

<p>North East Strategic Health Authority</p> <p>North West Strategic Health Authority</p> <p>Yorkshire and the Humber Strategic Health Authority</p> <p>BOARD MEETING</p>	 <p>North of England</p>
<p>Date: 19 January 2012</p>	<p>Report Author: Mark Ogden, Cluster Director of Finance</p>
<p>Title of paper: Proposal to endorse the Alder Hey Foundation Trust appointment business case for the redevelopment of the Alder Hey site</p>	
<p>Actions Requested: To endorse</p>	
<p>Governance Requirements</p>	
<p>SHA Objectives supported by this paper:</p> <ul style="list-style-type: none"> • Improve health and wellbeing for the population served • Optimise the delivery of quality healthcare in the most appropriate setting. 	
<p>Risk Management: A risk management strategy has been developed and a project risk register has been prepared which identifies the key project risks, their likelihood and severity and mitigation strategies. It is reviewed by the project team and high risks escalated and monitored through the Corporate Risk Committee on a monthly basis</p>	
<p>Board Assurances:</p> <ul style="list-style-type: none"> • The North West SHA endorsed the Outline Business Case (OBC) in November 2009 and the Department of Health approved the OBC in November 2011. • The formal approval of the ABC is vested with the DH and Treasury 	
<p>Risk Assessment:</p> <ul style="list-style-type: none"> • Monitor has undertaken its review on capital funding ability and revenue affordability of the scheme but has not yet published its report • The SHA currently provides the revenue support for capital schemes, however this central allocation from the Department of Health is not guaranteed in future years. 	
<p>Communication (including public and patient involvement): There has been regular communications with staff, patients, public, university, city council, MPs and the local PCTs.</p>	

Resource Implications – including productivity and value for money:

- £277.9m outturn capital
- £18.4m revenue costs

Legal Implications:

The Trust has appointed its own legal and technical advisors for specific advice on the project.

Equality and Diversity:

A Equality and Diversity assessment has been undertaken

NHS Constitution:

Consideration has been given to the principles of the NHS Constitution

North East Strategic Health Authority
North West Strategic Health Authority
Yorkshire and the Humber Strategic Health Authority

19 January 2012

**Proposal to endorse the Alder Hey Foundation Trust appointment
business case for the redevelopment of the Alder Hey site**

Introduction

1. This paper proposes to endorse the appointment business case (ABC) for Alder Hey NHS Foundation Trust (AHFT) for the re-provision of Alder Hey Hospital titled the 'Children's Health Park'.
2. Alder Hey became a foundation trust in August 2008. The Department of Health's (DH) *Delegated Limits for Capital Investment* do not apply to foundation trusts and as a result Strategic Health Authority (SHA) approval is not required. The SHA role is to endorse the geographical location and strategic fit of the proposals. DH and Treasury approval of the scheme is required and this will take account of the views of the commissioners, SHA and Monitor. Approval by DH and Treasury enables a Secretary of State deed of safeguard to be issued at financial close.
3. The former Cheshire & Merseyside Strategic Health Authority and DH approved the North Mersey Future Healthcare Programme strategic outline case (SOC) in July 2004 which included the Alder Hey scheme. The North West SHA endorsed the Outline Business Case (OBC) in November 2009.
4. Approval of the ABC enables the Trust to formally select its 'preferred bidder' and finalise the design, contractual terms and financial model with that one bidder. Material changes to the price, financial model, design solution or the contract are not permitted post appointment of the preferred bidder. The scheme is therefore effectively 'frozen' at ABC.

Update from OBC

5. At OBC the scheme was split into two stages, the first stage being the new inpatient accommodation and the refurbishment of outpatient and allied health facilities. This was approved at a capital value of £279.8m. The second phase which consisted of the creation of new outpatients and allied health facilities was scheduled to take place at a later date when affordability could be proven.

6. During the procurement process the Trust demonstrated that it could undertake both phases of the investment within the one phase for the same revenue consequences as for stage one only, this was mainly because reduced bidder costs. The Trust therefore revised its OBC in April 2011 and sought approval from the DH and Treasury to proceed with both phases of the procurement. OBC approval was given by DH and Treasury in November 2011. The combining of the inpatient and outpatient accommodation into a single stage enabled the Trust to deliver better clinical pathways and to avoid substantial backlog maintenance costs.
7. Since approval of the OBC the Trust has completed the 'dialogue' stage of the procurement and has evaluated the bids. The ABC summarises the bids received and seeks approval to selecting the preferred bidder. The ABC has few changes from the approved OBC regarding clinical accommodation capacity, growth and efficiency.

Table 1: Changes from OBC to ABC

Function	Baseline 2009/10	OBC (April 2011)	ABC
General and Acute Ward Total	192	193	192
Critical Care	45	48	48
Oncology	18	18	18
Long Term Ventilation (LTV)	6	12	12
Inpatient Bed Total	261	271	270
Theatres		14	16
Scheme content		New + refurbishment	New

8. The ABC capital cost is £277.9m (outturn including VAT). The investment will create new inpatient accommodation, accident and emergency, radiology, pathology, operating theatres, paediatric intensive care, day surgery, day procedures, outpatient department, allied health facilities, pharmacy, support accommodation and multi-storey car park.
9. The preferred option remains in the same location as at OBC with the new facilities being built on the adjoining park. Upon demolition of the hospital buildings the park will be re-established. A Children's Park (Trust's hospital gardens) will be created with extensive hospital gardens and specialised therapeutic areas for patients, families and

visitors and general areas for staff and public to encourage exercise and improve public health.

10. Liverpool PCT undertook a period of formal public consultation on behalf of AHFT on the proposed changes and re-location into the park in 2009. More than 7,300 responses were received which included over 950 responses from children. Of those participating an overwhelming 92.6% agreed with the preferred option. The Overview and Scrutiny Committee also formally supported the changes.
11. The North West SHA signed-off the consultation process, 4 tests and endorsed the location when the OBC was endorsed in November 2009.
12. The ABC has been appraised and approved through the PCTs who have re-confirmed the model of care. The hospital will be a centre of excellence for 'high tech' secondary and tertiary services, sitting alongside the delivery of ambulatory care and out patient care shared across the specialist children's hospital setting and where appropriate local general hospitals and in 'out of hospital' facilities. The development of the 'Alder Hey @' and 'Alder Hey with' network models promote this approach.
13. The National Clinical Advisory Team review led by Dr Sheila Shribman was undertaken in September 2008 which assessed the Trust's service proposals and alignment with the model of care and the wider health economy strategy. The review team concluded that proposals to redevelop Alder Hey and the development of the outreach "Alder Hey @..." model should be strongly supported.
14. In re-confirming the capacity, activity and income for the ABC the Trust has used the following assumptions:
 - An annual income growth rate of 1.3% in 2012/13 and 2013/14, and 0.5% p.a. from 14/15 onwards
 - Cumulative growth rates from 2011/12 to 2018/19 are: non-elective spells 1.7%, elective spells 7.5%, outpatients 7.9% and emergency department -10.4%
 - Optimised day case %, improved efficiency targets for length of stay (13% improvement) and increased theatre efficiency.
15. The Trust is assuming an increase in contract income of £6m in the five years between 2011/12 and 2016/17. The table below highlights the income growth by PCTs over a five year period. The annual growth in income over the period is small for PCTs in the North West with the highest growth being from non North West PCTs.

Table 2: Percentage growth and share of growth 20011/12 - 2015/16

	Growth & Rate over 5 years (2011/12 to 2016/17)		Average Annual Growth	% Share of Growth
	£m	%	%	%
North West	3.42	2.80	0.56	57
Wales	0.30	2.74	0.55	5
Non-North West	2.28	47.59	9.52	38
TOTAL	6.00	4.36	0.87	100

PCT Assurance

16. PCT, Clinical Commissioning Groups (CCG) and the North West Specialised Commissioning Group (NWSCG) regard the planning assumptions as reasonable based on trend analysis and the direction of travel for specialised paediatric services.

17. The North Mersey PCTs re-established the technical appraisal group (TAG) to review the ABC. The following recommendations were made when the North Mersey PCT Cluster approved the ABC in September 2011:
 - The model of care proposed has been formulated through long term discussion and strong work at a clinical level between the Trust and commissioners at all levels. The model of care and associated delivery models are in accordance with the objectives and long term strategic plans of the NWSCG.
 - Delivery of the activity and capacity plans should be jointly reviewed on an annual basis, with quarterly monitoring against the agreed trajectories undertaken across commissioners. Any significant variation from the assumptions must be critically and carefully assessed jointly between AHFT and the commissioners and where required appropriate mitigation plans agreed and implemented.
 - The Trust continues to work with local Trusts and commissioners to better understand and plan, where possible, for the further repatriation of services from local district general hospitals.
 - That Trust continue to keep under review and refine the final configuration of inpatient versus day case capacity in the final business case and adopt a flexible design solution that allows for future service delivery flexibility
 - The TAG has ascertained the updated OBC/ABC is congruent with the commissioning intentions of Knowsley, Liverpool and Sefton PCTs and CCGs alongside the NWSCG.

Capital Costs

18. The forecast capital cost of the single phase scheme in the ABC is shown in the table below and compared with the cost of the two phase option included within the outline business case. This equates to a capital spend of £232.5m (excluding VAT) and £277.9m (inc VAT).

Table 3: Comparison of Capital costs between OBC and ABC

	OBC	FBC
	£000's	£000's
Main Scheme (Phase 1)	208,525	172,424
Phase 2 Outpatients		35,250
Retained Estate Investment		9,775
Retained Mulberry House	7,245	
Temp Outpatients, R & D & Education, Springfield Park	12,403	
Car Park	7,579	5,382
Children Park Investment	11,100	10,000
Trust Replacement Medical Equipment	2,046	3,081
Scheme Equipment	18,799	17,647
Scheme Equipment (Donated)	12,273	22,873
		1,500
TOTAL	279,969	277,932

19. The scheme will be financed through PFI funding, trust cash and charitable funds. The table compares the source of funding between the OBC and ABC.

Table 4: Comparison of Source of Funding between OBC and ABC

Source of Funding	OBC	FBC
	£000's	£000's
PFI	208,525	104,000
Trust Cash Bullet into PFI	60,344	72,000
Trust Cash (Equipment, Land, Retained Estate)		50,006
Car Park (Contractor)	11,100	
Charitable Donations		11,500
VAT Reclaimable		40,426
TOTAL	279,969	277,932

20. The Trust has modelled in a cash bullet payment of £72m into the PFI element of the scheme and a further £10.006m from cash balances into the retained estate element of the scheme. The Trust is planning to use the Foundation Trust Financing Facility (FTFF) loan of £40m to generate the remaining cash for the retained estate and equipment. This loan has been considered by the FTFF Investment Committee and received strong support.

21. The Trust will aim to raise £11.5m charitable donations. About £6m will be donated by the Rocking Horse Appeal towards the costs of oncology and the remainder of donations will come from Alder Hey Charitable Funds.

Affordability

22. The revenue consequence of the scheme at OBC was £22.3m and at ABC it £18.4m. Affordability of the ABC has to be assessed by Monitor, the DH and Treasury. Monitor has undertaken its review but has not yet published its report. The SHA has been informed that Monitor is minded to approve the ABC.
23. The Trust is expecting NHS Bank Transitional non-recurrent support of £21m over 5 years to meet double running costs and commissioning costs of the scheme, this is currently provided by the SHA through a Department of Health central allocation. An allocation of £12.6m has already been received by the Trust leaving an outstanding balance of £8.4m which will need to be secured from either the DH, National Commissioning Board or the Trust's own resources.

Summary

24. The role for the SHA when a foundation trust is undertaking a privately financed scheme requiring a deed of safeguard, is to endorse the proposed location of the facilities and the strategic coherence and realism of the plans. The SHA analysis of the ABC, supplemented by the PCT analysis of activity, is that the SHA is able to endorse the location, models of care, and activity assumptions. Capital funding ability and revenue affordability are formally addressed by Monitor, DH and Treasury. Their written reviews are currently outstanding but the SHA has not been made aware of any issues emerging that would prevent approval.
25. Formal approval of the ABC is vested with the DH and Treasury.

Recommendation

26. The SHA Board is asked to endorse the appointment business case subject to Monitor's confirmation of the affordability of the scheme.

Mark Ogden
Executive Director of Finance/Deputy Chief Executive
January 2012