Greater Glasgow NHS Board

Board Meeting
Tuesday, 22 February, 2005

Chief Executive, Primary Care Division

Local Forensic Psychiatric Unit
Contract for Provision of Unit

Recommendations:

The NHS Board is asked to:-

(a) re-appraise itself of the information provided and the approval given to the Local Forensic Psychiatric Unit (LFPU) - Full Business Case (FBC) at the April 2004 Board meeting – see Section 1, “Background” below;

(b) note the points in this paper updating the NHS Board of the relevant changes that have taken place between FBC approval in April 2004 and subsequent contract finalisation with the preferred bidder – see Section 2 below;

(c) approve the Board entering into a Contract, based on the Project Documents and any associated contractual documentation, as advised by the Board’s external advisors;

(d) authorise any two of the Chief Executive, the Acting Director of Finance/Director of Finance for the Primary Care Division, the Director of Planning and Community Care and the Chief Executive for the Primary Care Division, to sign on behalf of the Board the Project Documents (subject to such amendments to the Project Documents as required (provided such amendments are consistent with the general agreed principles of the Project Documents exhibited at the meeting)) and any additional documentation required in connection with the Project as advised by the Board’s external advisors.

(e) authorise Mr. Douglas Griffin, Director of Finance of the Primary Care Division, as the named individual on behalf of Greater Glasgow Health Board for the purpose of the insurance proceeds account to be opened in terms of the project agreement.

(f) request the Chairman to produce a certified copy of the minute of the proceedings of the meeting as verification that approval has been granted.
1. **Background**

1.1 The Full Business Case for the provision of the Local Forensic Psychiatric Unit (LFPU) was approved by the Board on 20 April 2004. The Unit provides 74 places for the provision of services for the population of Greater Glasgow and will be located at a greenfield site at Stobhill General Hospital.

1.2 Following a PFI bidding process, the Canmore/Balfour Beatty Consortium were appointed as preferred bidder for the provision of this Unit under a private finance arrangement (PFI).

1.3 Negotiations have taken place between the Primary Care Division and the Canmore/Balfour Beatty Consortium on the Contract (as defined at paragraph 3.3 below) under which the Unit is to be provided. The private sector consortium consists of:

- **Lead**: Canmore Partnership
- **Builder**: Balfour Beatty Construction Limited
- **Architect**: Boswell Mitchell & Johnston
- **Banker**: Dexia Public Finance Bank
- **Facilities**: Parsons Brinckerhoff

A special purpose company (to be known as Stobhill Healthcare Facilities Limited) will be established by Canmore Balfour Beatty to deliver the contract.

1.4 Conduct of the negotiations was assisted by professional external advisors to the Primary Care Division of the Board:

- **Legal**: McClure Naismith
- **Finance**: Tribal Consulting
- **Technical**: Young & Gault
- **Project Management**: Currie & Brown

1.5 The Contract is for provision of the building and its maintenance for a period of 35 years, with an expected construction commencement date of 3rd May 2005 and completion in December 2006. The Board will pay an annual unitary charge subject to satisfactory continued provision of the building and its maintenance. Soft services, such as cleaning or catering, are not included in the contract. These will continue to be provided by the NHS Greater Glasgow Board under arrangements for the provision of these services to the Stobhill site.
2. **Update from Approval of FBC to Current Position**

2.1 No significant change has taken place on this scheme since approval of the Full Business Case (April 2004). Since last April, the Division has worked in partnership with the consortium to overcome issues related to water run-off on the site to meet the requirements of Scottish Water. These issues have now been addressed satisfactorily, after a lengthy period of negotiation.

2.2 The cost of the PFI provision of the service has increased as a result of cost indexing but remains within the funding set aside for provision of this Unit.

2.3 The Scottish Executive Health Department have confirmed that the FBC satisfies all their requirements, subject to confirmation from the external auditors regarding the accounting treatment (see **Appendix 1**). Clearance has now been obtained from the external auditors, PricewaterhouseCoopers, that they have no objection to the accounting treatment of the transaction as being off balance sheet (see **Appendix 2** to be produced at the meeting). This has enabled the SEHD to confirm their approval for the Board to agree a Contract with the consortium for the provision of a LFPU (see **Appendix 3** to be produced at the meeting).

2.4 The Board’s external advisors agree that, subject to minor details to be finalised shortly, the Contract is ready for signing. To satisfy the private sector consortium, specific Board authorisation to conclude the Contract is required.

3. **The Contract**

3.1 As stated above, the Contract provides for provision of the Unit for a 35 year period, including full maintenance of the building. The Board has an option to take over ownership of the building at the end of this period at no cost.

3.2 The Contract is based on standard form documentation issued by the Scottish Executive for use in PPP/PFI projects.

3.3 The contract documents consist of:

- Project Agreement with the project company (the “Contract”)
- Funders Direct Agreement with the funding bank
- Construction Direct Agreement with the builder
- Services Direct Agreement with the services provider
- Independent Testers Appointment with the Independent Tester, Capita Symonds,

and supporting documentation.
4. **Contract Authorisation**

4.1 The Board is asked to approve the attached Minute which will enable the project to proceed to contractual close. Signing of the Contract documents will enable the project to commence and the site and building preparation works to proceed in the coming months. If approved, the Chairman will be asked to sign the attached Minute as evidence of the decision taken and allow the Board’s legal representatives to complete remaining preparations for the signing of the Contract documents.
Greater Glasgow Health Board

Extract of the Minute of a Meeting of the Board of Greater Glasgow Health Board duly convened and held at Glasgow on 22 February, 2005.

Present:

(list of members attending)

Minute No. Local Forensic Psychiatric Unit Contract for Provision of Unit

A report of the Chief Executive, Primary Care Division [Board Paper No. 05/ ] sought approval to the contract for the Project for the Local Forensic Psychiatric Unit (LFPU), following approval of the Full Business Case at the Meeting of the Board on 20 April 2004.

The Chief Executive and the Director of Finance of the Primary Care Division provided Members with an update on the current status of the Project. They explained that the Project is to be entered into pursuant to the Government’s Private Finance Initiative and that the purpose of the project is to create a local forensic psychiatric facility which will provide services as discussed and outlined in the minutes of the Meeting of 20 April 2004. Copies of the principal documents to be entered into by the Board pursuant to the Project (the “Project Documents” listed below) were available to Members for their consideration. The Director of Finance explained that the Project Documents were not yet in their final form and would be subject to amendments as advised necessary by the Board’s external advisors. Any such amendments would be consistent with the general agreed principles of the Project Documents exhibited at the meeting. He explained that the Project was moving towards financial close.
The “Project Documents” referred to above:

1. Project Agreement between the Board and Stobhill Healthcare Facilities Limited


3. Construction Direct Agreement between the Board and Balfour Beatty Construction Limited

4. Services Direct Agreement between the Board and Parsons Brinckerhoff Limited.

5. Independent Tester Contract amongst the Board, Stobhill Healthcare Facilities Limited, Capita Symonds, Dexia Public Finance Bank, Balfour Beatty Construction Limited

DECIDED:

1. That approval for the Board to enter a Contract, based on the Project Documents and additional documentation required in connection with the Project as advised by the Board’s external advisors be given.

2. That any two from the Chief Executive, the Acting Director of Finance/Director of Finance for the Primary Care Division, the Director of Planning and Community Care and the Chief Executive for the Primary Care Division, be authorised to consider and agree any such amendments after the date of this meeting – including agreement of the final pricing amendments to the Project Documents as advised by the Board’s external advisors provided any such amendments would be consistent with the general agreed principles of the Project Documents exhibited at the meeting.

3. That any two/three from the Chief Executive, the Director of Finance/Director of Finance for the Primary Care Division, the Director of Planning and Community Care and the Chief Executive for the Primary Care Division, be authorised to sign and deliver on behalf of the Board the Project Documents with such amendments to the Project Documents as advised by the Board’s external advisors and any additional documentation required in connection with the Project as advised by the Board’s external advisors (provided any such amendments are consistent with the general agreed principles of the Project Documents exhibited at the meeting). Authorised specimen signatures of each individual are annexed to this Minute.
4. That Mr. Douglas Griffin, Acting Director of Finance/Director of Finance of the Primary Care Division, be authorised as the named individual on behalf of Greater Glasgow Health Board for the purpose of the insurance proceeds account to be opened in terms of the project agreement.

5. That the Chairman be requested to produce a certified copy of the minute of the proceedings of the meeting as verification that approval has been granted.

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Chairman of the meeting of the Board on 22nd February 2005.

GREATER GLASGOW HEALTH BOARD

SPECIMEN SIGNATURE LIST

This is the Specimen Signature List referred to in the Minutes of the Meeting of the Members of the Board of Greater Glasgow Health Board held at Dalian House, 350 St. Vincent Street, Glasgow on 22 February, 2005.

Name T A Divers Signature
[ title ] Chief Executive

Name D D Griffin Signature
[ title ] Acting Director of Finance/Director of Finance, Primary Care Division

Name C Renfrew Signature
[ title ] Director of Planning and Community Care

Name R Crocket Signature
[ title ] Chief Executive, Primary Care Division
Dear Douglas

FBC Submission re Local Forensic Psychiatric Unit

I refer to the above which was presented to the Health Department’s Capital Investment Group (CIG) on Monday, 24th May 2004.

Members of the Capital Investment Group were content that the Full Business Case (FBC) addressed all the appropriate areas and was well presented. The Group, however, felt unable to recommend approval of the FBC until the external auditors are able to confirm the accounting treatment for the proposed project.

It would appreciated if you could forward a copy of your external auditor’s letter confirming the accounting treatment for the above FBC once it is available.

Yours sincerely

Julie McKinney
Finance Manager (West Boards)

Cc. Mr David Hastie, SEHD
Private and Confidential

FAO Mr D Griffin Esq
Director of Finance
NHS Greater Glasgow - Primary Care Division
Divisional Headquarters
Gartnavel Royal Hospital
1055 Great Western Road
Glasgow
G12 0XH

16 February 2005

Dear Sirs

NHS Greater Glasgow - Primary Care Division (GGPCD)

Local Forensic Psychiatric Unit PFI Scheme

In our capacity as external auditors to NHS Greater Glasgow we provide you with a short letter summarising our view on your proposed accounting treatment relating to the Local Forensic Psychiatric Unit PFI scheme.

Our audit responsibilities are set out in the Code of Audit Practice published by Audit Scotland. Part of our responsibilities is to give an independent assessment of whether the financial statements give a true and fair view of the financial position of NHS Greater Glasgow and its income and expenditure for the year and have been prepared in accordance with appropriate legislation. As GGPCD is a division of NHS Greater Glasgow, and with this responsibility in mind, we have monitored the development of the proposals for GGPCD’s PFI scheme and its associated accounting treatment.

It should be noted that the primary responsibility for the preparation of NHS Greater Glasgow’s accounts lies with its management. It is for them to determine their views on proper accounting in the context of NHS accounting arrangements.

We have not been commissioned to provide financial advice and therefore this letter, whilst intended to be part of a constructive debate, should not be regarded as advice. In addition, this letter is provided solely for the benefit of NHS Greater Glasgow and we accept no responsibility to any third party who might seek to place reliance on its contents.
It needs to be appreciated that the consideration of accounting for PFI schemes is ongoing and NHS Greater Glasgow will therefore need to regard future changes in recommended accounting practice as an inherent risk. In particular, recent joint research pronouncements by the accounting standards setting bodies in major countries point towards the possible treatment of all lease transactions including operational leases, as being “on balance sheet” from the perspective of the lessee. In addition it should be noted that there is currently ongoing debate surrounding the interpretation of Application Note F to FRS 5 – Reporting the substance of transactions: Private Finance Initiative and Similar Contracts (the ‘Application Note’) and the Treasury Taskforce Technical Note No 1 (Revised) – ‘How to Account for PFI Transactions’ (the ‘Technical Note’).

The views outlined in this letter are based solely upon the information presented to us in the following documents:

- Report by Tribal Consultancy titled “Accounting Treatment – Revised Quantitative Analysis at 3.5% discount rate for the Local Forensic Psychiatric Unit” dated 11 February 2005; and

- Additional clarification and information provided in Mr D Griffin’s letter dated 15 February 2005.

It should be noted that we have not verified the information provided in these documents against independent sources, nor have we re-performed or audited the calculations made to support risk values.

Our review has been limited to considering whether the Treasury Taskforce Technical Note No 1 (Revised) ‘How to account for PFI transactions’ (‘the Technical Note’) has been followed.

Although we have some concerns around the quantitative risk analysis that has been undertaken, we are presently not minded to challenge your conclusion that an off balance sheet treatment is appropriate. This conclusion is based on the information provided to us to date and your view that demand and residual value are not significant.

It should, however, be noted that if the facts highlighted in the documents outlined above change or further relevant information becomes available, then our views may have to be reconsidered.

Should you wish to discuss any aspect of this letter, please do not hesitate to contact Gordon Greer on 0191 232 8493, Mark White on 0141 245 2063, or Cameron Revie on 0141 245 2275.

Yours Faithfully

PricewaterhouseCoopers LLP
Dear Tom

FULL BUSINESS CASE APPROVAL – LOCAL FORENSIC PSYCHIATRIC UNIT

As you are aware, the above business case was considered at the June 2004 meeting of the Capital Investment Group (CIG).

CIG were unable to approve the business case at that time as the Board were (a) unable to provide a letter of comfort from their external auditors confirming the accounting treatment of the project, and (b) demonstrate the affordability of the project. With regard to item (b) you wrote to Julie McKinney on 1 October confirming that the revenue funding for the project had been incorporated in the Board’s 5 year financial plan (which now demonstrates financial balance for 2005-06 and subsequent years). The external auditor’s letter was received by fax yesterday evening.

Given the length of time which has elapsed since CIG considered the business case, CIG asked for details of any financial or legal changes which had taken place. I understand that these details have been provided. Furthermore, Donald Thomson of NHS Greater Glasgow has confirmed that no other changes have taken place to the FBC since June 2004.

CIG has now recommended approval of the FBC and I am pleased to confirm that approval. I would appreciate if you could ensure that the Department are advised of any proposed subsequent changes to the standard form contract before signature.
In accordance with HDL(2002)49 – Openness: Publication of PPP Contracts and Capital Business Cases, business cases/ addendums in excess of £5m are required to be placed within the Scottish Parliament Library (SPICe) within one month of receiving approval. Therefore I would be grateful if you could forward a public version of this document to Glenda Roy at the above address within one month of receiving this approval letter.

Yours sincerely

[Signature]

Kevin Woods
Head of Department and Chief Executive, NHSScotland

Cc: Douglas Griffin, Acting Director of Finance, NHSGG
    Donald Thomson, Assistant Director of Finance, NHSGG Primary Care Division
    David Hastic, Chair CIG
    Glenda Roy, Secretary CIG
    Peter Collings, Director of Finance and Performance Management
    Julie McKinney, Finance Manager – West Boards