

NHS Greater Glasgow & Clyde



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Inverclyde NHS Adult & Older Peoples NHS Continuing Care Beds for  
Mental Health – Orchard Grove



**Full Business Case – FBC Addendum Feb 2016**

## Overview

Inverclyde's FBC was considered by Health Directorate Capital Investment Group (CIG) at their meeting on 9 June 2015. A confirmation that all issues had been addressed, subject to ESA10 matters being resolved, was received on 20 August 2015.

Scottish Government confirmed on 26 November 2015 that a solution had been agreed to ESA10 and the Board should re-engage with hub to progress to financial close.

### Changes since FBC

- Removal of capital contribution £255,797
- Due to the length of time elapsed between the original market testing and resolution to ESA10, Hub's tier 1 contractor, Morgan Sindall required to update their price. MS outlined that they were not prepared to sign up to a BCIS-based uplift until they had an opportunity to test the market with a refresh of pricing for key work packages.
- Lifecycle costs have increased, in the financial model, from £52,000 - £20.00m2 to £56,706 - £21.81m2. This has been challenged in detail with Robertson FM and the number now sits at £21.54 but is being still challenged further.
- Hub's Consulting Engineering practice CM2Hill Halcrow has restructured and have been unwilling to re-engage to complete the project. A replacement practice has been identified and are undertaking a due diligence examination of the design information to date.
- In addition to the additional costs set out above there has been a reduction in the funding terms proposed by Aviva (£9k pa reduction in the ASP) and a change in the structure they require that has allowed a more advantageous tax treatment (£45k pa reduction in the ASP). There has also been a reduction in the underlying market gilt rates and the model has been updated to reflect the current market rates (25 January) plus a 0.25% buffer (£8k pa reduction in the ASP from the FBC position)

### Financial Case

#### Capital Costs

The capital cost for the preferred option is £8,489,413 as outlined in the stage 2 Addendum. This is an increase of £791,501(10.28%) from the original Stage 2 of January 2015. This represents worst case scenario, based on submitted pricing information. Several areas are undergoing scrutiny. Current indications are that some pricing aspects will reduce through this process.

The main items that are being reviewed at present are:

- £70,000 is included in Morgan Sindall's Prime Cost for ground remediation. The original lowest priced groundworks contractor's workload has changed and they are not prepared to carry out the work. The next placed contractor has highlighted concerns about deterioration of the ground and requested an additional provision until this is fully investigated. MSPS have been appointed and have reviewed the groundworks. They will conclude their due diligence by 3<sup>rd</sup> February. The cost at present is £84,000 in lieu of the £70,000 above. This is currently being interrogated.
- Legal advisor fees have been reviewed since production of the financial model and a reduction in fees of £13,000 has been agreed.

- Architect fees have been reviewed since production of the financial model and a reduction of £24,000 has been agreed.
- Several advisors and management fees are being challenged.

## Summary

A commercial meeting has been arranged for 2<sup>nd</sup> February between NHS, Hub West and Morgan Sindall to finalise a price. By Friday 5<sup>th</sup> February Hub West will provide NHS with a final price and a financial model re run early next week.

## Financial Model

The key inputs and outputs of financial model are detailed below:

**Table 1 - Key inputs and outputs of financial model**

Output	FBC	Addendum
Capital Expenditure (capex & development costs)	£7,697,950	£8,489,413
Total Annual Service Payment	£760,048	£777,730
Nominal project return	5.70%	5.35%
Nominal blended equity return	10.50%	10.50%
Gearing	90.55%	90.50%
All-in cost of debt (including 0.50% buffer FBC, buffer Jan 16 0.25%)	4.48%	4.19%
Minimum ADSCR <sup>1</sup>	1.150	1.150
Minimum LLCR <sup>2</sup>	1.167	1.168

The financial model subject to completion of the review by our financial advisors and will be optimised as part of the financial close process.

## Project Programme

A summary of the key project dates is provided in the table below. The reported costs are based on hub's updated programme showing financial close on 26/2/16 assuming that SG fund the revenue increase noted above. If NHSGG&C are required to fund the uplift it will represent a material change from the FBC previously approved at the Board and a further paper we will need to go to the next Board meeting on 16<sup>th</sup> February 2016. If this is approved it will delay financial close until 14/3/16.

<sup>1</sup> Annual Debt Service Cover Ratio: The ratio between operating cash flow and debt service during any one-year period. This ratio is used to determine a project's debt capacity and is a key area for the lender achieving security over the project

<sup>2</sup> The LLCR is defined as the ratio of the net present value of cash flow available for debt service for the outstanding life of the debt to the outstanding debt amount and another area for the lender achieving security over the project

**Table 2 - Programme**

	<b>FBC</b>	<b>Addendum SG Approval</b>	<b>Addendum NHS GG&amp;C Approval</b>
Submission of FBC Addendum		Jan 16	Jan 16
Financial Close	Jan 15	Feb 16	Mar 16
Start on site	April 15	Feb 16	March 16
Completion date	June 16	June 17	July 17
Services Commencement	Aug 16	July 17	Aug 17