

Greater Glasgow Health Board

Board Meeting

Tuesday , 20th September 2005

Board Paper No. 05/62

Acting Chief Executive, Primary Care Division

**Gartnavel Royal Hospital
Contract for Provision of Hospital**

The NHS Board is asked to :-

- 1. note that approval is given to the Gartnavel Royal Hospital - Full Business Case (FBC) at the February 2005 Board meeting – see Section 1, below;**
- 2. note the relevant changes that have taken place between FBC approval in February 2005 and subsequent contract finalisation with the preferred bidder – see Section 2 below;**
- 3. give approval to entering into a contract, based on the Project Documents and any associated contractual documentation, as advised by the Board’s external advisors;**
- 4. authorise any two of the Chief Executive, the Acting Director of Finance, the Director of Planning and Community Care and the Acting Chief Executive, Primary Care Division, to sign on behalf of the Board the Project Documents (subject to such amendments to the Project Documents as shall be agreed by any one of the Chief Executive, the Acting Director of Finance, the Director of Planning and Community Care or the Acting Chief Executive, Primary Care Division), having considered the advice of the Board’s external advisors, and any additional documentation required in connection with the Project as advised by the Board’s external advisors.**
- 5. authorise Mr. Douglas Griffin, Acting Director of Finance, 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.**
- 6. 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 Board approved a Full Business Case for the re-provision of Gartnavel Royal Hospital at its meeting of 22 February 2005. The new hospital will provide 117 acute inpatient places for the population of West Glasgow and will be located on the Gartnavel Royal site.

1.2 Following a PFI bidding process, a private sector consortium led by Robertson Capital Projects Limited was appointed as preferred bidder for the provision of the hospital under a private finance arrangement (PFI).

1.3 The Primary Care Division of NHSGG and Robertson Capital Projects Limited have negotiated the terms of a Contract (as defined at paragraph 3.3 below) under which the hospital is to be provided. The private sector consortium consists of :

Lead : Robertson Capital Projects Limited
Builder : Robertson Construction Central Limited
Architect : Macmon Limited
Lender : The Governor and Company of the Bank of Scotland
Facilities : Robertson Facilities Management Limited

The consortium was supported by its own professional team, comprising :

Architect : Macmon Limited
Civil and Structural Engineer : URS Corporation Limited
Mechanical and Electrical Engineer : Wallace Whittle
Planning Supervisor : MacKenzie Partnership

The Primary Care Division was supported by the following team of professional advisers:

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

The Contract is for provision of the hospital building and its maintenance for a period of 30 years. The Board will pay an annual 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. Construction will commence following financial close and is planned to take 18 months, with the new hospital planned to open by May 2007.

2. Update from Approval of FBC to Current Position

2.1 There have been no significant changes to the scheme since approval of the Full Business Case by the NHS Board in February 2005.

Since February, the Division has worked with the consortium to resolve outstanding points relating to planning, site access and site infrastructure preparation. These issues have now been satisfactorily resolved..

2.2 There is an increase to the unitary charge as a result of cost indexing, however this remains within the funding envelope set aside for the hospital, which makes provision for cost indexation.

2.3 The Scottish Executive Health Department has approved the Full Business Case - see Appendix 1 - enabling the Board to now agree a Contract with the Preferred Bidder. Confirmation has been obtained from the external auditors, PricewaterhouseCoopers, that they have no objection to the accounting treatment of the transaction as off balance sheet – see Appendix 2.

2.4 The Board's advisers confirm that it is now appropriate for the Board to give authority to its legal representatives to enter into a contract for the provision of a new Gartnavel Royal Hospital. A small number of points of detail within one of the project documents (the Funders Direct Agreement) remain to be finalised and it is anticipated that agreement of these will be concluded by early October 2005. The Board's advisers will confirm at that stage whether the outstanding points have been satisfactorily resolved, allowing a contract to be signed at that stage.

3. The Contract

3.1 The Contract is for the provision of the Hospital over a 30 year period, including full maintenance of the buildings. The Board can exercise an option to take over the ownership of the building at the end of this period, at no additional cost..

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

3.3 The project documentation consists 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 (the Independent Tester will be Davis Langdon LLP)
- Collateral Warranties from the consortium's Professional Team in favour of the Board

and all associated 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 Project 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 authorised to sign the attached Minute to evidence the Board's approval. This will allow the Board's legal representatives to complete remaining preparations for the signing of the Project Documents.

Rosslyn Crockett
Acting Chief Executive
12 September 2005
0141 211 3712

4. Services Direct Agreement between the Board, The Governor and Company of the Bank of Scotland, Robertson Health (Gartnavel) Limited and Robertson Facilities Management Limited.
5. Independent Tester Contract amongst the Board, Robertson Health (Gartnavel) Limited, Davis Langdon LLP.
6. Collateral Warranties from the professional Team in favour of the Board.

DECIDED :

- 1. That approval for the Board to enter into 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, the Director of Planning and Community Care and Acting Chief Executive for the Primary Care Division, be authorised to consider and agree any amendments after the date of this meeting, having considered the advice of the Board's external advisors (including agreement of the final pricing amendments to the Project Documents).**
- 3. That any two from the Chief Executive, the Acting Director of Finance, the Director of Planning and Community Care and the Acting Chief Executive Primary Care Division, be authorised to sign on behalf of the Board the Project Documents (subject to such amendments to the Project Documents as shall be agreed by any one of the Chief Executive, The Acting Director of Finance, the Director of Planning and Community Care or the Acting Chief Executive, Primary Care Division having considered the advice of the Board's external advisors) and any additional documentation required in connection with the Project as advised by the Board's external advisors. Specimen signatures of each of the aforementioned authorised signatories are annexed to this Minute.**
- 4. That Mr. Douglas Griffin, Acting Director of Finance 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 and the Insurance Proceeds Account 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

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 20 September, 2005.

Name T A Divers Signature
[title] Chief Executive

Name D D Griffin Signature
[title] Acting Director of Finance

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

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

I certify that the above specimen signatures are the signatures of each of the aforementioned authorised signatories 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 20th September 2005.

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Designation :



SCOTTISH EXECUTIVE

Appendix I

Health Department
Kevin Woods, Head of Department and
Chief Executive, NHS Scotland

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Mr T.A. Divers
Chief Executive
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Your ref:
Our ref:

11 August 2005

Dear Tom

FULL BUSINESS CASE APPROVAL – WEST SECTOR REPROVISION OF MENTAL HEALTH SERVICES

As you are aware, the above business case was considered at the March 2005 meeting of the Capital Investment Group (CIG). However, CIG were unable to approve the business case at that time due to the absence of detailed planning permission for the project. It was therefore agreed that the business case would be reconsidered by CIG, using expedited procedures, once planning permission was granted.

Donald Thomson has since confirmed that planning permission was received on 12th July 2005, and that there have been no changes to the business case since March 2005. CIG has now reconsidered the business case and I am pleased to confirm that approval has been granted and I therefore content for the Board to proceed to financial close by entering into a contract with the Robertson Group.

In accordance with HDL (2005)19 – Freedom of Information (Scotland) Act 2002: Publication of PPP Contract 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

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 Hastie, Chair CIG
Glenda Roy, Secretary CIG
Peter Collings, Director of Finance and Performance Management
Julie McKinney, Finance Manager – West Boards

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Private and Confidential

FAO Mr D Griffin Esq
Director of Finance
NIIS Greater Glasgow - Primary Care Division
Divisional Headquarters
Gartnavel Royal Hospital
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4 March 2005

Dear Sirs

NHS Greater Glasgow - Primary Care Division (GGPCD)

Gartnavel Royal Hospital 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 Gartnavel Royal Hospital 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 NHS Greater Glasgow's Gartnavel Royal Hospital 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 your 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.

FAO D Griffin Esq
4 March 2005

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 points 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 document,

- Report by Tribal Consultancy titled "Accounting Treatment Assessment on the Gartnavel Royal Hospital PFI Scheme" dated 24 February 2005.

It should be noted that we have not verified the information provided in this document 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 those matters highlighted in Tribal Consulting's report 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