.4 *Functional Commissioning***

**7.5.4.1** Functional commissioning of the facilities will commence following handover of each facility to NHS Highland. It is envisaged at this stage that the B&S community hospital facility will be handed over and commissioned in advance of SLSWR Community Hospital as the two construction programmes have different durations. The two facilities are to be commissioned one at a time to ensure that adequate resources can be deployed to ensure the successful commissioning and bringing into operation of both facilities.

**7.5.4.2** The commissioning of each facility will be managed as phased moves from each existing NHS Highland facility which will be led and coordinated by the Commissioning Manager and Project Teams in close collaboration. This is outlined in the transition plans (Appendix 11).

### **7.5.5 *Reporting Structure Aligned to Main Project Structure***

**7.5.5.1** The functional commissioning of each facility will be led by the Project Teams through the transition plan work (section 7.2.1). This task will be led by the Commissioning



Manager and Project Manager supported by the Project Team. The reporting structure is outlined in section 7.1.1.1.

**7.5.5.2** The commissioning team, led by the Commissioning Manager and Project Manager will include staff from operational management, facilities management and logistics, eHealth, the HFS Equipping Service along with appropriate members of the Project Team.

### **7.5.6 *Person Dedicated to Leading this Process***

**7.5.6.1** The Commissioning Manager will lead on and co-ordinate the technical and functional commissioning of both new hospital facilities and existing site reconfiguration works.

**7.5.6.2** The Functional Commissioning Programmes for each of the projects covers the 1-2 year period from FBC approval until 3-6 months after the facilities are brought in to operation to ensure all activities are planned, coordinated and delivered and that all functional commissioning teething issues are resolved post occupation in discussion with the project supervisor, Project Management teams and hubCo.

**7.5.6.3** The Commissioning Manager will be responsible for:

- Supporting operational colleagues to plan for revised operational procedures to reflect changes to ways of working associated with the new buildings and redesign agenda;
- Supporting operational managers to prepare staff to work differently to deliver new procedures (including formal training);
- Supporting the Project Managers to confirm with the HFS Equipment Service and operational colleagues the new equipment to be specified and procured and the equipment to be transferred and to ensure its successful implementation;
- Produce a comprehensive commissioning programme with clinical and logistic colleagues and to ensure its successful delivery;
- To develop a detailed occupation plan with clinical colleagues to ensure the safe continuation of appropriate clinical services throughout the commissioning period;
- Work with the operational teams to ensure that facilities are safe and secure after handover from DBFM Co and that appropriate operational procedures are implemented;
- Agree with the operational teams to facilitate the smooth relocation to the new facilities with as little disruption as possible to patients and staff;
- To ensure a comprehensive plan to clean the building is in place and agreed with the domestic team and the infection control team;
- To plan for, procure a removal company and supervise the removal of all equipment, furnishings and goods agreed to transfer;
- To ensure with the stakeholder representatives within the Project Team that the public, staff and patients are briefed and clear about the relocation and occupation plan and what their role is in relation to it;
- To arrange staff orientation and training for all staff who will work in each of the buildings and issue of security enabled badges and access;
- To produce a comprehensive IT and telecommunications plan to make sure that all phones and IT equipment are operational in advance of staff and patient moves;
- To coordinate the installation of all complex equipment post-handover, e.g. imaging equipment, as agreed with DBFM Co; and
- To plan for the accommodations being vacated to be emptied ready for re-use or

disposal, as appropriate, in line with NHS Highland's site closure and clearance policy.

**7.5.6.4** The Commissioning Manager will be supported by the wider Project Teams and Operational Management Teams to deliver the commissioning agenda in a planned and coordinated manner. A Commissioning Master Plan will be developed with the Tier 1 contractor in line with Scottish Capital Investment Manual guidance.

**7.5.6.5** In addition, the Health Facilities Scotland Equipping Service has been commissioned by NHS Highland to support the process of equipment specification, procurement and commissioning of all new group 2, 3 and 4 equipment.

### ***7.5.7 Key Stages of Commissioning***

**7.5.7.1** A detailed Functional Commissioning Programme will be developed for each of the projects. The master programme includes a 4-week period for each new hospital facility for the functional commissioning for each facility following handover from DBFM Co.

**7.5.7.2** Some of the key activities included in the Functional Commissioning Plan are:

- Safety and security of facilities and staff
- Telecoms
- Clinical clean
- New equipment installation
- Equipment Transfer
- Imaging equipment installation
- Staff orientation and training (including fire and security, equality and disability awareness etc.)
- Consumable Stock (including sterile products, stationary etc.)
- Receipt and dispatch arrangements in place
- Equipment, furnishing etc; transfer arrangements in place
- Signage internal and external in place
- Media communication in place
- Patient and staff information and other internet and social media communication
- Site security throughout

## ***7.6 Service Benefits Evaluation***

**7.6.1** The project bundle will be monitored and evaluated in line with Scottish Capital Investment Manual guidance and in view of the size and scale of the project this will be reported to the Scottish Government. The two modernisation projects will be subject to three formal post-project evaluations that will take place in year 1, year 3 and year 5 after all changes are complete. Key milestones are provided in table 36 below.

<b>Table 36 – Post-Project Evaluation Stages</b>	
<b>Milestone</b>	<b>Date</b>
Construction completion (new hospitals)	March 2020
Reconfiguration of existing sites complete	December 2022
Service change complete	January 2023
Post-project evaluation 1 – Year 1	January 2024
Post-project evaluation 2 – Year 3	January 2026
Post-project evaluation 3 – Year 5	January 2028

**7.6.2** The Senior Project Manager will lead the project monitoring and service benefits evaluation process, supported by the Project Managers and Clinical Advisor.

## **7.7 Project Monitoring**

**7.7.1** Project costs and DBFM elements have been monitored from Initial Agreement and the resulting Project Monitoring Report is attached (Appendix 19).

**7.7.2** This demonstrates an increase in service model costs at Full Business Case stage due to impact of pay inflation and pressures funded within SLSWR medical and adult social care staffing. This applies equally to the do-nothing and the preferred options.

**7.7.1** At stage 1 it was identified that the as-drawn gross internal floor area (GIFA) of both new hospital buildings had increased beyond the assumptions in the New Project Request affordability cap, which had potential to increase facilities maintenance costs to an unaffordable level. To mitigate this, an exercise was carried out early in 2018 to review the clinical accommodation requirement to make most efficient use of space. This did not impact planned service levels but did reduce the associated briefed floor area by 4.9% (9.4% reduction from NPR level). The final GIFA for the two hospitals has since increased to exceed the assumptions in the affordability cap due to the volume of plant space required to support the mechanical, electrical and plumbing (MEP) services for the buildings.

- 7.7.2** As identified in section 7.4, facilities management and life cycle costs for the two new hospital builds have increased above the New Project Request affordability cap which was the basis of costs in the Outline Business Case. As expected from the outset, procurement of facilities management for the new facility in Broadford has been a challenge due to its rural location and type of clinical services which require cover 24 hours a day, 7 days a week. The resulting facilities management and life cycle costs are significantly higher in comparison to a similar facility located in a more urban area where there is potential to achieve efficiencies in managing multiple sites.
- 7.7.3** The increase in construction cost for the new hospitals from the figures quoted in the Outline Business Case is attributable primarily to inflation. At New Project Request (OBC) stage, the BCIS was predicting a negative or flat inflation forecast across the construction industry to programmed financial close, however actual construction inflation over this period (between 4<sup>th</sup> quarter 2016 and 2<sup>nd</sup> quarter 2019) is 12.07%.
- 7.7.4** The ongoing uncertainty around Britain's exit from the European Union has impacted on work package procurement, resulting in returned prices above what would normally be expected. This is due both to uncertainty around potential tariffs on construction materials, and due to shortages of skilled labour which are already apparent. A reduction in the number of available M&E contractors following a series of company collapses has also resulted in reduced competition and increased prices.
- 7.7.5** Within this context NHS Highland and hubCo have worked very hard to carry out due diligence on the returned work packages as part of the stage 2 process to ensure best value for money in the final submission while still preserving the core requirements of the brief. This resulted in a 11% reduction from the initial submission to the current construction cost.
- 7.7.6** hubCo's stage 2 pricing reports (Appendix 20) include a benchmarking cost reconciliation for both hospital facilities identifying the variance from the NPR cap and the rationale for this.
- 7.7.7** There has been significant movement in the programme since Initial Agreement. This is due to conditions associated with the SLSWR element of the business case approval where further clarity was required (section 3.3), and this impacted on the whole project bundle. The revised project key milestones and programme are included in section 7.1.1.3.

## **8. CONCLUSION**

- 8.1** This Full Business Case for the redesign of services in Badenoch & Strathspey and Skye, Lochalsh & South West Ross demonstrates that;
- The proposals are consistent with national and local policy;
  - The chosen options are sustainable and represent value for money;
  - The appropriate procurement routes are in place and the procured offer for the new hospitals represents the best value commercial solution;
  - The proposals are affordable to the organisation; and
  - Robust management arrangements are in place to deliver the changes effectively.

## 9. GLOSSARY

**9.1** The following Glossary of Terms is listed in alphabetical order and seeks to provide a basic explanation of terms which have been used throughout this Full Business Case.

<b>Term</b>	<b>Definition</b>
<b>2020 Vision</b>	Scottish Government document “Achieving sustainable quality in Scotland’s Health Care” which set out the transformation required for health and social care to make services sustainable for the future.
<b>AEDET</b>	Achieving Excellence Design Evaluation Toolkit
<b>ACR</b>	Authority Construction Requirements. A series of documents that set out the technical, clinical and non-clinical requirements for the facility
<b>ADB</b>	Activity Database – a computerised software package to assist in the briefing, design and equipping of healthcare environments
<b>Affordability Cap</b>	Maximum cost cap for the infrastructure project, based on benchmark costs, as set out in the New Project Request.
<b>AMG</b>	NHS Highland’s Asset Management Group
<b>ASP</b>	The Annual Service Payment for a facility delivered through hubCo. Covers the cost of lending the finance and running the facility. Previously known as the ‘unitary charge’
<b>Authority</b>	The public sector ‘client’ within the hubCo contract, in this case NHS Highland
<b>B&amp;S</b>	Badenoch & Strathspey
<b>BCIS</b>	Building Cost Information Service – provider of cost and price information for the UK construction industry
<b>BCR</b>	Benefit/Cost Ratio
<b>Benefits</b>	Benefits can be defined as the positive outcomes, quantified or unquantified, that a project will deliver.
<b>BIM</b>	Building Information Modelling
<b>The Board</b>	The NHS Highland Board
<b>BREEAM</b>	Building Research Establishment Environmental Assessment Method

<b>BUG</b>	Building User Group – group comprised of key representatives from each service that uses the building
<b>CAPEX</b>	Capital Expenditure Limit
<b>CEL</b>	Chief Executive’s Letter - issued by the Scottish Government
<b>CEL 32 (2010)</b>	Chief Executive’s Letter 32 (2010) issued 19 August 2010. Arrangements for the Management of NHSScotland Capital Resources after 2010-11
<b>CIG</b>	The Scottish Government Capital Investment Group – decision making body for the business case process
<b>CNPA</b>	Cairngorm National Park Authority
<b>Cost Benefit Analysis</b>	Method of appraisal which tries to take account of both financial and non-financial attributes of a project and also aims to attach quantitative values to the non-financial attributes.
<b>CRB</b>	Cash Releasing Benefits
<b>DBFM</b>	Design, Build, Finance and Maintain – a type of revenue financed procurement contract
<b>Design and Development Phase</b>	The stage during which the technical infrastructure is designed and developed.
<b>Design Statement</b>	Developed by a multi-stakeholder group this sets out the non-negotiable performance objectives in relation to the ‘softer’ aspects of the design, e.g. approach, arrival routes, views to nature
<b>Discounted Cash Flows</b>	The revenue and costs of each year of an option, discounted by the respective discount rate. This is to take account of the opportunity costs that arise when the timing of cash flows differ between options.
<b>EAC</b>	Equivalent Annual Cost. Used to compare the costs of options over their lifespan. Different lifespans are accommodated by discounting the full cost and showing this as a constant annual sum of money over the lifespan of the investment.
<b>Economic Appraisal</b>	General term used to cover cost benefit analysis, cost effectiveness analysis, investment and option appraisal.
<b>EPC</b>	Energy Performance Certificate
<b>Equality Act</b>	Equality Act 2010
<b>End of Life Care</b>	The time when the person’s expected death is imminent and is expected to happen within the next few months, weeks or days
<b>ESA10</b>	European System of Accounts 2010

<b>FBC</b>	The Full Business Case explains how the preferred option would be implemented and how it can be best delivered. The preferred option is developed to ensure that best value for money for the public purse is secured. Project Management arrangements and post project evaluation and benefits monitoring are also addressed in the FBC.
<b>FC</b>	Financial Close (of hub DBFM contract)
<b>FM</b>	Facilities Management
<b>FS2</b>	Frameworks Scotland 2
<b>GEM</b>	Generic Economic Model
<b>GIFA</b>	The Gross Internal Floor Area of a building
<b>Hard FM</b>	'Hard' Facilities management - the repair and maintenance of the building fabric and component parts (e.g. boiler, roof)
<b>HBN</b>	Health Buiding Note
<b>HFN</b>	Health Facilities Note
<b>HFS</b>	Health Facilities Scotland
<b>HLIP</b>	High Level Information Pack – the 'brief' used in Frameworks Scotland procurement
<b>hNSL</b>	hub North Scotland Limited
<b>HRSG</b>	Human Resources Sub Group – leads on implementation of workforce plan
<b>HTM</b>	Health Technical Memorandum
<b>'Hub'</b>	Community Hospital and Resource Centre for the district; integrated services, inpatient beds, x-ray
<b>hubCo</b>	A joint venture company formed by a private sector development partner appointed by the public sector bodies in a specific geographical area of Scotland.
<b>IA</b>	Initial Agreement. Stage before Outline Business Case, containing basic information on the strategic context changes required overall objectives and the range of options that an OBC will explore.
<b>ICT</b>	Information and Communications Technology
<b>IFRIC 12</b>	International Financial Reporting Interpretation Committee 12

<b>KSR</b>	Key Stage Review
<b>LC(C)</b>	Life Cycle (Cost) – the cost of replacing the component parts during the life time of the contract
<b>LDP</b>	Local Delivery Plan
<b>LIBOR swap</b>	Relates to funding interest rates - the fixed interest rate that the receiver demands in exchange for the uncertainty of having to pay the short-term LIBOR (floating) rate over time
<b>MEP</b>	Mechanical, Electrical and Plumbing
<b>MORSE</b>	Electronic records system for community staff
<b>NBV</b>	Net Book Value. The current book value of an asset or liability; its original book value net of any accounting adjustments such as depreciation.
<b>NDAP</b>	NHSScotland Design Assessment Process – assesses the quality of the building
<b>NHS 24</b>	NHS Scotland medical advice service – online and telephone
<b>NHS Near Me</b>	A new service which aims to provide consultations as close as possible to patients' homes. These are telehealth appointments via a video link with a consultant or other specialist.
<b>NPC</b>	Net Present Cost. The net present value of costs.
<b>NPD</b>	Non-Profit Distributing – a form of infrastructure procurement
<b>NPR</b>	New Project Request. A request to hubCo to prepare a Stage 1 Submission for the project. It details the Affordability Cap, specific requirements, and a detailed Project Brief
<b>NPV</b>	Net Present Value. The aggregate value of cashflows over a number of periods discounted to today's value.
<b>OBC</b>	The Outline Business Case is a detailed document which identifies the preferred option and supports and justifies the case for investment. The emphasis is on what has to be done to meet the strategic objectives identified in the Initial Agreement. A full list of options will be reduced to a short list of those which meet agreed criteria. An analysis of the costs, benefits and risks of the shortlisted options will be prepared. A preferred option will be determined based on the outcome of a benefits scoring analysis, a risk analysis and a financial and economic appraisal.
<b>ODEL</b>	Out of Delegated Expenditure Limit
<b>OJEU</b>	Official Journal of the European Union



<b>Optimism Bias</b>	Optimism bias refers to the known tendency for the costs of projects to be underestimated, particularly in the early stages of developing and costing projects.
<b>PA</b>	Project Agreement
<b>Palliative Care</b>	The care of those with a life limiting condition which is advancing towards the last year of life
<b>Pillcam</b>	A less invasive form of diagnostic endoscopy which involves swallowing a pill
<b>PPE</b>	Post Project Evaluation
<b>PPM</b>	Scottish Government guidance - Programme and Project Management Approach
<b>PSDP</b>	Private Sector Development Partner – a private sector company appointed by the public sector
<b>QB</b>	Quantifiable Benefit
<b>RDD</b>	Reviewable Design Data
<b>Re-ablement</b>	Supporting people back to being independent and helping them to stay independent
<b>RIBA</b>	Royal Institute of British Architects
<b>Risk</b>	The possibility of more than one outcome occurring and thereby suffering harm or loss.
<b>Risk Workshop</b>	Held to identify all the risks associated with a project that could have an impact on cost, time or performance of the project. These criteria should be assessed in an appropriate model with their risk being converted into cost.
<b>RPs</b>	Rural Practitioners are GPs with enhanced skills in emergency, resuscitation and anaesthetics allowing the hospital to function at a higher level than most community hospitals.
<b>Schedule of Accommodation</b>	Details the number, type and size of rooms required
<b>SCIM</b>	Scottish Capital Investment Manual. Business case guidance produced by the Scottish Government (updated February 2017)
<b>Scope</b>	For the purposes of this document, scope is defined in terms of any part of the business that will be affected by the successful completion of the envisaged project; business processes, systems, service delivery, staff, teams, etc.
<b>Sensitivity Analysis</b>	Sensitivity Analysis can be defined as the effects on an appraisal of varying the projected values of important variables.

<b>SFT</b>	Scottish Futures Trust – an infrastructure delivery company owned by the Scottish Government that works with private and public sector partners
<b>SGHSCD</b>	Scottish Government Health and Social Care Directorate
<b>SHC</b>	Scottish Health Council
<b>(S)HPN</b>	(Scottish) Health Planning Note
<b>(S)HTM</b>	(Scottish) Health Technical Memorandum
<b>(S)HFN</b>	(Scottish) Health Facilities Note
<b>SLSWR</b>	Skye, Lochalsh and South West Ross
<b>SPV</b>	Special Purpose Vehicle – this runs the hubCo project during the construction and operational phases
<b>‘Spoke’</b>	Health and care facility housing outpatient services, community integrated team and GP services. No inpatient beds or x-ray.
<b>Soft FM</b>	‘Soft’ facilities management – e.g. cleaning, portering, grass cutting, snow clearing
<b>(hub) Stage 1 / Stage 2</b>	Refers to the stages in the hubCo procurement process. Stage 1 develops a concept design and cost envelope. Stage 2 develops the detailed design and market tested costs.
<b>Step up / step down beds</b>	Community beds which are used a) flexibly over short periods to support patients and prevent them from being admitted into hospital, or b) as part of a planned discharge from hospital to provide further rehabilitation / enablement / assessment of independence before going home. They may also be used at times of social crisis to avoid being admitted to hospital.
<b>Subordinated debt</b>	hubCo projects are funded via 90% senior debt (the lender) and 10% subordinated debt (the public sector participants).
<b>Tier 1 contractor</b>	The main contractors on the hubCo’s supply chain, e.g. main building contractor
<b>TUPE</b>	Transfer of Undertakings (Protection of Employment) Regulations 1981

## 10. APPENDICES

1. Outline Business Case Approval Letter
2. Sir Lewis Ritchie Recommendations
3. Building Research Establishment Environmental Assessment Method Pre-assessment (BREEAM)
4. Site Plans / Visualisations
5. NDAP FBC Report – *to follow*
6. Workforce Costs (B&S and SLSWR)
7. Occupancy Agreement Heads of Terms
8. Role, Remit & Membership of Programme Board
9. Skills Assessment of Key Project Individuals
10. Project Master Programme
11. Transition Plans (B&S and SLSWR)
12. Workforce Plans (B&S and SLSWR)
13. Communications & Engagement Plans
14. Benefits Realisation Plans (B&S and SLSWR)
15. Benefits Registers (B&S and SLSWR)
16. Complete Risk Register
17. Quantified Risk Register
18. Outline Technical Commissioning Programmes (B&S and SLSWR)
19. Project Monitoring Report
20. hubCo Stage 2 Pricing Report