NHS

East Hampshire, Fareham and Gosport Primary Care Trusts

AGENDA ITEM
14

BOARD SUMMARY PAPER

Title: Outline Business Case for Gosport War Memorial Hospital Redevelopment

Background and Summary:

The purpose of this submission is to obtain the approval of the PCTs' Joint Board for the scheme to re-model Gosport War Memorial Hospital to support the transfer of services from the Royal Hospital Haslar.

Recommendations:
To approve.

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Date:
22nd June 2006

Fareham and Gosport NHS
Primary Care Trust

FAREHAM AND GOSPORT PRIMARY CARE TRUST

OUTLINE BUSINESS CASE

GOSPORT WAR MEMORIAL HOSPITAL REDEVELOPMENT

Executive Summary

This Outline Business Case sets out proposals for the redevelopment of existing buildings on the Gosport War Memorial Hospital site to accommodate services which will be retained in Gosport when the Royal Hospital Haslar is closed.

Approval is sought for funding for the proposed scheme at a capital cost estimated at £5.6m (projected out-turn at MIPS 508).

Key Sections of the Business Case are summarised below. A completed Strategic Health Authority Business Case Reference Checklist is set out at the end of the document, at Appendix H.

Introduction
The MoD decision of December 1998 to close the Royal Hospital Haslar was the starting point for a series of reviews and consultation on NHS provision in Gosport. Conclusions of a joint review in 2002, involving the Strategic Health Authority (SHA), the three local Primary Care Trusts (PCTs) and Portsmouth Hospitals Trust (PHT), firmly established the strategic direction which culminated with the detailed proposals in this Business Case.

The Fareham and Gosport PCT developed the proposals following consultations during 2003 and 2004. The proposals were referred to the Department of Health at the end of 2004 by the Hampshire County Council Health Review Committee. In September 2005 the Minister for Health confirmed that the proposals decided by the PCT Board, and supported by the SHA, represented the best option for development of local services and should be implemented.

Strategic Fit
The proposals are an integral part of the strategy for NHS provision across Portsmouth and South East Hampshire. This includes key interdependencies with the main acute services following the redevelopment of Queen Alexandra Hospital, Portsmouth. Services covered by these key interdependencies include minor injuries, out patients and supporting diagnostics, and day care assessment, treatment and rehabilitation.

Because of the significant range of proposed developments across Portsmouth and South East Hampshire the SHA requested an overarching summary of capacity and funding proposals covering the three local PCTs and Portsmouth Hospitals Trust. That submission, known as the Capacity Map, was entitled "A new direction for hospital and community services in Portsmouth and South East Hampshire". The Capacity Map included a priority order for major developments.

The four NHS organisations in Portsmouth and South East Hampshire agreed and included in the Capacity Map a priority order for developments, categorised into four distinct phases. The schemes with the highest priority were grouped together to form a first phase. Three schemes were included in the first phase. These schemes were the re-provision of acute services at Queen Alexandra Hospital, the redevelopment of Gosport War Memorial Hospital and the proposals for new in patient facilities for older persons mental health.

The SHA considered and supported the strategy summarised in the Capacity Map at a Board meeting in May, 2006.

Patient and Public Involvement
Public involvement in proposals for the provision of services in Gosport dates back to December 1999, when the Ministry of Defence announced that Haslar Hospital would close. During 2003/04 the PCT undertook informal consultations which included 15 public meetings, a range of stakeholder days, a MORI phone poll, staff briefings, and a presentation to the Hampshire County Council Health Review Committee.

Formal Public Consultation took place between July and November 2004. This included widespread distribution of details of the proposals, focus group meetings with patients, carers and staff, press and radio interviews and four Formal Public Meetings.

Following referral to the Department of Health by the Hampshire County Council Health Review Committee the Minister for Health confirmed, in September 2005, that the proposals agreed by the PCT Board and supported by the SHA should be implemented.

The proposals: Modernisation
The proposed scheme will provide new facilities on the Gosport War Memorial Hospital (GWMH) site for an accident treatment centre, out patients, diagnostics including endoscopy, and physiotherapy. Part of the scheme involves remodelling space within the existing health centre building on site. This building adjoins the main outpatient department and diagnostic imaging department; these departments will be extended into the current health centre building. The GP Practice in the health centre building will move to new accommodation, to be provided through a LIFT development. Other community services in the health centre building will benefit from remodelled accommodation on site.

The service models underpinning the proposed scheme closely reflect the vision for ambulatory care services in new community hospital developments, described in the White Paper of January 2006. The proposals will assist in reducing waiting times, and ensuring that, where safe and practicable, care is delivered locally in Gosport War Memorial Hospital. This Hospital serves a local catchment of around 100,000 people in the Borough of Gosport, and south Fareham.

Clinical and Workforce Issues
The proposals ensure established protocols will operate in providing an accident treatment centre at Gosport War Memorial Hospital, seeing between 15-20,000 patients each year. The provision of out patient services is linked to planning assumptions for the redeveloped Queen Alexandra Hospital, Portsmouth. Around 30% of out patients in most specialties will be seen locally in Gosport, supported by the provision of additional diagnostic facilities.

It is not envisaged that the proposals will give rise to any significant workforce issues. The proposals are to accommodate the transfer of existing services from Haslar to the Gosport War Memorial Hospital site. Portsmouth Hospitals Trust is managing the project to transfer their staff to either Queen Alexandra Hospital or Gosport War Memorial Hospital when Haslar closes.

In relation to the Gosport components of services it is not anticipated that any additional staff recruitment will be required. Existing staff will transfer. For some departments such as the Accident Treatment Centre the entire department will transfer. For others, such as x-ray, the additional provision will assist in ensuring a

critical mass of staff, with additional staff transferred to relatively small Departments. Human Resources policies for transfer of staff from Haslar, developed by Portsmouth Hospitals Trust, will apply to the transfer of their staff to the Gosport War Memorial Hospital site.

Option Appraisal
The Business Case includes details of an option appraisal carried out to compare the benefits and costs of the proposed scheme and the option to acquire and adapt accommodation on the Haslar Hospital site. Both the non-financial benefits scoring and the economic analysis favoured the Gosport War Memorial Hospital site. There were very significant cost differences. Costs for the Haslar option included site acquisition, making the Crosslink Building function as an independent unit, and also re-planning and upgrading the Crosslink accommodation. Capital costs were assessed as around £28m for the Haslar Crosslink option and around £6m for the GWMH option.

The economic analysis carried out on behalf of the PCT by Ernst and Young concluded that the results provided a compelling case for the option to redevelop the services needed in Gosport on the War Memorial Hospital site.

The total capital costs for the proposed Gosport War Memorial scheme are estimated at £5,605,000 (out-turn at MIPS 508).

Estates Issues
Discussions are on-going concerning the procurement route for this scheme. The options under consideration are Procure 21, the preferred method of the Department of Health for NHS capital funded schemes, and a construction only contract with Solent Community Solutions (LIFTCo).

The proposals have been discussed with NHS Estates. The proposals have NHS Estates support; issues concerning the site, design quality and sustainability are set out in the Business Case.

Revenue Affordability
Revenue affordability has been assessed against the background of the Capacity Map submission which the PCT made, with local partner NHS organisations, to the SHA. The Capacity Map received support from the SHA at a Board meeting in May, 2006.

The full year recurrent revenue costs of the proposed development are assessed as £477,000 per annum. In the context of the development of Gosport WMH and the reprovision of Gosport HC, the overall costs are within the parameters set by the Capacity Map. The details of the allocation of costs between the three affected provider organisations are set out in Section 8. For Fareham & Gosport PCT the revenue consequences are £223,000 pa. Service remodelling to achieve efficiencies to meet these costs will include improved integration of Out of Hours and Accident Treatment services and benefits from a single Community Physiotherapy Department.

Conclusion
Approval is sought for this Outline Business Case for the redevelopment of Gosport War Memorial Hospital at a total capital out-turn cost (MIPS 508) estimated at £5,605,000.

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1. INTRODUCTION

1.1 MoD decision to close Haslar Hospital

In December 1998, the Ministry of Defence (MoD) announced its decision to close the Royal Hospital Haslar as part of its review of the needs of the Defence Medical Services. The MoD also announced its intention to establish a Ministry of Defence Hospital Unit on the Queen Alexandra Hospital site in Portsmouth. On a visit to Haslar in March 1999 the then Secretary of State for Health said: "The decision to close Haslar has already been made by the MoD; we now need to move forward. That means that new arrangements have to be made by the NHS to provide the people of Gosport with the services they need."

1.2 Health Authority proposals: Public Consultation 2000

In May 1999 the Portsmouth and South East Hampshire Health Authority published outline proposals for future services to Gosport and south Fareham - the recognised NHS catchment population of Haslar.

The outline proposals were a first step by the Health Authority to engage the widest possible range of interests as a precursor to developing detailed proposals for a formal public consultation.

The formal consultation document entitled "Changes to health provision for residents of Gosport and south Fareham " was published by the Health Authority in January 2000. A three months consultation period ended in April, and in May the Health Authority reached conclusions on the outcome of the consultation. In summary the conclusions were:

- to bring an Accident Treatment Centre and enhanced emergency ambulance services into operation from August 2000, when Haslar A&E closed
- to develop NHS facilities for day care and out patient provision in Gosport
- to enhance inpatient rehabilitation at Gosport War Memorial Hospital, but to recognise that the NHS would not provide new inpatient beds in Gosport and that Haslar beds would be reprovided within the redevelopment of Queen Alexandra Hospital, Portsmouth.
- to pursue discussions with the MoD on the potential for long term NHS use of part of the Haslar site.

Changes agreed by the Health Authority were implemented. These included the establishment of the Accident Treatment Centre at Haslar, enhancement of ambulance services, and provision of more inpatient rehabilitation at Gosport War Memorial Hospital

1.3 Portsmouth Hospitals and Haslar Hospital integration

Following the conclusions from the Public Consultation in 2000 arrangements were also established to ensure the integration of MoD services at Haslar into Portsmouth Hospitals Trust. From April 2001 a Ministry of Defence Hospital Unit was established under the overall management of Portsmouth Hospitals Trust.

Disposition of services between sites changed as a consequence of these new arrangements. Significant changes included the centralisation of emergency medical take at Queen Alexander Hospital, development of dedicated elective NHS orthopaedic facilities at Haslar, and the creation of a Diagnostic and Treatment Centre at Haslar.

Throughout this whole period Portsmouth Hospitals Trust had been progressing plans for the redevelopment of Queen Alexandra Hospital through a PFI scheme. In early 2002 the stage was reached where a review of the project was undertaken, principally to confirm affordability before moving to the next stage of the PFI procurement process. This review was conducted jointly and included the Strategic Health Authority and the three local Primary Care Trusts. The review was completed in June 2002.

The conclusions of that review reflected a perspective across the whole of the health system of Portsmouth and South East Hampshire. It therefore included conclusions on development of services in community hospitals, required as necessary complementary and supporting facilities for acute services to be centralised in Portsmouth at Queen Alexandra Hospital.

Following completion of the review in June 2002 Portsmouth Hospitals Trust updated and finalised the service requirements for the PFI procurement process. By September 2002 updated requirements were set out in terms of inpatient beds, day case beds and out patient activity. For day case surgery beds the requirements for a single unit off the Queen Alexandra site had been refined to a 15 place unit. Out patient requirements envisaged a proportion of clinics in 21 specialities being held in community facilities off the QA site. In broad terms the proportion of out patient workload to be conducted in community hospitals, away from the QA site, was to be around 30%.

1.4 Services in Gosport

The 2002 review had confirmed the extent to which services from Haslar would be reprovided as part of the redevelopment of Queen Alexandra Hospital in Portsmouth. By October 2003 the Fareham and Gosport PCT had reviewed strategies for local service provision and was ready to undertake a comprehensive exercise with local stakeholders to develop firm plans to accommodate services which would remain in Gosport, following the closure of Haslar. The process for developing firm plans was agreed with the Strategic Health Authority.

The process included a range of stakeholder days, workshops and 15 informal public meetings. By June 2004 the PCT Board was in a position to decide on a range of options to take forward to Formal Public Consultation. The Formal Consultation ended in November 2004.

The Hampshire County Council Health Review Committee held a formal meeting, with representations from stakeholders, in November 2004. In December the PCT met in public and reached a decision on the preferred option for development of local services. This option had received the full support of the Strategic Health Authority.

The Hampshire County Council Review Committee referred the proposals to the Department of Health. In September 2005 Ministers confirmed that the proposals decided by the PCT Board, and supported by the Strategic Health Authority, represented the best option for development of local services and should be implemented.

These proposals have been developed and are presented in this Business Case for the redevelopment of the Gosport War Memorial Hospital. This Business Case is thus to be presented to the Strategic Health Authority to secure NHS capital required to implement the proposals to accommodate services which are required in Gosport, following the closure of Haslar Hospital.

2. STRATEGIC FIT

2.1 Strategy for hospital provision in South East Hampshire

For many years the strategy for provision of hospital services in Portsmouth and South East Hampshire has been based on further development of major acute hospital services in Portsmouth, supported by a network of community hospitals.

This reflected the desire to provide locally accessible services, but also recognised that the volume of services required by the large catchment population of more than 550,000 could not be best provided in a single acute hospital in Portsmouth.

When the strategy was first developed in the late 1980's it involved providing 4 purpose built community hospitals in Petersfield, Gosport, Havant, and Fareham. These plans included rationalising small scale hospital provision then existing on 9 hospital sites, into the planned 4 new community hospitals.

Purpose built community hospitals in Petersfield and at Gosport War Memorial Hospital were developed, replacing 5 smaller local hospitals.

Current plans are to complete the network originally proposed with development of new community hospitals at Oak Park in Havant, and at Coldeast in Fareham. These plans also envisage additional community hospital services in Gosport, associated with the Haslar Hospital closure, and a fifth community hospital to serve Portsmouth City on the St. Mary's Hospital site.

2.2 Interdependencies between main acute and community hospitals

Key interdependencies between the redevelopment of Queen Alexandra Hospital and community hospitals include:

- A&E and Minor Injury Units
- In patient rehabilitation in elderly medicine, and stroke
- Day Care: elderly assessment/treatment/rehabilitation
- Out patients and supporting diagnostics, including endoscopy

These key interdependencies have been a consistent and important component of strategic plans for Portsmouth and South East Hampshire. The largest capital investment in services for the health system locally is the redevelopment of Queen Alexandra Hospital, through a PFI scheme. This scheme was approved for development through the national NHS Capital Prioritisation Advisory Group in 1999. The Outline Business Case received the necessary approvals in 2000. It took account of the consequences of the decision of the Secretary of State for Defence to close Haslar Hospital. This included provision for a Ministry of Defence Hospital Unit on the Queen Alexandra site.

2.3 Joint Review 2002

In June 2002, the Strategic Health Authority, Portsmouth Hospitals Trust and the three local PCTs completed a review of the PFI scheme for the redevelopment of Queen Alexandra site. This review was required to confirm the necessary commitments before negotiations on the PFI proposals proceeded to Final Business Case stage.
The conclusions from the June 2002 review included the following:

- To centralise acute inpatient services on the QAH site, through a PFI scheme

- To redevelop St. Mary's Hospital to provide community hospital facilities for Portsmouth City
- To re-provide services on the Gosport peninsular, consequent upon the closure of Haslar Hospital; and to re-provide services in Fareham through development of community hospital facilities on the Coldeast site.
- To provide a new community hospital on the Oak Park site in Havant, to facilitate the development of more local services and to rationalise existing provision in East Hampshire.

Following Ministerial and Treasury approval the PFI scheme to redevelop Queen Alexandra Hospital is now under construction and is expected to complete in mid 2009. It is anticipated that the community hospitals will play an increasingly pro-active role in managing demand and avoiding inappropriate use of secondary care.

Underpinning the PFI capacity plans were a set of assumptions linked to availability of community hospital facilities. Key assumptions included:

- Day Surgery activity equivalent to one theatre would be provided away from the main site. The ISTC which opened on the St Mary's Hospital site in December 2005 provides this capacity. Some minor surgery will be available in community hospitals;
- Endoscopies would be provided in community hospital facilities in each PCT area;
- Increase in A&E activity would be absorbed by the Gosport accident treatment centre and the minor injuries unit at the ISTC in Portsmouth;
- 30% of all outpatient activity will be seen in the community;
- Elderly rehabilitation beds and elderly day care would be provided in community settings; and
- Elective surgery currently provided at Royal Hospital Haslar is to transfer to Queen Alexandra Hospital; outpatients, diagnostics and the accident treatment centre will continue to be provided on the Gosport peninsula.

2.4 PCT review 2003/04

The Fareham and Gosport PCT was newly established at the time of the June 2002 review. During its first year of existence the PCT considered the strategic direction of all the services it commissioned and provided. In October 2003 the PCT launched a comprehensive project to review and determine service strategy.

The process included a range of stakeholder days, workshops and 15 informal public meetings. By June 2004 the PCT Board was in a position to decide on a range of options to take forward to Formal Public Consultation. The Formal Consultation ended in November 2004.

There were a number of key strands to the analysis and debate associated with the PCT review during 2003/04. These were health needs analysis, strategy links to local NHS partners, access to services, and estates strategy. Key points from the each of these components of the 2003/04 review are set out below.

Health Needs

The resident population in Fareham and Gosport is 191,451, of which 113,477 people are resident in Fareham and 77,974 in Gosport. Information from Hampshire County Council (Population Projections November 2004) indicated that for Fareham and Gosport the overall projected population growth for the period 2001 – 2026 will be 6.6%. This represents a projected total population of 196,585 at 2026. For

Fareham this reflects an overall population growth of 3% and for Gosport 11.7% over the 25-year period. The most significant change during this period is the shift in population over 55 years. The projection indicates that this age group will represent about 40% of the total population in 2026 compared with about 28% of the population at this current time.

The table below outlines the Life Expectancy for the population of Fareham and Gosport compared with the South East Region and England.

Life expectancy in years

Location	Males	Females
Fareham	77.8	81.5
Gosport	74.8	80.5
South East Region	76.7	81.2
England	75.5	80.3

Local analysis of the index of multiple deprivation by super output area indicates higher levels of deprivation in the Gosport area. Five super output areas in Fareham and Gosport are defined as being in the most deprived 20% of England. Four of these are in the central part of Gosport and one in North Fareham.

The key causes of premature death in Fareham and Gosport are cancers, coronary heart disease, respiratory disease and stroke.

The analysis of local mortality trends for key causes of premature death show that for coronary heart disease and circulatory disease there will be a decline in premature deaths over the next decade with a 'steady state' maintained relating to premature deaths from cancer and stroke. These trends for Fareham and Gosport reflect the national picture.

Analysis of outpatient and inpatient service activity over a three-year period to 2003, indicates that overall there is a mixed picture of disease prevalence by ward across the range of specialities in Fareham and Gosport. Preliminary analysis of GP data around 7 key causes of chronic diseases (including asthma, cancer, diabetes, coronary heart disease, chronic obstructive pulmonary disease, hypertension and stroke) suggests that the prevalence of key causes of disease in Fareham and Gosport reflects a similar picture to that in England. Initial analysis of disease trends using data from a small cluster of GP practices across the Fareham and Gosport localities suggests a potential increase in prevalence around these seven disease areas over the next decade. This also reflects nationally published data. However, projections for national and local disease trends should be interpreted with a degree of caution.

A number of key points have been drawn from the health needs analysis for Fareham and Gosport. These are:

- There will be a significant projected growth and shift in the population aged over 55 years during the next 20-year period.
- There will be a reduction in premature deaths from key causes of mortality and a predicted increase in key causes of chronic disease within the population.
- Service volume will need to take account of population growth and shifts by different age groups and where there is evidence of higher usage of services.

- There is a need for sustained delivery of primary, secondary and preventive activities targeted around some wards/population groups where needs are greatest.
- A range of primary care, diagnostic and treatment facilities will be needed across both localities to address a mixed picture of health need and disease prevalence in both adult and older population age groups.

Strategic Links to local partners
When the PCT undertook its review in 2003/04 it was important to ensure that key strategic links were considered. In reviewing and developing strategy the PCT identified that its plans had to fit with those of Portsmouth Hospital Trust, and should also match as far as possible, the existing commitments which the NHS had given other local stakeholders concerning the provision of services in Gosport.

In order to ensure this cohesive and consistent approach the PCT developed proposals which took into account the following:

- Honouring conclusions from the 2000 public consultation undertaken by the Portsmouth and South East Hampshire Health Authority
- The conclusions of the joint review with Portsmouth Hospitals, other local PCTs and the SHA, completed in June 2002.

Estates Strategy
The 2003/04 PCT review was comprehensive in that it did not look at Gosport only, but took account of the planning of services across the whole PCT area. Thus proposals for development of services across Fareham and Gosport were considered. An important element of this was to consider the functionality of buildings and sites owned by the PCT across the area. This was played into the generation of the long list of options which the PCT developed. There was also a detailed option appraisal of a short list of options developed for the proposals for the provision of facilities required in Gosport. More details on the option appraisal are set out in Section 6 below.

Patient Access
The PCT review in 2003/04 considered transport, traffic and parking as important elements related to service development in Gosport. The PCT worked with the local authorities, including a specialist nominated by Hampshire County Council. An independent traffic impact study was commissioned with advice from transport specialists in the local authorities. This focused on the proposals to redevelop the Gosport War Memorial site. The key conclusions are summarised in the option appraisal in Section 6 below.

2.5 Capacity Map 2005
Because of the significant range of proposed developments across Portsmouth South East Hampshire the SHA requested an overarching summary of capacity and funding proposals, covering the three PCTs and Portsmouth Hospital Trust which make up the local health economy. This comprehensive Capacity Map, as it was known, covered capacity and development proposals covering the next 10 years. This summary was submitted jointly by the four local NHS organisations to the SHA at the end of December 2005. The Capacity Map document was entitled "A new direction for hospital and community services in Portsmouth and South East Hampshire".

The Capacity Map included a priority order for a total of eight major developments. The four NHS organisations in Portsmouth and South East Hampshire established and included in the proposals a priority order for developments, categorised into four distinct phases. The schemes with the highest priority were grouped together to form a first phase. Three schemes were included in this first phase. These schemes were the re-provision of acute services at Queen Alexandra Hospital, the redevelopment of Gosport War Memorial Hospital and the proposals for new in patient facilities for older persons mental health.

The PCT and Portsmouth Hospital Trust Boards approved the Capacity Map proposals at Board meetings in April, 2006. The SHA Board expressed support for the strategic direction set out in the Capacity Map, at a Board meeting in May 2006.

The SHA Chief Executive requested that the Business Case for the redevelopment of Gosport War Memorial Hospital be submitted to the SHA in order to progress the re-provision of services from Haslar Hospital as soon as practicable.

3. PATIENT AND PUBLIC INVOLVEMENT

Patient and public participation in proposals for the provision of services in Gosport dates back to 1999 (see 1.2 above).

3.1 Informal consultation 2003/04

The most recent phase of consultation started with the PCT review, which began in October 2003. An initial phase lasted until March 2004, when the PCT Board decided on options to be taken forward for wider consideration. A period of informal public, patient, and staff involvement lasted from April until June 2004.

Patient and Public consultation between October 2003 and June 2004 included the following:

- A presentation to the Hampshire Overview and Scrutiny Committee
- An initial meeting of all stakeholders
- A meeting with the SHA to agree the process
- A MORI phone poll of 100 local people
- A stakeholder day on older peoples services
- 15 informal public meetings attended by 570 people
- 5 staff briefings attended by 50 staff

3.2 Formal Public Consultation 2004

In June 2004, the PCT Board decided on options for formal Public Consultation, which then took place between July and November 2004. The Formal Consultation included the following:

- Summary leaflets delivered to all households in Fareham and Gosport
- Informal meetings with groups and individuals
- Focus group meetings with patients, carers and staff covering 8 care groups
- Press and radio interviews
- Four Formal Public Meetings
- Option Appraisal Document posted on PCT website
- An additional Public Meeting at the request of the PPI Forum

The Hampshire County Council Health Review Committee held a formal meeting, with representations from stakeholders in November 2004.

The PCT Board met in December 2004 and reached conclusions on the preferred option for development of services in Gosport. The preferred option, the redevelopment of the Gosport War Memorial Hospital, was supported by the Strategic Health Authority.

3.3 Ministerial Review

The Hampshire County Council Review Committee referred the proposals to the Department of Health. In September 2005 the Minister for Health confirmed that the proposals decided by the PCT Board, and supported by the Strategic Health Authority, represented the best option for development of local services and should be implemented.

4. MODERNISATION

4.1 Waiting Times

The interdependencies between the redeveloped Queen Alexandra Hospital and community hospitals in South East Hampshire was summarised in section 2.2 above. These interdependencies are underpinned by the objective of reducing the workload pressures on main acute services. There are several reasons for this including achievement of waiting time targets and to provide care closer to home.

The local achievement of national target waiting times both in A& E Departments and in relation to the 18 week waiting time targets will be supported by the proposed redevelopment at Gosport War Memorial Hospital. In relation to A&E services the new facilities for the accident treatment centre will provide capacity for up to 20,000 minor injury patients each year. Capacity for this workload is not available at Queen Alexandra Hospital. Without this development there would be a very serious deterioration in service and waiting times if all patients had to attend Queen Alexandra Hospital, which is 13 miles away from Gosport.

A range of service provision is included in the Gosport redevelopment which will contribute to the achievement of reduced waiting times. These include additional out patient facilities, facilities for day case work such as endoscopy and additional diagnostic capacity. As with the accident treatment centre, the redevelopment of Gosport War Memorial Hospital is re-provision of the facilities which will be lost when Haslar closes. The agreed strategy is to re-provide this range of facilities locally in Gosport; without the proposed scheme the capacity to achieve and sustain reduced waiting times has not been incorporated into developments elsewhere.

4.2 Accessible Community facilities

The White Paper "Our Health, Our Care, Our Say" was published at the end of January 2006. A key section of the White Paper is the section on care closer to home. The White Paper states "In order for specialist care to be delivered more locally, we will need to ensure that the necessary infrastructure is in place. This will mean developing a new generation of community facilities." The White Paper then refers to the development of "a new generation of modern NHS community hospitals" which will provide diagnostics, day surgery and out patient facilities closer to where people live and work."

The White Paper refers to such hospitals "serving catchment areas of roughly 100,000 people". This is the same scale of population as the established catchment area served by the Gosport War Memorial Hospital. It includes all of the Borough of Gosport and part of south Fareham.

The White Paper describes the vision for modern community hospitals where:

- Health specialist work alongside generalists, skilled nursing staff and therapists to provide care covering less complex conditions
- Specialists provide clinics for patients, mentoring and training for professionals
- Patients will have speedy access to key diagnostic tests and where health scientists may work in different ways
- Patients will get a range of elective day case and outpatient surgery for simpler procedures
- Patients are offered intermediate step-up care to avoid unnecessary admissions, and step-down care for recovering closer to home after treatment

- Patient self-help groups and peer networks provide support to people in managing their own health
- Patients can access the support they need for the management of long-term conditions
- Urgent care is provided during the day, and "out of hours" is co-ordinated at night

The White Paper acknowledged that there are examples of thriving community hospitals providing many of these services today. The Gosport War Memorial Hospital was redeveloped as a community hospital between 10 and 12 years ago. Much of the infrastructure of the hospital was newly built or upgraded at the same time and is well suited to meeting the vision set out in the White Paper. This applies particularly to the day hospital and in patient rehabilitation facilities. However, the existing facilities must be expanded to provide the full range of ambulatory care required both in response to the closure of facilities at Haslar, and to meet the expanded vision of services appropriate for a modern community hospital, as described in the White Paper. The range of facilities included in the proposed redevelopment scheme includes:

- An accident treatment centre and co-located facilities for out of hours primary care
- 6 additional consulting suites for consultant, specialist, and nurse led clinics
- An endoscopy unit
- Additional diagnostic imaging facilities
- Additional facilities for physiotherapy
- Remodelled facilities for a range of community clinics

It is clear that the range of facilities to be included in the proposed redevelopment is a very close fit to the components of the vision for modern community hospitals set out in the White Paper.

5. CLINICAL AND WORKFORCE ISSUES

Key clinical and workforce issues considered in planning the proposed scheme are set out below.

5.1 Accident Treatment Centre

The main clinical issue related to the accident treatment centre (ATC) concerns the protocols which determine those patients who can be appropriately treated in the unit in Gosport. The new unit at Gosport War Memorial Hospital will replace the existing service at Haslar. The Haslar Accident Treatment Centre was opened in 2000 when the full Accident and Emergency Department at Haslar closed. The clinical protocols covering the ATC have operated successfully since 2000. These protocols have recently been adopted for the new minor injuries service incorporated within the ISTC opened in Portsmouth in December 2005. There is no need for the protocols to change with the transfer of the service to new facilities on War Memorial Hospital site.

5.2 Endoscopy

The new facilities planned for Gosport War Memorial Hospital will provide a local service for the Gosport and south Fareham catchment population for diagnostic endoscopy, carried out under local anaesthetic. This will re-provide a service currently available at Haslar.

Some sigmoidoscopies are currently carried out in a minor procedures room attached to the existing out patients department at the War Memorial Hospital. The planned new facilities will provide more appropriate accommodation for this workload. This will also release some capacity for additional minor surgery, if required.

5.3 Out patients

The out patients provision has been planned in conjunction with Portsmouth Hospitals Trust. The Trust reviewed the potential for out patients to be seen away from the main Queen Alexandra Hospital site. A key factor in this is the availability of on site diagnostics. PHT reviewed the potential workload for community hospital clinics across all acute and general specialities. Whilst there are some exceptions, overall, planning is based on 30% of out patients in most specialities to be seen off the Queen Alexandra Hospital site, provided there is access to plain film x-ray and ultrasound. These diagnostic facilities are available at Gosport War Memorial Hospital. An additional general x-ray room is included in the proposals to cope with the additional workload from both the accident treatment centre and out patients.

5.4 Workforce

It is not envisaged that the proposals will give rise to any significant workforce issues.

The proposals are to accommodate the transfer of existing services from Haslar to the Gosport War Memorial Hospital site. Portsmouth Hospitals Trust is managing the project to transfer their staff to either Queen Alexandra or Gosport War Memorial Hospitals when Haslar closes.

In relation to the Gosport War Memorial Hospital component of services it is not anticipated that any additional staff recruitment will be required. Existing staff will transfer. For some departments such as the accident treatment centre the entire department will transfer. For others such as x-ray the additional provision will assist in maintaining a critical mass of staff with additional staff transferring to relatively small departments.

Human Resources policies for transfer of staff from Haslar, developed by Portsmouth Hospitals Trust, will apply to the transfer of their staff to Gosport War Memorial Hospital. Some Portsmouth Hospitals Trust staff, for example in Diagnostic Imaging and Medical Records, have been based at Gosport War Memorial Hospital for many years.

6. OPTION APPRAISAL

6.1 Service models

The proposals for services in Gosport were developed by the PCT as part of a wider review of strategy and proposed service provision across all of the PCT area, Fareham and Gosport. This took place over 2004 and 2005. Section 3 above summarises the public consultation, which was a key element of this process.

The PCT developed and consulted on proposals based on three broad models of service provision. These were described as:

- Dispersed Model
- Community Hospital Model
- Centralised Model

Details of the full list of capital investments required under each model were developed. These are available if required. The Community Hospitals model was the model which received most support and was adopted by the PCT. The Capacity Map approved by the SHA in May 2006 was based on the Community Hospitals model.

The focus for services in Gosport was the re-provision of facilities resulting from the MoD decision to close Haslar Hospital.

In June 2004 the PCT Board decided that two main options for Gosport should be considered. These were:

- Option 1:Re-provision of Haslar services in Gosport in the Crosslink building within the Haslar site
- Option 2; Re-provision of Haslar services through redevelopment on the Gosport War Memorial Hospital site and associated relocation of Gosport Health Centre facilities.

At this stage a third option was dropped. This was the re-provision of Haslar services in a new build facility on the Haslar site. This option had received no public support and was perceived as being wasteful of the existing Haslar building stock because it did not re-use existing accommodation.

6.2 Feasibility and Financial Appraisal

The PCT commissioned feasibility studies for the two options from Inventures. The conclusions from the feasibility studies were developed into a full option appraisal by Ernst and Young, also commissioned by the PCT.

Key points from the feasibility studies are summarised below.

Option 1: Haslar Crosslink

The Crosslink building covers a ground floor area in the region of 5500M2. The building also has an element of two-storey accommodation. The total area of the building is estimated to be in the region of 7500 M2. This is around twice the total area required by the PCT for stand-alone clinical and support services, which was estimated at 3700 M2.

The building could be separated from the main original hospital buildings to function as a freestanding facility. To do this would require significant works including

independent plant and boiler provision, lifts and investment in the fabric of the building, which is understood to be approaching 30 years old.

Whilst the ground floor of the building does incorporate a range of clinical services, which could be reused with minimal adaptation, the scale of these is considerably in excess of requirements. Significant costs would be incurred in adapting much of the accommodation to provide the range of support services required for a freestanding facility.

The Crosslink building is the only part of the existing Haslar hospital which could be expected to be adapted to provide modern facilities to meet current standards. However, retention of this part of the site for health services would be expected to diminish the sales proceeds from the MoD disposal of the site. MoD have stated that there would need to be reimbursed for "injurious affection", to reflect reduced sales proceeds.

Revenue costs for running this facility are likely to be high, given the size of the building is considerably in excess of the estimated requirements, and the building would need to function as a free standing facility.

Inventures concluded that there were three main components to the capital cost for this option. These were the costs of separation and refurbishment of the Crosslink building, the purchase of land and "injurious affection" costs, and the costs of returning the building to good condition (NHS Estatecode Condition B). The total of all these cost elements was estimated by Inventures as £27,922,000.

Option 2 Gosport War Memorial Hospital and Health Centre redevelopment
The Gosport Health Centre is a building on the Gosport War Memorial Hospital site. The building is directly linked to the out patients and diagnostic imaging departments. This option involved relocation of some services from the Health Centre building off site, and remodelling the accommodation released.

This option also required relocation of the two GP practices from Gosport Health Centre. One of the practices relocated to new purpose built accommodation at the end of 2004. The proposals require relocation of the other practice. A range of potential sites within the Practice area, were identified.

This option also required a range of community services to be relocated into new accommodation. At the time it was considered that this could be planned in conjunction with the GP practice relocation.

The conclusions of the feasibility study were that the service requirements identified could be met by adaptation of existing accommodation within the Health Centre building and the War Memorial Hospital. The initial study conclusions were that, depending on the scale of community services to be relocated, there could be some flexibility as more detailed plans were developed. This would provide an option to reduce the amount of new build by reviewing the initial assumptions about services to transfer.

There were three elements of costs associated with this option. These were the costs for adaptations on the Gosport War Memorial Hospital site, costs for relocation of community services from the Health Centre and costs for relocation of the remaining GP practice from the Health Centre. Inventures estimated the total capital cost for this option as £6,255,306.

Economic Analysis
Ernst and Young carried out an economic analysis on behalf of the PCT. The conclusions are set out in full at Appendix A.

The economic analysis included the following elements:

- Non financial benefit option appraisal
- Site purchase land and buildings costs
- Works costs
- Location adjustments
- Fees
- Equipment costs
- Planning contingencies
- Risk analysis
- Risk adjusted capital and revenue

A total of seven non-financial benefits criteria were weighted and scored. Details are set out in Appendix A. The weighted scores showed a clear preference for option 2, the War Memorial Hospital redevelopment, with a weighted score of 419.6 compared to the weighted score of 327.6 for Option 1, the Haslar Crosslink building.
The economic analysis showed capital costs of almost £28m for the crosslink compared to the estimated total of around £6.3m for the GWMH option, which included costs for relocation of the GP Surgery from the GWMH site.

The economic analysis also included capital cost estimates adjusted for risks. The estimates of risk adjusted capital costs were £33.7m for the Crosslink and £4.3m for the redevelopment of the War Memorial Hospital (this figure excludes the costs of re-providing the GP Surgery and Community Services which are treated as a revenue lease charge in the economic appraisal).

The economic analysis summary of weighted benefits and cost showed a clear preference for the Gosport War Memorial Hospital option with a cost benefit score (£000's/benefit point) of 180, compared to a score of 284 for the Crosslink option.

Sensitivity analysis was carried out on the weighted benefits score and the risk adjusted costs, to evaluate how robust the conclusions were. This showed the percentage change in the weighted benefits score and in the risk adjusted costs required to alter the ranking of the two options. A 159% change in weighted benefits score and a 37% change in risk adjusted costs would be required to change the preferred option. The conclusions in the Ernst and Young analysis were that these are very large changes and that the Gosport War Memorial Hospital is clearly the better option.

The main conclusions from the Ernst and Young study were recorded as follows:

Option 2 (GWMH) is demonstrated to have the lowest cost on whole life economic basis, that is to say that the cost of providing the services under this option is the lowest throughout the life of the project.

Option 2 (GWMH) also has the highest weighted benefits scoring which indicates that this option is successful in meeting all of the project objectives.

Sensitivity analysis demonstrates that the ranking of Option 2 is robust.

In summary, the weighted benefits score and the economic appraisal indicate that option 2; refurbishment of Gosport War Memorial Hospital and re-provision of Health Centre is the preferred option financially and delivers the best value for money.

The economic analysis carried out by Ernst & Young has been reviewed and updated incorporating up to date financial information. This review has confirmed the clear preference for Option 2 (GWMH). The updated Net Present Costs for the two options are set out in the table below.

Net Present Cost Comparison	
Option	£'000
Option 1 – Crosslink Building at Haslar	49,168
Option 2 – GWMH/GHC re-modelling	16,867

6.3 Preferred Option

Initial Study 2004

The initial feasibility study for re-provision of services from Haslar to the Gosport War Memorial Hospital (GWMH) site was completed in August 2004. The proposals had two elements. These were the re-location of services from the Health Centre building on the GWMH site and the re-use of that building to accommodate services to transfer from Haslar. Services to be re-located included a GP Practice and a significant range of community services including Dental, Contraception and Sexual Health, Health Education, and Medical Loans. In addition Physiotherapy facilities were also planned in conjunction with the re-located GP Practice and community services, as part of the Haslar re-provision.

Cost estimates for the two components of this study have been adjusted to current capital costs (MIPS 455).

The capital costs for the redevelopment scheme at GWMH were estimated at £4,150,000 at MIPS 455.

The option appraisal described above used capital costs estimates for all elements of both options, to provide a direct like for like comparison. However, it was proposed to provide the accommodation for the GP surgery and community services through Local Improvement Finance Trust (LIFT). This generates a revenue cost through a leaseplus charge, rather than a capital cost.

The re-provision of the GP surgery and community services from the GWMH site was estimated to require 1,267M2 of accommodation. Assuming this would be a LIFT scheme, cost estimates were made. Using estimated LIFT Lease Plus costs at the time of around £425 pa per M2 gave an estimated annual revenue cost of £538,475. Assuming a 25 year LIFT agreement this totalled approximately £13.5m revenue over the full period.

Current proposals

Approval to the overall proposals for the Haslar re-provision was given by the Minister for Health at the end of September 2005. The initial brief was then reviewed and substantially revised in November 2005. A key aim in the revision of the brief was to minimise the extent of new build in association with the GP relocation. The revised brief still focused on the Haslar re-provision but also reflected some service

changes in Gosport since 2004, and the aim to retain as many of the community services on the GWMH site as possible.

In the meantime, proposals were being developed separately to reconfigure ward accommodation at GWMH to allow transfer ward accommodation for of older persons mental health to ground floor level. Assessment of the feasibility of these proposals produced new conclusions that facilitated improved solutions to the Haslar re-provision. Key to this was the possibility of extending the existing Physiotherapy Department into an adjacent area vacated as part of the moves related to transferring ward accommodation for older persons mental health to the ground floor.

A feasibility study based on the revised brief was completed in February 2006. This was carried out in more detail than the earlier study in 2004, and covered all aspects of the proposed redevelopment of GWMH. A series of user design sessions enabled a 1:100 scale room by room layout to be developed. This study concluded that all the required accommodation from the Haslar re-provision and displaced community services could be accommodated on the GWMH site. A separate building is still required to relocate the GP Practice and has been the subject of a NHS LIFT Stage 1 Business Case.

In summary, the feasibility study completed in February 2006 concluded that the works required on the GWMH site can best be considered as five sub-projects, as follows:

1. Relocate older persons mental health wards to ground floor: minimal structural alterations.
2. Elderly Rehabilitation wards relocate to first floor: minimal structural alterations.
3. Extend Physiotherapy into vacated adjacent accommodation: move Occupational Therapy to first floor.
4. Community staff office bases relocated within first floor main building.
5. Re-model Health Centre building: ground floor becomes additional out patients, endoscopy, accident treatment centre, additional diagnostics; first floor becomes community clinics (podiatry/contraception and sexual health/speech and language therapy/child and family therapy/dental) and medical records.

The feasibility of the proposed scheme was tested to the level of production of 1:100 scale drawings for all components of the proposed redevelopment on the GWMH site. The Architectural Consultants for this work were Studio Four Architects. Drawings for all components of the scheme are attached as Appendix B.

The total costs for all five elements of the proposed redevelopment of the GWMH site have been assessed as £5,020,000 (at MIPS 455).The projected out-turn costs for the projects (at MIPS 508) are £5,605,000.

Cost estimates were prepared by Consultant Quantity Surveyors, McPhersons. Details of capital cost estimates are set out in the required format for an Outline Business Case (Cost Forms OB1-4) at Appendix C.

Comparison of costs

The capital costs for the proposed redevelopment of the GWMH site have been estimated at £5,605,000 (projected outturn costs at MIPS 508 ie the projected date of tender 2Q2007)

The re-location of services from the Health Centre would be limited to the re-provision of the GP Practice under the current proposals. The requirements of the GP Practice have been assessed at 650M2. Using current estimated LIFT costs of £350 per M2 + VAT pa gives an estimated LIFT cost of £267,000 pa at the projected date of financial close (2Q2007). Assuming a 25 year LIFT agreement this would total around £6.7m over the period.

The cost assessments for the initial proposals of August 2004 were set out in Section 6.2 above. A like with like comparison using the outturn MIPS index and LIFT costs at financial close is set out below.

Capital Costs: GWMH redevelopment
The August 2004 proposals excluded re-provision of community services; these have been included in the current proposals.

August 2004 estimate: £4.63m (adjusted to MIPS508)
Current proposals : £ 5.61m (at MIPS508)

LIFT Costs
The August 2004 proposals included re-provision of community services; these have been excluded from the current proposals

August 2004 proposals: £521,000 pa. 25 year total £13.03m
Current proposals: £267,000pa. 25 year total £6.68m

The conclusion is that an additional capital expenditure of £980,000 produces revenue savings of £254,000 pa or £6.35m over a 25 year LIFT agreement period. Even allowing for the capital charges on the additional capital expenditure (approximately £50,000 pa), there is still a considerable financial advantage to including community services in the GWMH development.

Decanting Costs
To allow the proposed redevelopment of the GWMH to be undertaken it will be necessary to vacate areas to allow works within the main hospital building and the current health centre building. Feasibility and costs have been established for three elements of decanting. These are considered below.

Ward moves to Haslar
To facilitate completion of the works on the GWMH wards, arrangements have been made for temporary use of two vacant wards at Haslar Hospital. These will be used for elderly rehabilitation. The wards to be used will require works to improve sanitary facilities and create facilities required for rehabilitation functions. These works have been costed at £98,000. The cost of these works is included within the total capital cost estimates for the scheme, set out above, although it is recognized that since the building is not an asset of the PCT, these costs may have to be charged to revenue.

Community Services
Arrangements have been made for some services to temporarily use accommodation at Rowner Health Centre. However, the majority of services will be accommodated in a modular building in Grange Lane. This modular building was recently used whilst Rowner Health Centre was rebuilt as a LIFT scheme. Planning permission to extend the use of the modular building has been obtained. Some limited adaptations of the accommodation will be required. Additional costs for dental equipment will also be incurred. The overall costs associated with these decanting arrangements are estimated at £30,000. The cost of these works is included within the total capital cost estimates for the scheme, set out above.

GP Practice
Given the lead time for the new GP surgery under LIFT it may be necessary to provide temporary decanting facilities for the Practice. Redclyffe House was a continuing care unit for older persons mental health owned by the PCT. The unit closed recently, as patients are transferred to Nursing Homes. The unit is appropriately located for the GP Practice population. Some adaptations and limited refurbishment will be required to allow the building to function as a GP Practice. The necessary works have been costed at around £250,000 and the PCT is exploring with its LIFT partners options for the provision of this decanting facility. These costs are not currently included within the capital costs of this business case.

The total decanting costs included in the estimates for the proposed scheme are therefore the sum of the ward and community services decants, outlined above. These are estimated at £98,000 and £30,000, and are included in the overall total costs of the scheme for which approval is sought in this Business Case.

Approval Sought
Details and a breakdown of all capital costs for the proposed redevelopment are set out at Appendix C.

Current costs estimate: £5,020,000 at MIPS 455

Projected out turn costs to second quarter 2007: £5,605,000 at MIPS 508

In accordance with current SHA policy approval is sought for capital funding based on the projected out-turn costs of £5,605,000.

Optimism Bias
Treasury Guidance on public sector capital projects advises that Business Case estimates of capital costs are reviewed to address a tendency for project appraisals to be overly optimistic.

Percentage adjustments are recommended based on national analysis of actual costs of capital projects, compared to initial estimates. A range of factors are considered to assess the likely percentage bias. Appendix D sets out an analysis for this project. This shows that at this stage a significant proportion of potential bias can be eliminated. The risk elements related to the potential remaining bias will be addressed as the scheme progresses to Final Business Case.

The conclusions from the analysis in Appendix D are a current potential optimism bias approaching 10%. Applying this to the projected out-turn costs produces a figure of around £6.1m.

Benefits Realisation
A benefits realisation plan for the proposed scheme is set out at Appendix E.
A number of benefits are summarised covering strategic benefits, financial benefits and modernisation of facilities.

Timetable
It is proposed to undertake the 5 sub projects outlined above in two construction phases. Phase 1 will include all the works in the main hospital building, which constitute sub projects 1-4. Phase 2 consists of the works in the current Health Centre building, sub project 5.

Estimated timescales for the works associated with these two phases are as follows:

Phase 1:
- October 2006 briefing completed
- January 2007 design completed
- Construction starts April 2007
- Construction completed December 2007
- Occupation April 2008

Phase 2:
- Construction starts August 2007
- Construction completed January 2009
- Occupation April 2009

Cash Flow

Illustrative cash flow, based on the timetable outlined above, which assumes works on site start April 2007 and complete January 2009, is as follows:

2005/6	£50,000
2006/7	£100,000
2007/8	£2,510,000
2008/9	£2,235,000
2009/10	£125,000
Total	£5,020,000

Preferred Option Summary

This Outline Business Case sets out proposals for redevelopment of the Gosport War Memorial Hospital. The total capital costs for approval based on the projected out-turn costs at MIPS 508 (2Q2007) are £5,605,000.

The work consists of 5 sub projects. The timetable is based on a start on site in April 2007, with completion of all phases of the work by January 2009.

7. ESTATES ISSUES

7.1 Estates Statement

Estates input and issues are summarised at Appendix F. This statement at Appendix F covers issues suggested by NHS Estates, including design quality and sustainability.

7.2 Procurement method

Review of potential use of LIFT

The possibility of the scheme being undertaken as a LIFT scheme was originally discounted some time ago by the PCT, after discussion with the LIFT Preferred Bidder immediately prior to first financial close.

However, this was reviewed again as part of the preparation of the Capacity Map and this Business Case, at the request of the SHA. The review took place against the PCT established position that the LIFT exclusivity agreement does not apply to this scheme. This scheme was not included in the Strategic Services Development Plan which defines the "required facilities" to which the exclusivity agreement applies. The purpose of the review was therefore to reconfirm to the SHA that there were no significant benefits to be had in undertaking the scheme under LIFT.

The key points of the review covered revenue costs, risk transfer associated with Haslar closure, and viability. The review concluded that there would be a significant increased revenue requirement, of around £1.2m pa, if the redevelopment of GWMH was undertaken as a conventional LIFT scheme. This cost estimate assumed a significant abatement to reflect a lease to the LIFT partner for the GWMH at a peppercorn rent.

Given the links of the scheme to the Haslar closure, the PCT would require a transfer of risk with a LIFT scheme. This would require the LIFT partner to take on the financial risks of delay and the consequent financial penalties associated with services remaining at Haslar after the target closure date. It was considered that LIFT funders would be unwilling to accept this risk, or that the increase in the leaseplus charge to reflect this risk would be unacceptable.

It was also considered that the funders would be reluctant to lend against Gosport War Memorial Hospital, given that it would have very limited alternative use. Even if it proved possible to raise funding for the scheme the fact that it would have limited residual value would lead to a further increase in the leaseplus charge, making the scheme even less affordable in revenue terms.

More recent advice from legal advisers indicates that the PCT's LIFT partner, SCS, should be given the opportunity to deliver this scheme under a LIFT Lease Plus Agreement. . Discussion are on-going with SCS and the SHA, and legal advisers, about the procurement route but this Business Case is submitted for approval on the assumption the a design and construction process similar to the Procure21 process described below will be followed.

Design and Construction

The options for design and construction for the redevelopment of Gosport War Memorial Hospital were considered, assuming the scheme will be funded through NHS capital.

Key elements of this consideration were the level of feasibility and planning work carried out to date, requirements for wider EU competitive tendering, and achievement of tight timescales to coincide with the Haslar closure.

The conclusion of this was that Procure 21 should be used. This is the Department of Health preferred method of procurement for NHS capital funded schemes.

The benefits of Procure 21 include:

- Combines design and construction
- Choice of 11 nationally pre-agreed supply chains
- Options for seeking successful Contractor to use the Architects who completed feasibility work to date
- Fees are at cost but to pre-agreed rates up to the agreement of the Guaranteed Maximum Price, when works costs are also fixed
- Initial selection process any take 2-3 months but this can be more than offset by time saving in avoiding formal tendering processes for design and for construction.

7.3 Project Management arrangements

The project has been progressed to Outline Business Case within a well defined structure which includes a Project Board overseeing both this project and the LIFT scheme to relocate the GP Practice from the health centre on the GWMH site.

The PCT Director of Estates will act as Project Director for implementation of this scheme. A member of the Estates team with experience of project management of a range of very large NHS schemes will undertake the role of Project Manager. He will be supported by key member of the Procure 21 Team when appointed.

Appointment of the Procure 21 Team will include consideration of ensuring continuity of design team input, by allowing appointment of the Architects who have developed feasibility and layout drawings to Outline Business Case stage. This consideration will be carried out under established procedures for Procure 21 appointments.

7.4 Risk Potential Assessment

A Risk Potential Assessment for the proposed scheme has been completed, using the Gateway methodology. The Gateway methodology ranks schemes as low, medium or high risk. A score of 30 or less gives a low risk ranking. The proposed scheme achieved a score of 26, giving it a low risk assessment.

The Risk Potential Assessment Form is attached as Appendix G

8. AFFORDABILITY

Because of the significant range of proposed developments across Portsmouth South East Hampshire the SHA requested an overarching summary of capacity and funding proposals covering the three PCTs and PHT in the local health economy. This analysis and funding proposals, referred to above as the Capacity Map, was supported by the PCT and PHT Boards in April 2006, and by the SHA Board in May, 2006. The Capacity Map looked at the totality of major developments proposed across the health system with financial effects over the period to 2014/15.

The financial analysis in the Capacity Map assumed that the additional costs of implementing the proposals would have to be met from efficiency savings rather than by use of future growth funding. The Capacity Map reflected the fact that recent SAFF and LDP processes had shown the cost of meeting inflation and "must do" targets had exceeded growth funding available. It was assumed this situation was unlikely to change, with future growth allocations expected to be lower from 2008/9. It was concluded that additional infrastructure costs arising from all the proposed developments in the Capacity Map would need to be funded from efficiency savings and the Capacity Map financial analysis set out the range of additional efficiency targets required for all local health organisations.

Furthermore, the view taken in the Capacity Map analysis was that any financial recovery of commissioners and providers should not shift financial problems around the local health system, or significantly destabilize organisations' income bases.

The full year revenue estimates associated with the additional capital expenditure at GWMH was shown in the Capacity May as £333,000 pa and the costs of the Gosport HC reprovision as £647,000 pa – a combined total of £980,000. The revised figure for Gosport HC calculated as part of the preparation of the OBC is an annual revenue cost of £355,000. The recurrent revenue costs for the Gosport WMH scheme are now calculated as £477,000 – a combined total of £832,000 which is less than the figure in the Capacity Map.

Since the Capacity Map was finalized, the PCT has transferred the management of its OPMH service to Hampshire Partnership NHS Trust. The majority of services which are transferring from Haslar to Gosport WMH are provided by Portsmouth Hospitals NHS Trust. The table below shows the annual revenue consequences of the two phases split between the service providers.

	2008/09				2009/10			
	F&G PCT	PHT	HPT	Total	F&G PCT	PHT	HPT	Total
	£	£	£	£	£	£	£	£
GWMH Remodelling								
Capital Charges & Premises Costs	101,658	0	60,463	162,120	101,658	0	60,463	162,120
GHC Remodelling								
Capital Charges & Premises Costs				0	121,700	192,747		314,446
Total	101,658	0	60,463	162,120	223,357	192,747	60,463	476,567

The full year effects for the three organizations are therefore as follows: F&G PCT £223,000 pa, Portsmouth Hospitals £193,000 pa and Hampshire Partnership £61,000 pa. These costs comprise the capital charges on the works and equipment expenditure together with the premises costs associated with the expansion of

services into areas of Gosport HC previously occupied by the GPs. (The costs released for these areas formed part of the GHC reprovision business case.)

The business case assumes no additional clinical service costs as a result of the transfer from Haslar. In line with the conclusion of the Capacity Map, the increased premises costs resulting from this development will need to be offset by efficiency savings achieved through the reconfiguration of services.

The Benefits Realisation Plan for this scheme refers to integration of Out of Hours and Accident Treatment Services and the move to the provision of a single Physiotherapy department. These and other potential areas of service remodeling will be the subject of further development to ensure the final business case confirms the details of revenue savings to cover these costs. The PHT component of the costs is consistent with agreements concerning the scale and scope of service provision in the context of the capacity map. The recent transfer of OPMH to Hampshire Partnership post-dates the capacity map analysis and further discussions will be needed with the new provider regarding their element of the costs.

In addition to the recurrent revenue consequences of the project, the PCT will incur nonrecurrent costs associated with the decanting of services to Haslar. This will result in a one off charge of £223,000 in 2007/08 (comprising rent, premises costs and alteration costs).

APPENDIX A

ECONOMIC ANALYSIS

ERNST & YOUNG

7. Economic Analysis

7.1 Non-Financial Benefit Option Appraisal

1. This section describes the process used to determine the weighted benefit score for each of the two options.

2. The weighted benefit score indicates the ability of each option to deliver, support or facilitate the benefits required from the initiative.

7.1.1 The Benefits Criteria

3. The Project Steering Group members developed the benefits criteria. Each benefit criteria has been given a weight to indicate the comparative importance of the benefit. The benefits identified are:

- Ensuring the health needs of the local population are addressed.
  - Allowing flexibility in service provision for the anticipated 4% increase in population.
  - Focusing on deprived areas where the health needs are greater and reducing the number of key causes of death.

- Provide a clinical environment that supports high quality clinical care.
  - Ensure that all facilities meet the standards required for modern clinical practice.
  - Provide a safe and homely environment for patients, staff and visitors.
  - Ensure that facilities and support services on site are adequate for the services provided.
  - Co-location of clinical services.

- Strategic Fit.
  - To be sufficiently flexible/robust to cope with future changes in patterns of service delivery and in response to changes in population and morbidity.
  - To realise benefits of interdependence (e.g. extent to which proposed scheme contributes to efficiencies or synergy elsewhere).
  - Congruence with national and local strategy, including local reconfiguration of acute services.

- Ensuring that service provision is maintained in the locality.
  - Improve patient/carer experience.
  - Ensure critical mass for service providers.

- Improves recruitment and retention of staff.
  - To make it easier to recruit and retain staff.

- To enhance facilities for teaching and research.
  - Meets "working lives" directive.

- Improved working environments that meet health and safety guidelines.

❖ Maximising the use of facilities.
- To improve the functional suitability either through he re-provision of services in new build facilities or the refurbishment of current buildings to enable appropriate adjacencies of services and optimal patient flow.

❖ Contributes to the establishment of comprehensive and effective clinical networks.
- All future service developments to take place within the context of clinical networks.
- Equity of access for all patients to all services provided by the network.
- Common clinical standards, protocols and care pathways are agreed across the network.
- Workforce and training issues are managed on a network-wide basis.
- Resource planning and management are undertaken collectively to:
  Ensure adequate resourcing throughout the network
  Manage the pace of change appropriately

7.1.2 Weighting of Benefit Criteria

4. Each benefit was weighted to reflect its relative importance. For example, if access is twice as important as patient environment, it will be given twice the weighting. Each benefit criteria was given a score (out of 100) to indicate the level of benefit identified in 7.1 above to the scheme.

Table 17: Criteria Weightings

Criteria Weighting	
Criteria	**Weight**
Health Needs	23
Accessibility	21
Clinical Networks	14
Strategic Fit	11
Quality of Care	11
Recruitment and Retention	10
Quality of Environment	9
Totals	**100**

Source: Project Steering Group Members. Fareham and Gosport PCT. Sept. 04

5. Health needs scored the highest as the delivery of good quality healthcare locally was seen as critical to Fareham and Gosport PCT. Accessibility also scored very highly in terms of physical access to the healthcare organisation to ensure that patients were able to travel with reasonable ease and also in terms of making sure that the local population have access to the services required. Clinical networks was scored the next highest in that it was important to ensure that there was critical mass to enable common standards, resource management, addressing training issues etc. The remaining four criteria scored more or less equally to demonstrate their relative benefit to the project.

7.1.3 Scoring the options

6. A panel of representatives drawn from the Project Steering Group, scored the options. They include:

Name		Title
Martin Dorey	-	Representative from Portsmouth Hospitals NHS Trust
David Miles representing Action	-	Director of Gosport Voluntary Action and Fareham Community
Brian Bayford	-	Fareham Borough Councillor
Inger Hebden	-	Director of Strategic Development, Fareham and Gosport PCT
Kathryn Rowles	-	Director of Public Health, Fareham And Gosport PCT
Gillian Parker	-	Parliamentary Business Manager, Strategic Health Authority
Tom Smith	-	Chair of Patient and Public Involvement Forum
John Gummerson	-	LIFT Project Director, East Hants PCT

7. Each panel member scored each option against each criteria out of 5, whereby:
   0 = Does not achieve
   2-3 = Satisfactory, and
   5 = Compliant/Fully achieves

8. The total scores were then averaged. The table 18 below shows the results.

9. Option 2 scores higher than option 1a, it scored higher on all of the benefits criteria listed with particular emphasis on health needs, accessibility and clinical networks.

Table 18: Weighted Scores for each Option

Weighted Benefit Score		Average Raw Scores		Weighted Scores	
		Crosslink Building	Refurbishment of GWMH / GHC	Crosslink Building	Refurbishment of GWMH / GHC
Criteria	**Weight**	**1a**	**2**	**1a**	**2**
Health Needs	23.0	3.75	4.75	86.21	109.20
Accessibility	20.7	3.25	4.25	67.24	87.93
Clinical Networks	13.8	2.50	3.63	34.48	50.07
Strategic Fit	11.5	3.25	4.00	37.36	45.98
Quality of Care	11.5	3.25	4.00	37.36	45.98
Recruitment and Retention	10.3	3.50	3.88	36.21	40.14
Quality of Environment	9.2	3.13	4.38	28.78	40.28
Totals	**100**	**22.6**	**28.9**	**327.6**	**419.6**

Source: Fareham & Gosport PCT

7.2 Financial Appraisal

10. This section calculates the net present costs of the two options. The net present costs are compared and the lower is the most economically advantageous option.

11. Net present cost is determined by discounting all the cash flows associated with each option back to their present value. The standard discount rate of 3.5% as per the Treasury Green Book is used for this purpose. The cash flows exclude the capital charges and VAT as these are internal government transfers or have no cash effect. The cash flows are analysed over a 30-year period.

12. Cash flows included are the payments to acquire the capital assets. These are all assumed to fall in the first year of the period under analysis, which is unlikely as construction is expected to take up to 5 years. This will be adjusted once the construction cost profiles are known. Annual cash flows relate to the lease rental payments made under a LIFT. These are assumed to fall in every year from year 1-30 and this will be adjusted once greater detail is available.

7.2.1 Total Capital Investment

13. Table 19 below identifies the total capital required to undertake the project. Some of this capital is in the form of NHS Capital and some in the form of LIFT Scheme developments. NHS capital resources are

limited and the HIOW SHA has stated that there are no central resource available for the funding of these schemes. As most of the options require significant element of capital costs to be incurred, one form of funding considered is through a LIFT scheme.

14. This method of funding a scheme allows Fareham and Gosport PCT to undertake capital developments without having to invest large sums of capital up front. The LIFT scheme will allow the PCT to provide services in modern, adaptable buildings, which assist in improving the quality of services provided. The PCT incurs revenue expenditure in the form of lease payments.

15. The elements considered for this form of funding include:

- New community hospital in Fareham (under both options 1a and 2)
- Gosport developments for displaced services
- New GP practice at Gosport

16. The refurbishment of GWMH is to be funded through NHS Capital monies.

17. LIFT is not an appropriate structure for capital investment in procuring and refurbishing Crosslink under Option 1a or the refurbishment of the Gosport War Memorial Hospital under Option 2. This is because the nature and location of the sites restrict the long-term use of facilities and may have a detrimental impact on the residual value of the buildings. For example the future sale of the Crosslink building is restricted as MoD land and buildings surround it.

Table 19: Total Investment in the NHS Infrastructure

Funding	Development	Option 1a – Crosslink £	Option 2 – GWMH £
NHS Capital	Royal Haslar Hospital – Crosslink	27,922,231	N/a
	Gosport War Memorial Hospital	N/a	3,594,526
LIFT	Fareham Community Hospital	23,662,985	23,662,985
	Relocation of Gosport Health Centre	N/a	2,002,780
	Relocation of GWMH services	N/a	658,800
Total Investment in NHS Infrastructure		**51,585,216**	**29,919,091**

Source: Inventures. July 04

7.2.2 Capital Costs

18. The capital costs have been derived utilising Department Cost Allowances (DCA) and schedules of accommodation based upon the projected activity and service requirements. The PCT's appointed

quantity surveyors prepared detailed OB Cost Forms together with the assumptions made. These are provided at Appendices 5a - c.

19. Capital costs have been calculated at MIPS 395 price levels (Financial Year 04/05) for fluctuating priced contracts based upon DCA Guides. The capital costs and the square metres required to accommodate the re-provisioning of the services have been provided by Inventures, the PCT's appointed Quantity Surveyors.

Table 20: Total Adjusted Capital Costs

Expenditure	Crosslink	Refurb GWMH
	£	£
Site Purchase - Land	4,200,000	
Site Purchase - Bldgs	8,800,000	
Works Costs	8,026,845	1,769,191
Location Adjustment	882,953	194,611
Fees	1,808,689	373,122
Non-Works Costs	100,000	150,000
Equipment	971,649	221,547
Planning Contingency	1,179,014	406,271
Sub-total	**25,969,150**	**3,114,742**
VAT	1,953,081	479,784
Non-Adjusted Capital	**27,922,231**	**3,594,526**
Risk Adjustment	5,843,059	700,817
Risk Adjusted Capital for NPV calculation	**33,765,290**	**4,295,343**

Source: Inventures – Cost Forms OB1. July 2004.

7.2.2.1 Site Purchase Land and Buildings

20. The Crosslink option requires the procurement of land and buildings from the MoD. The purchase price for land is not known at this stage, however the price of land elsewhere on the site was valued at 2.1m for 5 acres. On the basis that the Crosslink site is twice this, a figure of £4.2m has been assumed. Clearly there is a high degree of subjectivity around this figure and ultimately the District Valuer will determine the sale price.

21. The £8.8m for the purchase of Buildings under the Crosslink option includes the purchase of the Crosslink building and the £4m for "injurious affection", which relates to the assumed loss in value of the remainder of the Haslar site. Also, under this option the development of the car park is taken into account in the above capital costs.

7.2.2.2 Works Costs

22. The works costs for the Crosslink building include the separation of the Crosslink building from the older, listed main hospital building at Haslar and provision of the necessary infrastructure to enable it to function as a stand alone NHS facility.

23. The works costs for the GWMH/GHC relate to extensive refurbishment of the ground and first floor of the Gosport Health Centre, which will accommodate the services to be transferred from the Haslar site and a portion of the GWMH to ensure that the accommodation satisfies the functional content requirements and provides the desirable adjacencies discussed by the Project Steering Group.

7.7.2.3 Location Adjustment

24. For both the options, a regional location adjustment of 11% of the works costs has been applied. This has been taken from the NHS Estates Quarterly Briefing volume 13 number 3. The Quantity surveyors have used the location factor for the South East for this project as the project is on the boundary of the regions and other schemes in this area have indicated that a higher location factor is required for this area. BCIS also indicated a higher location factor.

7.7.2.4 Fees

25. For both the options, the Quantity Surveyors have used an allowance of 19% of the works cost has been made for fees, this is to cover legal advice, financial advice, town planning advice, project management costs, the appointment of a project director, appointment of a commissioning officer, preparation of approval documents, design team fees, quantity surveying, survey and report costs, clerk of works and planning supervisor fees.

7.2.2.5 Non-works Costs

26. For both the options, an allowance has been made for incidental decanting costs, statutory planning and building regulation fees.

7.2.2.6 Equipment

27. The equipment costs for the Crosslink Building are significantly higher than those for the refurbishment of the GWMH. The main variations are around Diagnostic imaging, Accident Treatment Centre, Endoscopy Unit and the Minor Surgery Unit, this is because they would need to be fitted out from new as existing infrastructure does not exist. Also, the Crosslink building would also need to fit out the support facilities such as Medical Record, Pharmacy etc.

7.2.2.7 Planning Contingency

28. For both the options, the quantity surveyors have applied a contingency of 15% to cover any incidentals and discussions to be made to effectively manage the project within budget.

7.2.3 Lease Rental Costs

29. As mentioned above, LIFT schemes are paid for by the PCT through lease rentals. NHS LIFT is a new approach to the delivery of service development and capital investment for community-based health and social care. The initiative is designed to assist with the delivery of a "step change" in primary care. Local stakeholders will enter a public private partnership (PPP) agreement to own and develop fully maintained property for primary, community and social care users.

30. The LIFT Company set up will lease the development to the PCT for a minimum of 20 years for an agreed level of rental. The PCT will generally enter into a "Lease Plus" agreement whereby the LIFT Company will be required to provide additional services such as repairs, maintenance, insurance and lifecycle costs of the premises throughout the term of the agreement. A LIFT Company will also be expected to offer flexibility in the sense of an ability to adapt premises and respond to changing requirements.

31. In order to identify the annual rental payments, a square metre charge has been identified by the PCT on the basis of the current LIFT Schemes in operation in the Hampshire region. The charge is then multiplied by the square metres for each building to determine the lease payment.

Table 21: Total Adjusted Lease Costs

Development	Option 1a – Crosslink £	Option 2 - GWMH £
Rowner Road lease		150,000
New Practice Gosport lease		240,000
Community Hospital at Fareham lease	2,435,650	2,435,650
Community Mental Health Team lease		234,000
Avalon lease	84,000	84,000
Total Lease Costs	**2,519,650**	**3,143,650**
Risk Adjustment	566,921	707,321

Total Risk Adjusted Lease Costs	**3,086,571**	**3,850,971**

Source: Fareham & Gosport PCT

7.2.4 Capital Charges

32. This analysis excludes capital charges because they are not relevant to the calculation of the net present costs for the options. However, when an outline business case is prepared, the affordability of the preferred option will be tested and capital charges will have a significant impact on revenue costs.

33. The capital charges for each option are therefore provided below for information:

Table 22: Capital Charges

	Option 1a	Option 2
Capital Cost	27,922,231	3,594,526
3.5 % return	977,278	125,808
Depreciation (Buildings only)	919,489	143,781
Total Capital Charges	1,896,767	269,589

Source: Fareham & Gosport PCT

34. As can be seen, the investment in the Crosslink building generates a significantly greater capital charge than the GWMH option.

7.2.5 Sale of Assets

35. As mentioned above, under either of the options the sale of the Sylvan Clinic and Hewat House will take place once the services have been transferred to new accommodation under the preferred option. Also, St Christopher's Hospital and Blackbrook Maternity Home will also be sold once they have been vacated. However, the value of these properties is not yet known as they have yet to be transferred to Fareham and Gosport PCT. The RHH is also to be sold in 2007, when it will be vacated, however, the funds will go to the MoD.

Table 23: Sale Proceeds

Building Receipts	Option 1a	Option 2
Haslar	MoD Receipt	MoD Receipt
St Christopher's Hospital	Not Known	Not Known
Blackbrook Maternity Home	Not Known	Not Known
Sylvan Clinic	(410,600)	(410,600)
Hewat House (if CMHT reprovided at Rowner Road)	(59,200)	(59,200)
Total	**(469,800)**	**(469,800)**

Source: Fareham & Gosport PCT

36. With the exception of the Haslar site the sale of other properties will benefit the PCT in terms of potential savings made on capital charges and maintenance on these properties and also may make some profits from the sale. However, this information has been excluded from the NPC as the sales are the same for each option and there is lack of clarity regarding timing and value of sales.

7.2.6 Risk Analysis

37. At this early stage in the development of the options, there is significant uncertainty with regard to the exact value of capital costs and lease payments.

38. The Fareham and Gosport PCT Board members as identified in Section 5.7 have identified the risks inherent in the short-listed options. Risk Analysis allows for a level of contingency for increase in capital and revenue costs. The overriding objective of performing a risk analysis is to assess the total costs to the Trust of the investment options under consideration with the aim of establishing which option delivers the optimum value for money.

39. The risks identified are shown in table 24 below:

7.2.6.1 Methodology

40. The risks have been quantified based on the impact and the probability of the event occurring as identified by the PCT Board.

41. The Impact is the extent to which the value may change as a consequence of the risk event occurring. This is expressed as an upper change in value, representing the worst case outcome (High); a middle change in value representing the risk event having a less severe outcome (Medium); and a lower change in value, which represents the best case outcome (Low). The Probability is the extent to which the risk will arise.

42. The impact percentage is multiplied by the probability percentage and the resulting percentage is then applied to total capital and net revenue costs.

Table 24: Summary of Risks

Risk	Impact	Probability	Actions
Delay in establishing the needs of the local population	High	Medium	Establish as a high priority for building a team to do this
Delays in gaining agreement over service models	High	High	Involve the stakeholders in the development of these
Finance may not be available to develop the preferred option. Revenue gap will be difficult to close pre 2007	High	High	Find out if Capital is likely to be available through LIFT or planning gain. Ensure that additional revenue costs are minimised. Negotiate with MoD over possibilities for use of Haslar site. Ensure extra resources = better outcomes
Timescales may not be met	High	Medium	Some slippages may be possible but project management techniques will be employed throughout
Lack of Stakeholder involvement at development stage	High	Low	Ensure that stakeholders are included and listened to. Ensure that Stakeholders are included
Delays in finding suitable site options	Medium	Low	Develop contingency plans
No consensus over preferred option	High	Medium	Ensure that a robust process is followed including a clear communications strategy including a plan for patient and public involvement
Any new builds miss deadline for completion (2007 latest)	Medium	Medium	Develop contingency plans
Planning difficulties and delays	High	High	Work closely with the local authority and keep informed of progress
Lack of support from staff	High	Medium	Include staff in identifying needs and generating options, criteria and appraisal

Source: Fareham & Gosport PCT

43. The estimate of the costs of the risks associated with the different options included in the above NPC calculations is set out in table 25 below.

Table 25: Value of the Risks Retained by the PCT for the Short-listed Options

	Option 1a - Cross Link		Option 2 - GWMH	
Risk	**Capital**	**Revenue**	**Capital**	**Revenue**
Delay in Establishing Needs of the Local Population	519,383	50,393	62,295	62,873
Delay in Agreement of Service Models	1,038,766	100,786	124,590	125,746
Unavailability of Finance to Develop Preferred Option	1,038,766	100,786	124,590	125,746
Not meeting Timescales	519,383	50,393	62,295	62,873
Lack of Stakeholder Involvement	259,692	25,197	31,147	31,437
Delays in finding Suitable Site Options	129,846	12,598	15,574	15,718
No Concensus on Preferred Option	519,383	50,393	62,295	62,873
New Builds Missing Deadlines on Completion	259,692	25,197	31,147	31,437
Planning Difficulties and Delays	1,038,766	100,786	124,590	125,746
Lack of Support from Staff	519,383	50,393	62,295	62,873
Total	**5,843,059**	**566,921**	**700,817**	**707,321**

Source: Fareham & Gosport PCT

7.2.7 Risk Adjusted Capital / Revenue

44. Capital and revenue costs have been adjusted for risk before being discounted to arrive at the risk adjusted Net Present Cost. As the table above shows, risk increases the capital costs of the Crosslink option by £5.8m and the refurbishment of GWMH by £701k, whilst increasing revenue cost by £567k for the Crosslink building and £707k for the GWMH. These costs are significant, but it is due to lack of financial information and it is prudent to allow for this contingency. The table below shows the Risk Adjusted Capital and Revenue Costs.

Table 26: Risk Adjusted Capital and Revenue Costs

Cost	Crosslink Refurbishment Option 1	GWMH Refurbishment Option 2
Capital	27,922,231	3,594,526
Risk Adjustment	5,843,059	700,817
Total Capital	**33,765,290**	**4,295,343**
Revenue	2,519,650	3,143,650
Risk Adjustment	566,921	707,321
Total	**3,086,571**	**3,850,971**

Source: Fareham & Gosport PCT

7.2.8 Net Present Costs

45. Due to the lack of information on revenue costs, the financial analysis has been carried out purely on the basis of capital costs. The economic analysis therefore, focuses on the analysis of cash flows associated with the procurement of the building solutions either under NHS Capital or LIFT. The only revenue costs considered within the discounted cash flows relate to the lease rentals payable under the LIFT method of funding.

46. The cash flows arising from each option are stated in real terms at 2004/05 prices and are discounted at 3.5%, the Governments current test discount rate for the NHS. The Discounted Cash Flow (DCF) technique takes into account the different timings of cash flows so that more weight is given to earlier costs than to later costs. This reflects the fact that it is preferable to pay costs later than sooner, and to receive benefits sooner rather than later. The detailed DCF schedules are included at Appendix 6.

47. The cash flows can also be expressed as Equivalent Annual Cost (EAC), where the life span of the project varies between the different options, however, in this case the life of the project is 30 years for both the options being considered.

48. Capital and revenue costs have been adjusted to include the value of risks inherent in undertaking this project. The risks have been identified in Table 24. Table 25 identifies the value of the risks retained by the PCT and Equivalent Annual Cost, which has been included in the figures provided in Table 26.

49. Due to the limited information availability, the lifecycle costs have been estimated based on the lifecycle costs of other similar schemes, on

options to be funded through NHS Capital. The schemes to be funded through NHS Capital are options are the Crosslink Building and the refurbishment of the Gosport War Memorial hospital. All other developments including the Fareham community hospital are to be funded through the LIFT Scheme and therefore, any lifecycle costs are to be covered under a Lease Plus agreement and hence, through the rental payments.

50. The risk adjusted Net Present Cost (NPC) calculations for each option are summarised as follows:

Table 27: Summary of Weighted Benefits and Economic Analysis

	Crosslink Building on Haslar Site	**Refurbishment of GWMH / GHC**
Option No.	**1a**	**2**
Weighted Benefit Score	328	420
Risk Adjusted Net Present Cost (£000's)	93,038	75,318
Cost Benefit Score (£000's/benefit point)	284	180
Rank	**2**	**1**

Source: Fareham & Gosport PCT

7.2.9 Sensitivity Analysis using Switching Values

51. Sensitivity analysis has been carried out on the Weighted Benefit Score(WBS) and the Risk Adjusted NPC to evaluate whether the sensitivity would have a material impact on the ranking of the options. Switching values form of Sensitivity analysis looks at the percentage by which the Benefit score and the NPC has to be adjusted for the un-favoured options to become the preferred option, looking at both the non-financial criteria and the financial information.

Table 28: Sensitivity Analysis

	Option 1a
High Level:	
% Change in Weighted Benefits Score (WBS)	159%
% Change in the risk adjusted NPC	37%
Detail:	
Capital (£'000)	11,771
Revenue (£'000)	1,142

Source: Fareham & Gosport PCT

52. Table 28 above shows that the Weighted Benefits Score would have to increase by 59% for the Crosslink option before it would become the preferred option. As the percentages are high it is unlikely that the benefits scoring carried out by the Steering Group Members is likely to change this significantly and also the weighting will not vary to a degree which will result in a material difference to the above percentages.

53. The table also shows the percentage reduction required in the risk adjusted NPC for the Crosslink (37%). In financial values this means reducing the capital costs by £11.8m and revenue costs by £1.1m for the Crosslink Building over the 30-year period. This is a substantial reduction and the probability of achieving these is unlikely without altering the scope of the project significantly.

7.2.10 Summary and Conclusions

54. The option appraisal has been carried out based on the capital procurement costs for both the options and does not address affordability issues due to lack of financial information relating to revenue costs. The results of the financial analysis show that:

55. The refurbishment of GWMH and GHC is demonstrated to have the lowest cost on the whole life economic basis, that is to say that the cost of providing the services under this option is the lowest throughout the life of this project.

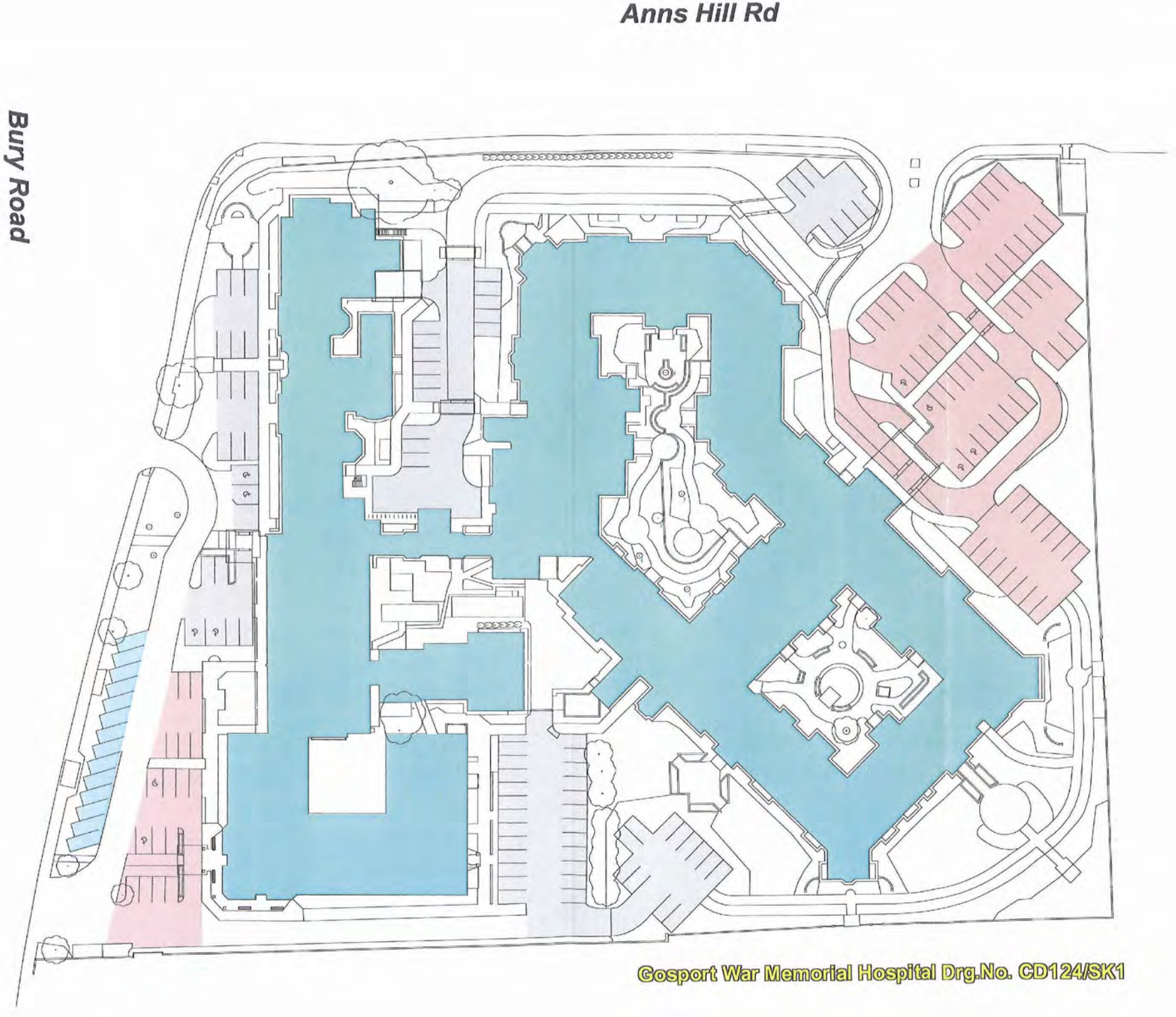
56. The GWMH/GHC refurbishment option also has the highest weighted benefits scoring which indicates that this option is successful in meeting all of the project objectives.

57. The sensitivity analysis demonstrates that the ranking of the refurbishment of GWMH and GHC option is robust. Significant reduction in capital and revenue costs would be necessary for the Crosslink option to be the preferred option.

58. In summary, the Weighted Benefit Score and the economic appraisal indicate that option 2; refurbishment of GWMH and GHC is the preferred option financially and deliver the best value for money

APPENDIX B

ARCHITECTS DRAWINGS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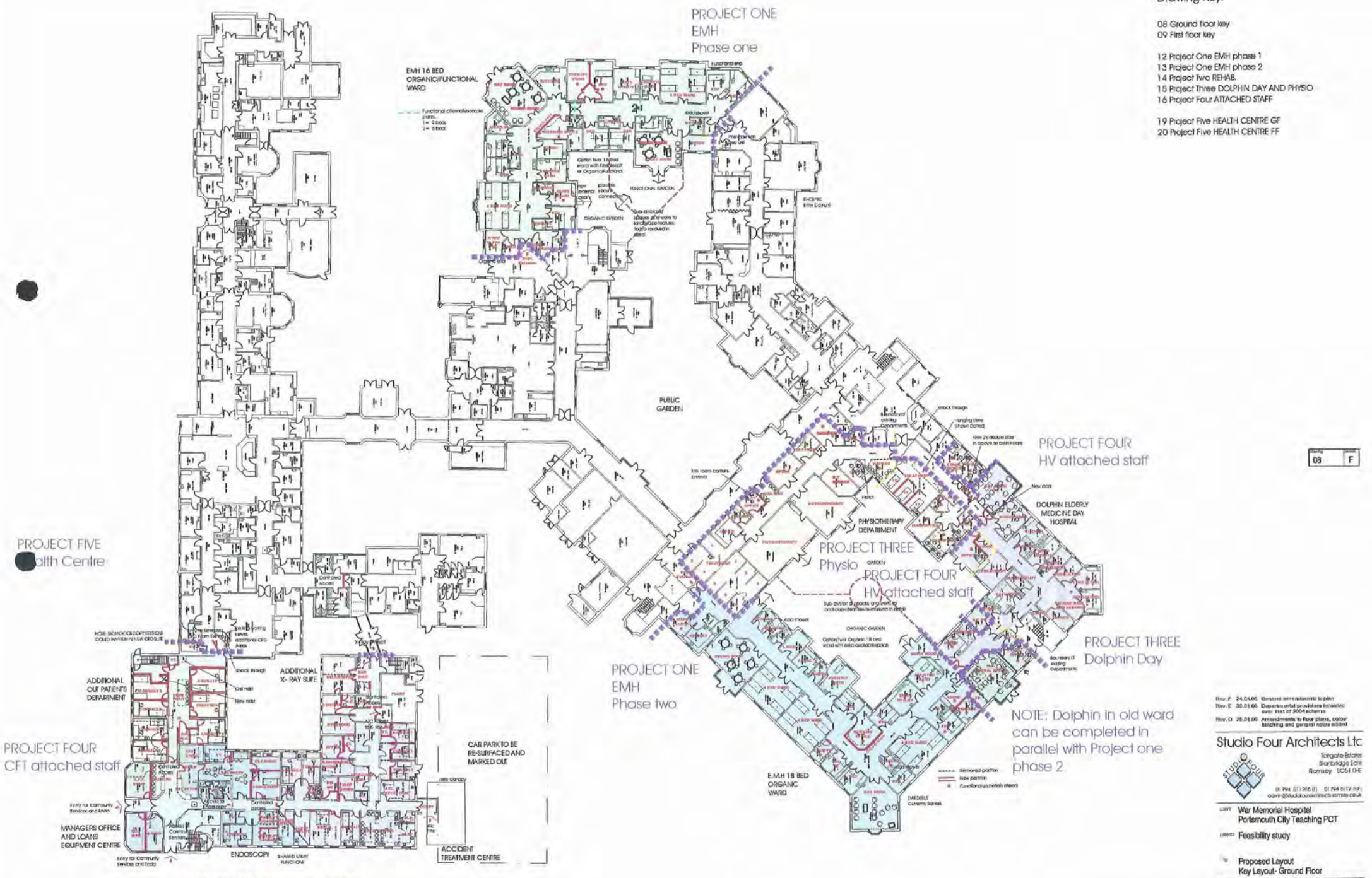
Gosport War Memorial Hospital Drg.No. CD124/SK1


Drawing Key:
08 Ground floor key
09 First floor key
12 Project One EMH phase 1
13 Project One EMH phase 2
14 Project two REHAB.
15 Project Three DOLPHIN DAY AND PHYSIO
16 Project Four ATTACHED STAFF
19 Project Five HEALTH CENTRE GF
20 Project Five HEALTH CENTRE FF
PROJECT ONE
EMH
Phase one
EMH 16 BED
ORGANIC/FUNCTIONAL
WARD
PUBLIC
GARDEN
PROJECT FOUR
HV attached staff
DOLPHIN ELDERLY
MEDICINE DAY
HOSPITAL
PHYSIOTHERAPY
DEPARTMENT
PROJECT THREE
Physio
PROJECT FOUR
HV attached staff
PROJECT THREE
Dolphin Day
PROJECT ONE
EMH
Phase two
NOTE: Dolphin in old ward
can be completed in
parallel with Project one
phase 2
E.M.H 18 BED
ORGANIC
WARD
PROJECT FIVE
alth Centre
ADDITIONAL
OUT PATIENTS
DEPARTMENT
ADDITIONAL
X- RAY SUITE
PROJECT FOUR
CFT attached staff
CAR PARK TO BE
RE-SURFACED AND
MARKED OUT
MANAGERS OFFICE
AND LOANS
EQUIPMENT CENTRE
ENDOSCOPY
ACCIDENT
TREATMENT CENTRE
NOTE: All spaces in health
centre are being altered
08
F
Rev. F 24.04.06 General amendments to plan
Rev. E 30.01.06 Departmental provisions included
over that of 3004 scheme
Rev. D 25.01.06 Amendments to floor plans, colour
hatching and general notes added
Studio Four Architects Ltd
Tollgate Estate
Stanbridge Earls
Romsey SO51 0HF
War Memorial Hospital
Portsmouth City Teaching PCT
Feasibility study
Proposed Layout
Key Layout- Ground Floor
09 Dec 05
1:250
DA/SH
25032
08
F
1:500 Scale at A3

Drawing Key:

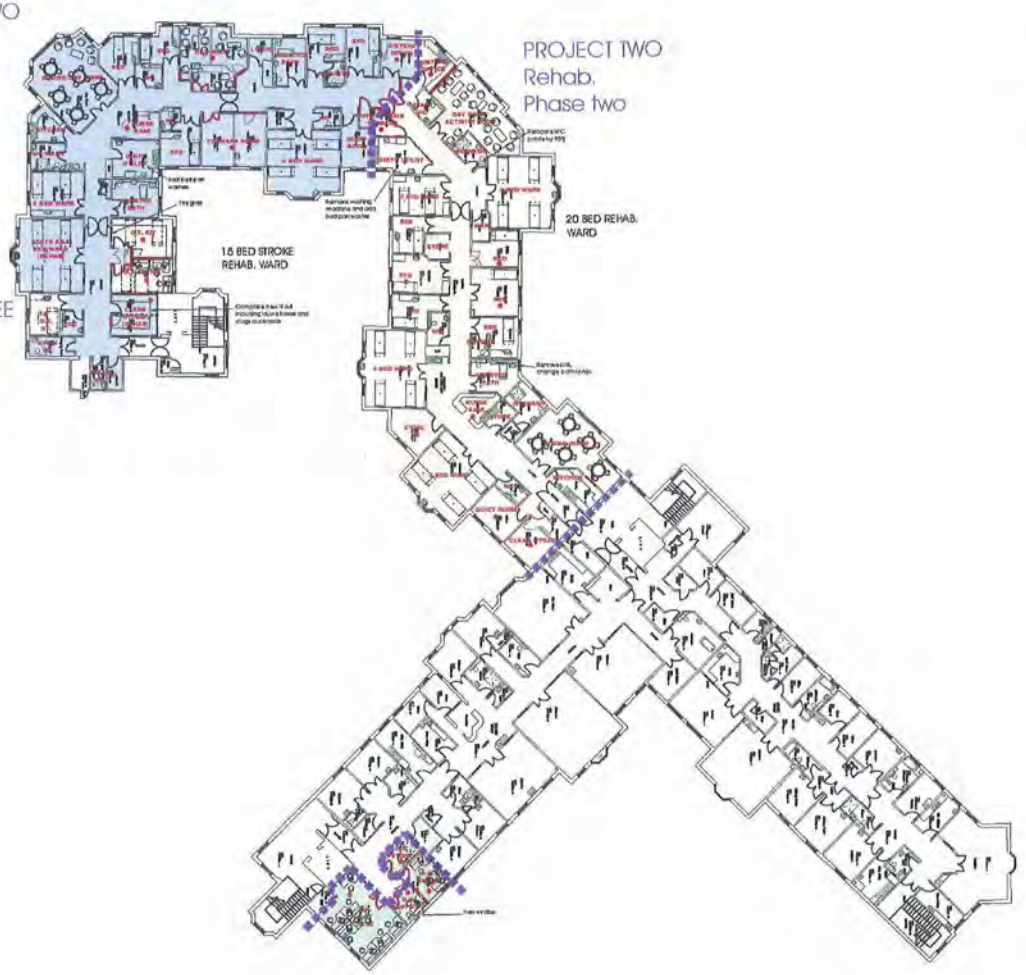
08 Ground floor key
09 First floor key

12 Project One EMH phase 1
13 Project One EMH phase 2
14 Project Two REHAB.
15 Project Three DOLPHIN DAY AND PHYSIO
16 Project Four ATTACHED STAFF

19 Project Five HEALTH CENTRE GF
20 Project Five HEALTH CENTRE FF

PROJECT TWO
Rehab
Phase one

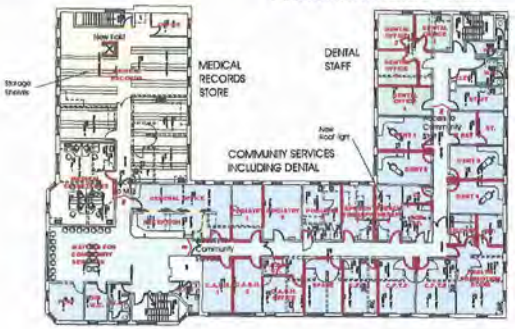
PROJECT TWO
Rehab.
Phase two



PROJECT THREE
O.T'S

PROJECT FIVE
Health Centre

PROJECT FOUR
Attached Dental Staff



NOTE: All spaces in health centre are being altered

PROJECT FOUR
District Nurses

drawing	status
09	E

Removed partition
New partition
Functionally/spatially altered

1:500 Scale at A3

Rev. E 30.01.06 Departmental provisions included over that of 2004 scheme
Rev. D 25.01.06 Amendments to floor plans and general notes added

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client War Memorial Hospital
Portsmouth City Teaching PCT

project Feasibility study

title Proposed Layout
Key Layout-First Floor

date	scale	drawn checked
09 Dec 05	1:250	DA/SH
job no. 25032	dwg. no. 09	rev. no. E

file 05-20 presentation 24.04.06

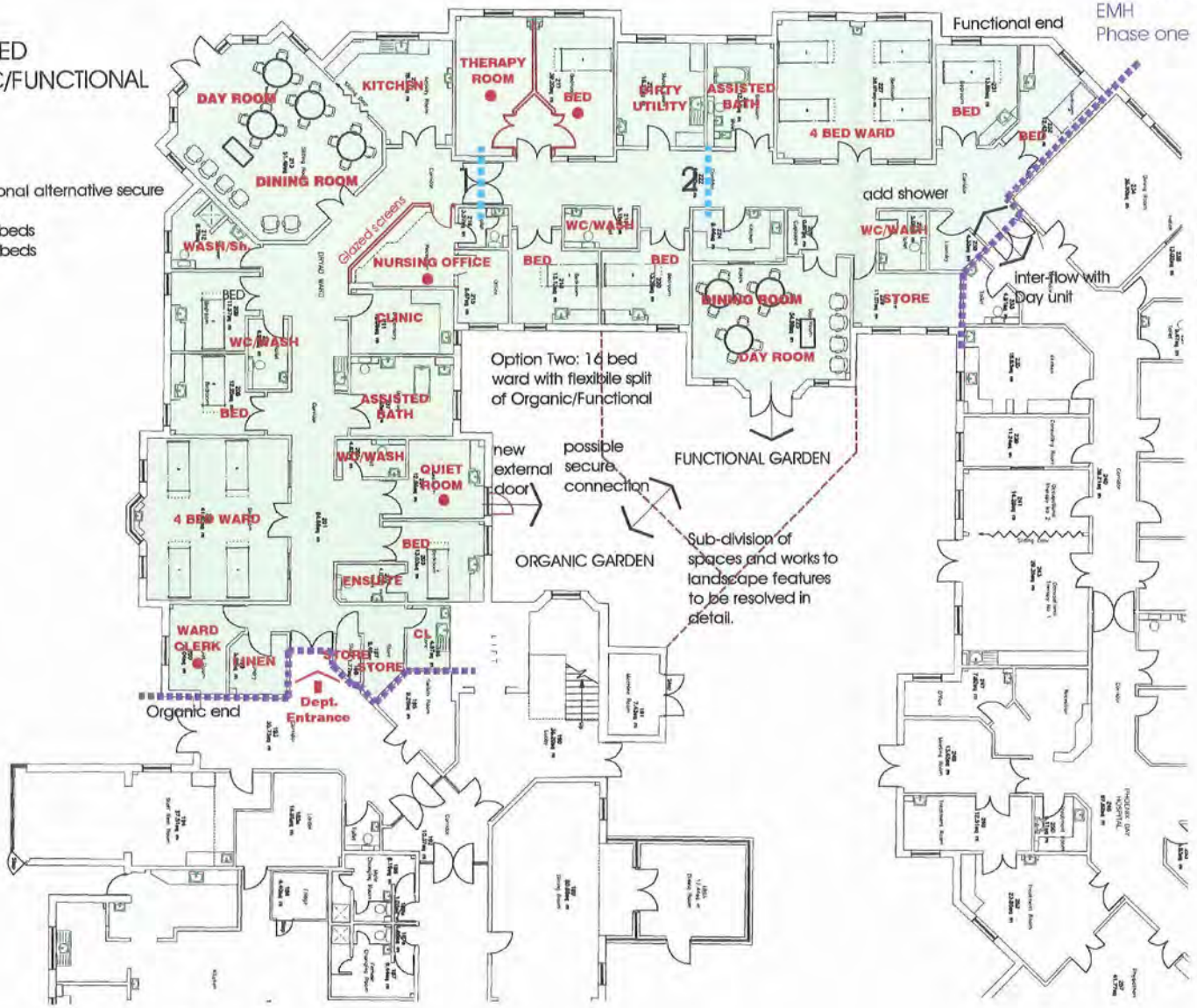
Dryad. Services Notes:
- Retain but disable existing Nurse Call system.
- Add personal attack system.
- Add door control/fob system for corridor and external doors.
- Retain bedhead lights.
- Bedhead services okay as existing.

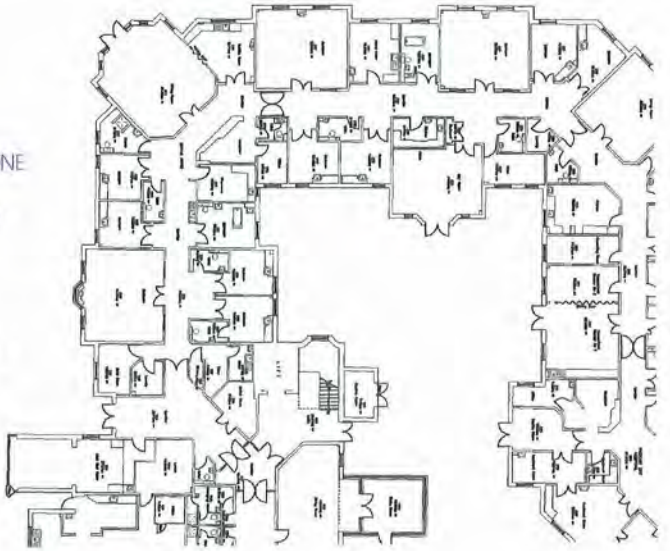
Dryad. Building fabric Notes:
- Allow new floor coverings to all areas.
- Allow redecoration to all walls.
- Allow redecoration to all ceilings (mostly plasterboard).
- Allow redecoration of all painted doors, frames, skirtings.

PROJECT ONE
EMH
Phase one

EMH 16 BED
ORGANIC/FUNCTIONAL
WARD

Functional alternative secure points.
1= 9 beds
2= 6 beds





PROJECT ONE (EMH)
Existing layout 1:200

Drawing	Issue
12	A

PROJECT ONE (EMH)
Proposed layout 1:100

Removed partition
New partition
Functionally/spatially altered

1:200 Scale at A3

Rev. A 28.01.06 Project boundaries added

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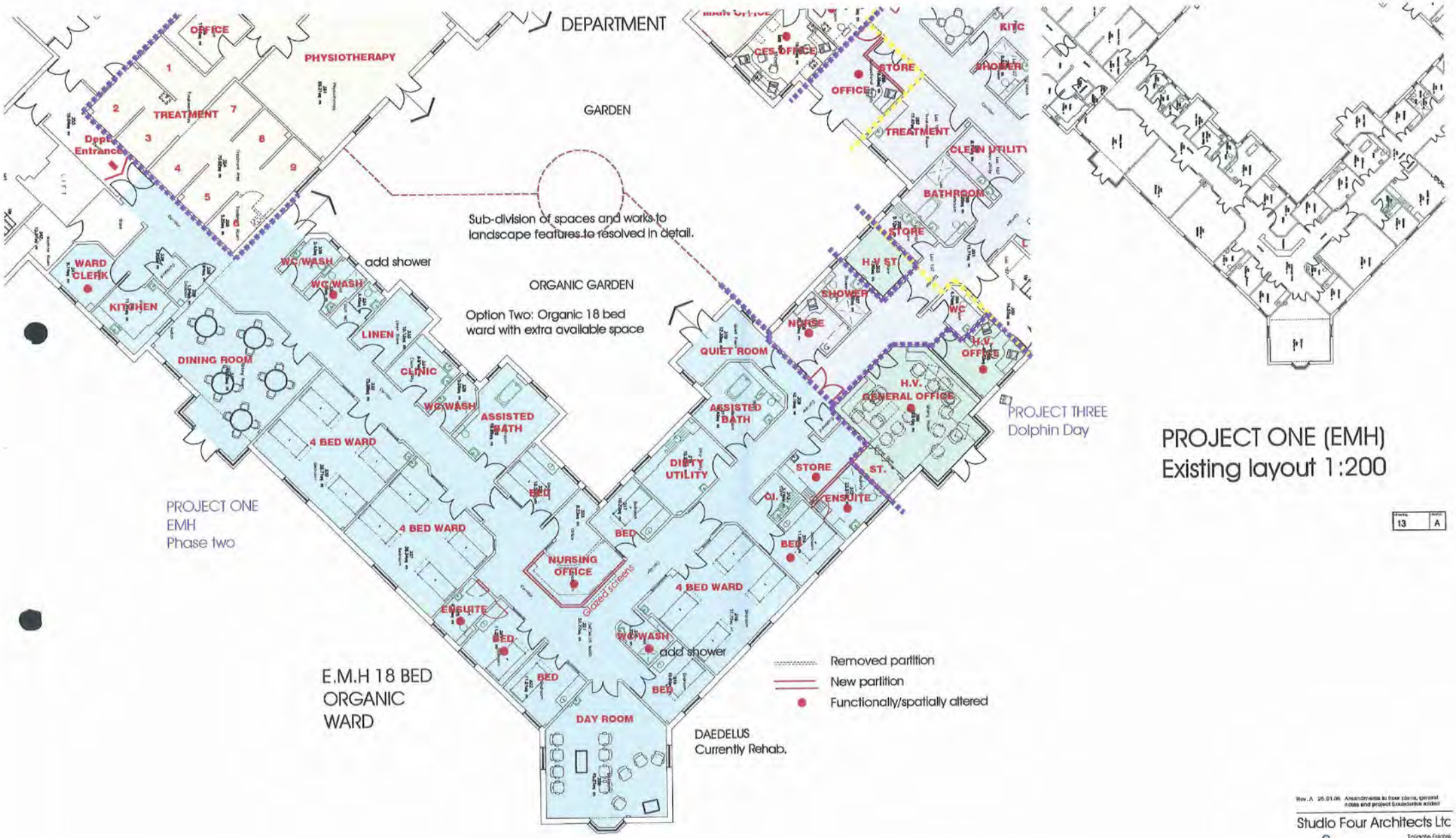
client: War Memorial Hospital
Portsmouth City Teaching PCT

project: Feasibility study

title: Proposed Layout
PROJECT ONE (EMH)

date	scale	drawn	checked
28 Dec 05	1:100	DA/SH	
job no	dwg no	rev no	
25032	12	A	

file: 05.09.vwx



PROJECT ONE (EMH)
Existing layout 1:200

drawing	revision
13	A

PROJECT ONE (EMH)
Proposed layout 1:100

Daedelus. Services Notes:
- Retain but disable existing Nurse Call system.
- Add personal attack system.
- Add door control/fob system for corridor and external doors.
- Retain bedhead lights.
- Bedhead services okay as existing.
- Allow reconfiguration of heating loop to reflect new boundary between 12 and 24 hour areas.

Daedelus. Building fabric Notes:
- Allow new floor coverings to all areas.
- Allow redecoration to all walls.
- Allow redecoration to all ceilings (mostly plasterboard).
- Allow redecoration of all painted doors, frames, skirtings.

1:200 Scale at A3

Rev. A 26.01.06 Amendments to floor plans, general notes and project boundaries added

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client: War Memorial Hospital
Portsmouth City Teaching PCT

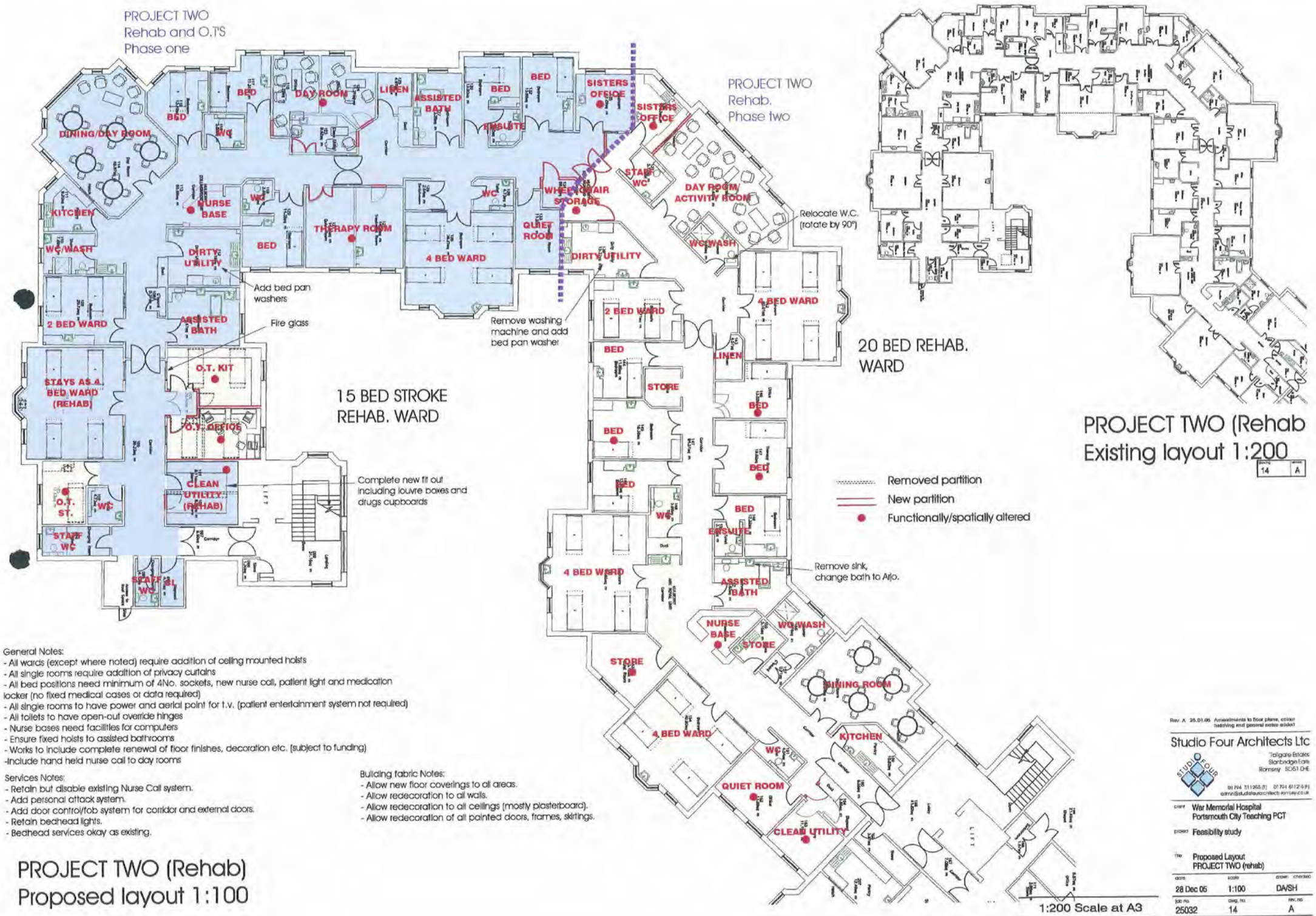
project: Feasibility study

title: Proposed Layout
PROJECT ONE (EMH)

date	scale	drawn	checked
28 Dec 05	1:100	DA/SH	

job no	dwg no	rev no
25032	13	A

file 05.09.etc



PROJECT TWO (Rehab
Existing layout 1:200

14 | A

General Notes:
- All wards (except where noted) require addition of ceiling mounted hoists
- All single rooms require addition of privacy curtains
- All bed positions need minimum of 4No. sockets, new nurse call, patient light and medication locker (no fixed medical cases or data required)
- All single rooms to have power and aerial point for t.v. (patient entertainment system not required)
- All toilets to have open-out override hinges
- Nurse bases need facilities for computers
- Ensure fixed hoists to assisted bathrooms
- Works to include complete renewal of floor finishes, decoration etc. (subject to funding)
-Include hand held nurse call to day rooms

Services Notes:
- Retain but disable existing Nurse Call system.
- Add personal attack system.
- Add door control/fob system for corridor and external doors.
- Retain bedhead lights.
- Bedhead services okay as existing.

Building fabric Notes:
- Allow new floor coverings to all areas.
- Allow redecoration to all walls.
- Allow redecoration to all ceilings (mostly plasterboard).
- Allow redecoration of all painted doors, frames, skirtings.

PROJECT TWO (Rehab)
Proposed layout 1:100

1:200 Scale at A3

Rev. A 25.01.06 Amendments to floor plans, colour hatching and general notes added

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client: War Memorial Hospital
Portsmouth City Teaching PCT

project: Feasibility study

title: Proposed Layout
PROJECT TWO (rehab)

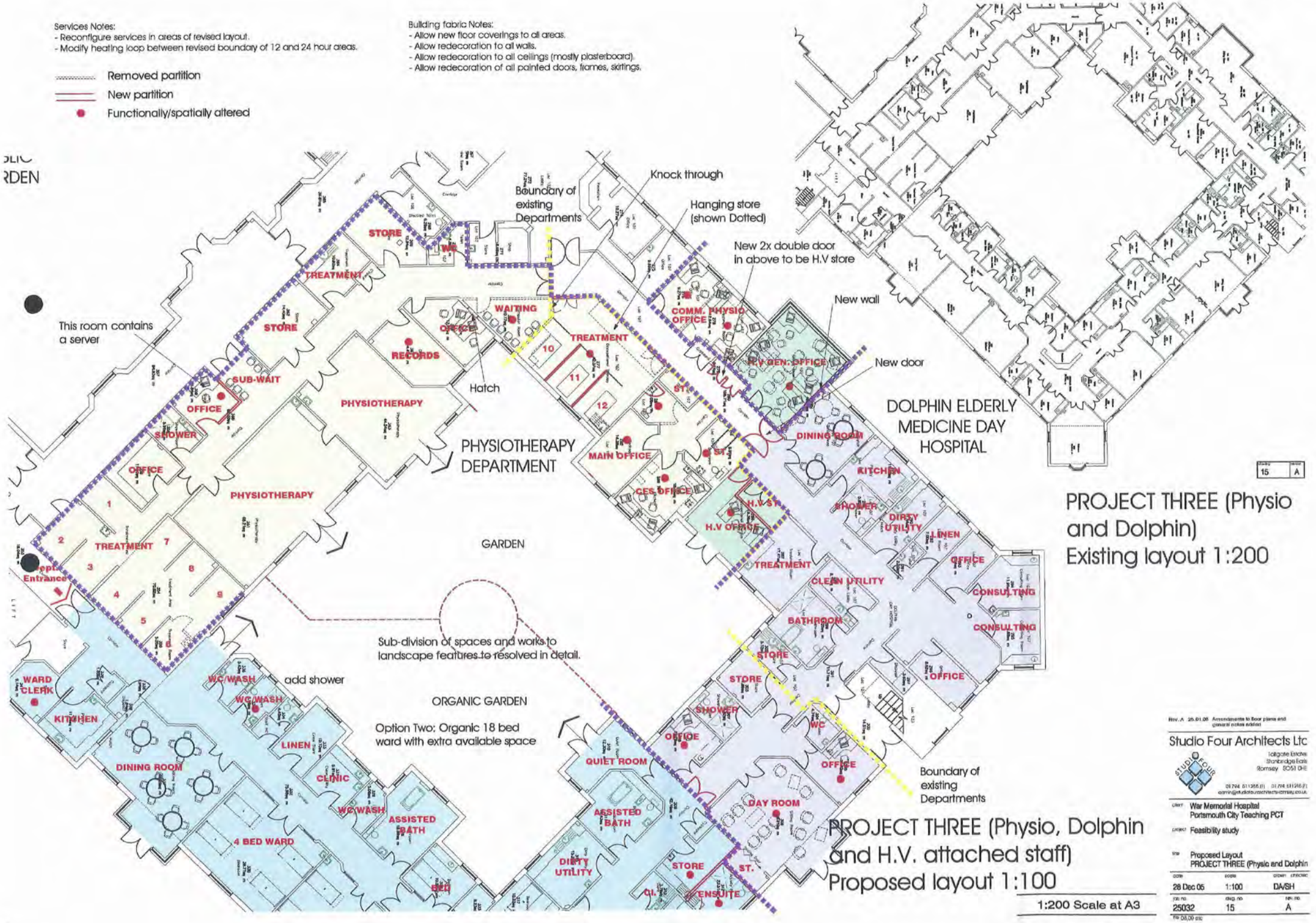
date	scale	drawn	checked
28 Dec 05	1:100	DA/SH	
job no.	dwg. no.	rev. no.	
25032	14	A	

Ref 08.09 etc

Services Notes:
- Reconfigure services in areas of revised layout.
- Modify heating loop between revised boundary of 12 and 24 hour areas.

Building fabric Notes:
- Allow new floor coverings to all areas.
- Allow redecoration to all walls.
- Allow redecoration to all ceilings (mostly plasterboard).
- Allow redecoration of all painted doors, frames, skirtings.

Removed partition
New partition
Functionally/spatially altered



PROJECT THREE (Physio and Dolphin)
Existing layout 1:200

PROJECT THREE (Physio, Dolphin and H.V. attached staff)
Proposed layout 1:100

1:200 Scale at A3

Rev. A 25.01.06 Amendments to floor plans and general notes added

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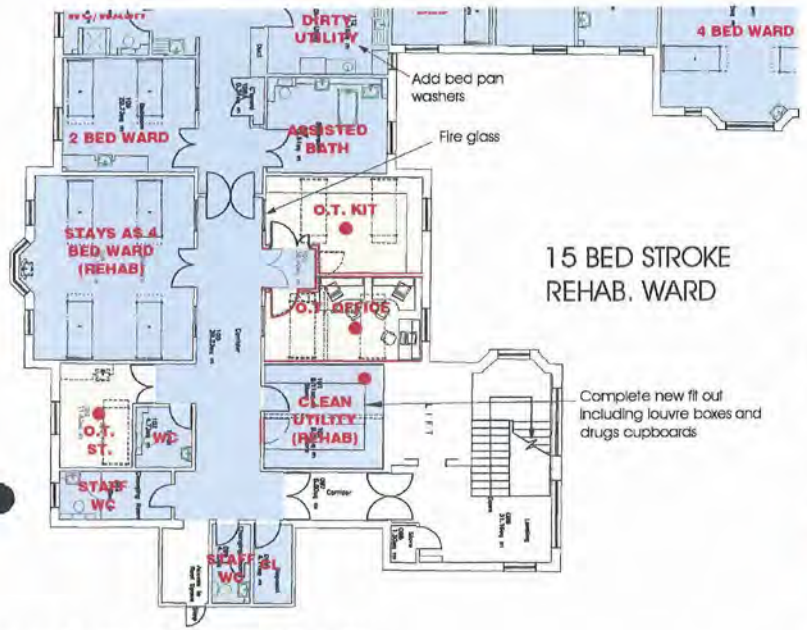
client: War Memorial Hospital
Portsmouth City Teaching PCT

project: Feasibility study

title: Proposed Layout
PROJECT THREE (Physio and Dolphin

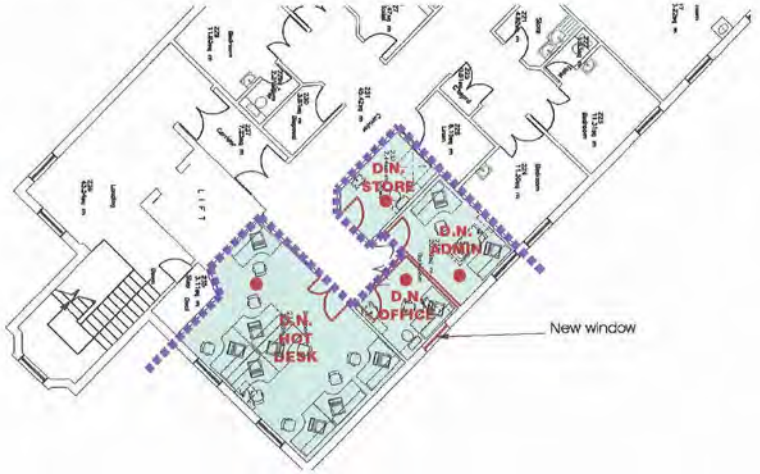
date	scale	drawn / checked
28 Dec 05	1:100	DA/SH
job no.	dwg. no	rev. no
25032	15	A

File 05_09 dwg



PROJECT FOUR (O.T'S)

Proposed layout 1:100 works shown
are duplicated from project two

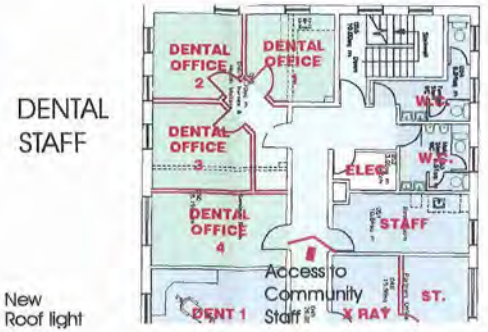


PROJECT FOUR (D.N)

Proposed layout 1:100

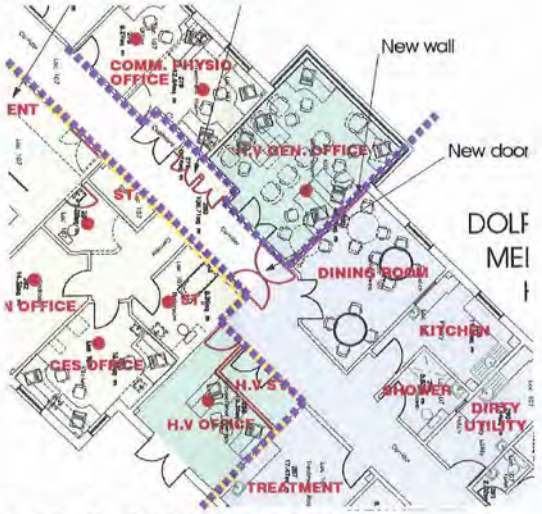
Services Notes:
- Reconfigure services in areas of revised layout, including strip out of Clinical services.
- Modify heating loop between revised boundary of 12 and 24 hour areas.

Building fabric Notes:
- Allow new floor coverings to all areas.
- Allow redecoration to all walls.
- Allow redecoration to all ceilings (mostly plasterboard).
- Allow redecoration of all painted doors, frames, skirtings.



PROJECT FOUR (Dental)

Proposed layout 1:100 works shown
are duplicated from project five F.F



PROJECT FOUR (H.V.)

Proposed layout 1:100 works shown
are duplicated from project three

PROJECT FOUR (C.F.T.)

Proposed layout 1:100 works shown
are duplicated from project Five G.F

PROJECT FOUR (DN and HV)
Existing layout 1:200

Removed partition
New partition
Functionally/spatially altered

1:200 Scale at A3

rev. A 25.01.06 Amendments to floor plans, colour hatching and general notes added

Studio Four Architects Ltc
Tolgate Estate
Bankbridge Ears
Romsey SO51 0HE

client: War Memorial Hospital
Portsmouth City Teaching PCT

project: Feasibility study

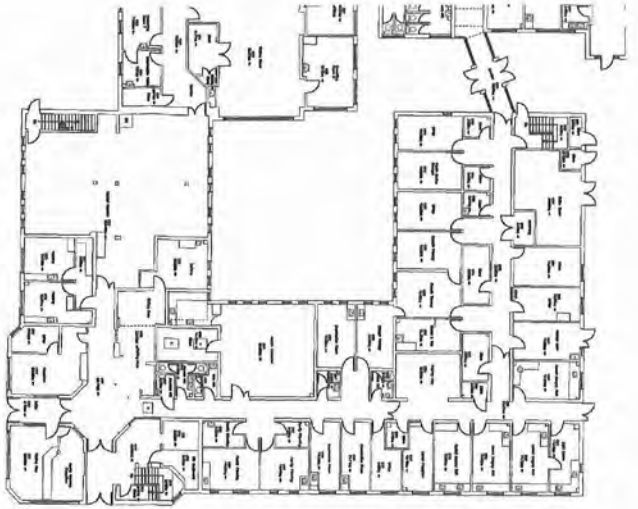
title: Proposed Layout
PROJECT FOUR (Attached Staff)

date	scale	drawn checked
28 Dec 05	1:100	DA/SH
job no	dwg no	rev no
25032	16	A

file 08.09 etc

PROJECT FIVE (Health Centre)
Proposed layout 1:100

Removed partition
New partition
Functionally/spatially altered



PROJECT FIVE (Health Centre)
Existing layout 1:200

NOTE: SIGMOIDOSCOPY SESSIONS COULD HAPPEN IN NEW OPD SUITE

Entry to Extended OPD From Existing OPD

Existing waiting serves additional OPD Areas

Access

X-Ray Overspill

Knock through

Old hoist

New hoist

ADDITIONAL OUT PATIENTS DEPARTMENT

ADDITIONAL X- RAY SUITE

Controlled Access

ATC Access to X- ray

CAR PARK TO BE RE-SURFACED AND MARKED OUT

new canopy

Controlled Access

Access to Endoscopy

Controlled access

Entry for Community Services and Endo.

MANAGERS OFFICE AND LOANS EQUIPMENT CENTRE

Access to Community Services

ENDOSCOPY

SHARED UTILITY FUNCTIONS

24 HR ACCIDENT TREATMENT CENTRE

ATC 24Hr Entry

1:200 Scale at A3

Rev. A 25.01.06 Amendments to floor plans, colour hatching and general notes added

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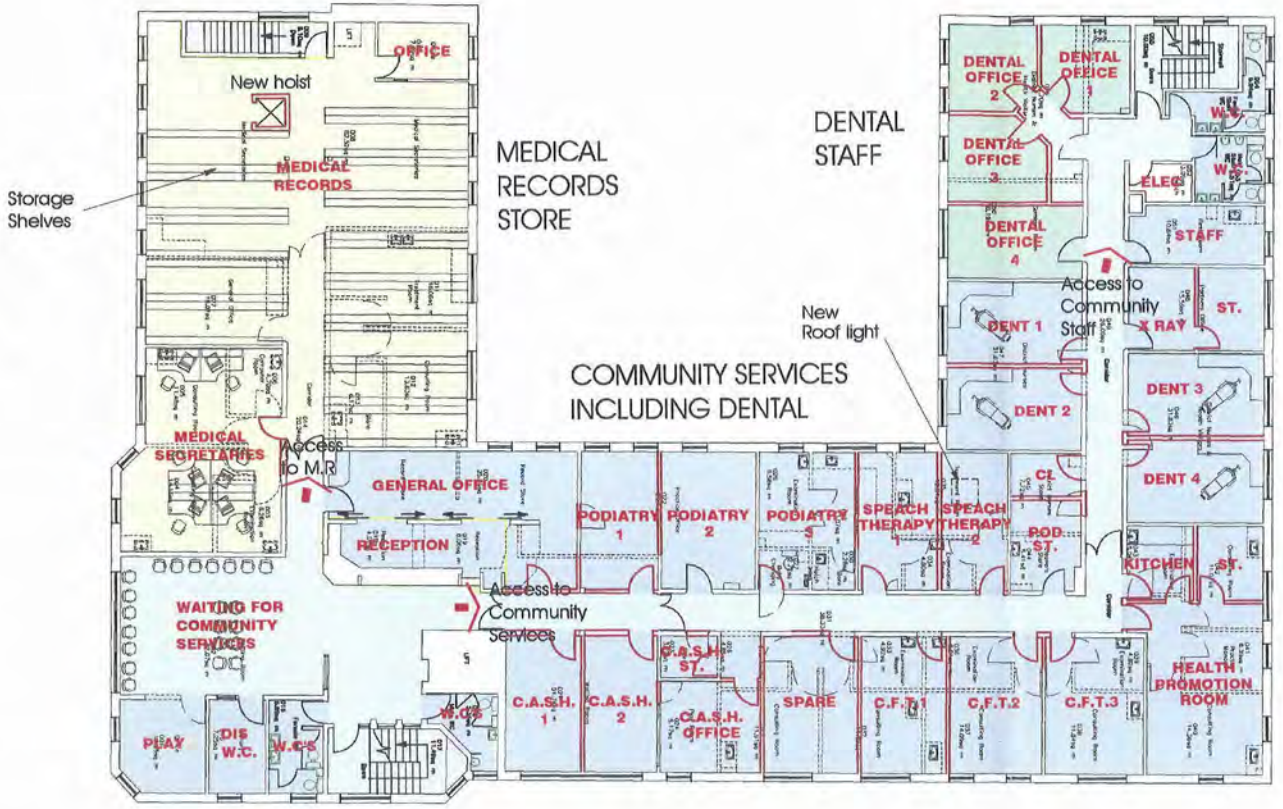
client: War Memorial Hospital Portsmouth City Teaching PCT

project: Feasibility study

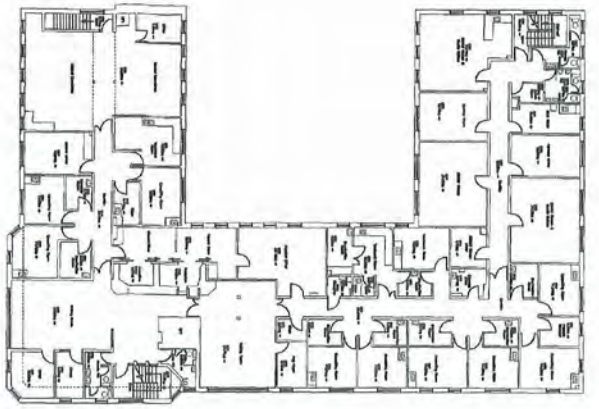
title: Proposed Layout PROJECT FIVE (Health Centre GF)

date	scale	drawn	checked
28 Dec 05	1:100	DA/SH	
job no. 25032	dwg. no. 19	rev. no. A	

file 05.09 etc



PROJECT FIVE (Health Centre)
Proposed layout 1:100



PROJECT FIVE (Health Centre)
Existing layout 1:200

drawing	revision
20	A

Removed partition
New partition
Functionally/spatially altered

1:200 Scale at A3

Rev. A 26.01.06 Amendments to floor plans, colour hatching and general notes added

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client: War Memorial Hospital
Portsmouth City Teaching PCT

project: Feasibility study

title: Proposed Layout
PROJECT FIVE (Health Centre FF)

date	scale	drawn	checked
28 Dec 05	1:100	DA/SH	

job no.	dwg. no.	rev. no.
25032	20	A

file 08.09.etc

APPENDIX C

CAPITAL COST FORMS OB1-4

OUTLINE BUSINESS CASE FOR PREFERRED OPTION

COST FORM OB1

TRUST / PROVIDER UNIT*..... Fareham & Gosport NHS PCT

SCHEME: ..... Redevelopment of Gosport War Memorial Hospital

PHASE..... Projects 1 to 5 (Version 4.0)

CAPITAL COSTS SUMMARY

		Cost Excl. VAT £	VAT @ 17.5% with 20% recovery £	Cost Incl. VAT £
1	Departmental Costs (from Form OB2)	2,530,061	354,209	2,884,270
2	On Costs (from Form OB3) (28.03% of Departmental Cost)	709,154	99,282	808,436
3	Works Cost Total (1+2) at MIPS FP TPI 455 (Tender Price index level 1975 = 100 base)	3,239,215	453,490	3,692,705
4	Provisional location adjustment (if applicable) included Nil % of Works Cost) (b)			
5	Sub Total (3+4)	3,239,215	453,490	3,692,705
6	Fees (c) (17.96% of sub-total 5)	581,863	(d) xxxxxxxxxxx	581,863
7	Non-Works Costs (from Form OB4) (e) LAND OTHER	178,000	24,920	202,920
8	Equipment Costs (from Form OB2) (14.80% of Departmental Cost)	374,500	65,537	440,037
9	Planning contingency 2.00%	87,472	15,308	102,779
10	TOTAL (for approval purposes) (5+6+7+8+9)	4,461,049	559,255	5,020,304
11	Inflation adjustments (f) Adjust to 2Q07 @ MIPS TPI 508	519,639	65,144	584,783
12	FORECAST OUTTURN BUSINESS CASE TOTAL (10+11)	4,980,687	624,399	5,605,086

Proposed start on site (M Y) (g) Apr-07

Proposed completion date (M Y) (g) Jan-09

Cash Flow Year	SOURCE EFL	OTHER GOVERNMENT	PRIVATE	£
2005-2006	50,000			50,000
2006-2007	100,000			100,000
2007-2008	2,510,152			2,510,152
2008-2009	2,234,644			2,234,644
2009-2010	125,508			125,508
2010-2011				
2011-2012				
			Total Cost (as 10 above)	5,020,304

This form completed by:..... McPhersons

Telephone No:..... 02380 774607

Date : 31-May-06

Checks: Total cost

Cashflow

Notes :

* Delete as appropriate

(a) On-costs should be supported by a breakdown of the percentage or a brief description of their scope (form OB3 may be used if appropriate)

(b) Adjustments of national average DCA price levels & on-costs for local market conditions

(c) Fees include all resource costs associated with the scheme e.g. project sponsorship, clerk of works, building regulation & planning fees etc.

(d) Not applicable to professional fees - VAT reclaimable EL (90) P64 refers

(e) Non-works costs should be supported by a breakdown & include such items as contributions to statutory & local authorities ; land costs & associated legal fees

(f) Estimate of tender price inflation up to proposed tender date (plus construction cost for VOP contracts only)

(g) Overall timescale including any preliminary works

OUTLINE BUSINESS CASE FOR PREFERRED OPTION — COST FORM OB2

TRUST / PROVIDER UNIT*.. Fareham & Gosport NHS PCT

SCHEME: ..... Redevelopment of Gosport War Memorial Hospital

PHASE..... Projects 1 to 5 (Version 4.0)

CAPITAL COSTS : DEPARTMENTAL COSTS AND EQUIPMENT COSTS

Functional Content	Functional Units/Space Requirements (1)	N/A/C (2)	Cost Allowance Version	Equipment Cost Version
Project 1 EMH Phases 1 & 2	1249 m2	A	464,981	
Project 2 Rehabilitation & Occupational Therapy	1220 m2	A	448,431	
Project 3 Physiotherapy and Dolphin Day Unit	769 m2	A	206,891	
Project 4 District Nurse, Dental staff, HV attached staff, CFT staff	243 m2	A	126,464	
Project 5 Health Centre	1642 m2	A	1,283,294	
Equipment generally transferred: allowance as earlier scheme				250,000
Equipment: hoists				34,500
Other equipment				90,000
	Total area 5123 m2			
Less abatement for transferred equipment if applicable ... % (4)				374,500 1
Departmental Costs and Equipment Costs To Summary £ (Form OB1)			2,530,061	374,500

OUTLINE BUSINESS CASE FOR PREFERRED OPTION COST FORM OB2 (CONT)

This form completed by:..... McPhersons

Telephone No:..... 02380 774607

Date: ..... 31 May 2006

Notes:

Cost allowances should be based on Departmental Cost Allowances where appropriate and include allowances for essential complementary accommodation and optional accommodation and services where details not available.
Identify separately any proposed adjustment (over or under cost allowances) justifiable in value for money terms (details to be provided).

* Delete as appropriate
1. State area and rate if departmental cost allowance not available.
2. Insert:
   N for new build.
   A for adaptions for alternative use or
   C for upgrading existing building retaining current use.
3. Insert relevant version number of HCI listing of Departmental Cost Allowances and Equipment Cost allowances.
4. Provide details where appropriate.

OUTLINE BUSINESS CASE FOR PREFERRED OPTION — COST FORM OB3

TRUST / PROVIDER UNIT*..... Fareham & Gosport NHS PCT

SCHEME: ..... Redevelopment of Gosport War Memorial Hospital

PHASE..... Projects 1 to 5 (Version 4.0)

CAPITAL COSTS: ON COSTS

			Estimated Cost (exc. VAT)	Percentage of Departmental Cost
1	Communications	£	£	%
	a. Space			
	b. Lifts	30,000	30,000	1.19
2	"External" Building Works (1)			
	a. Drainage			
	b. Roads, paths, parking	10,000		
	c. Site layout, walls, fencing, gates			
	d. Builders work for engineering services outside buildings		10,000	0.40
3	"External" Engineering Works (1)			
	a. Steam, condensate, heating, hot water and gas supply mains	110,000		
	b. Cold water mains and storage			
	c. Electricity mains, sub-stations, stand-by generating plant	60,000		
	d. Calorifiers and associated plant			
	e. Miscellaneous services		170,000	6.72
4	Auxiliary Buildings			
5	Other on-costs and abnormals (2)			
	a. Building including asbestos removal	239,154		
	b. Engineering	260,000	499,154	19.73
Total On-Costs to Summary OB1			£ 709,154	28.03

Notes: Must be based on scheme specific assessments/measurements; attach details to define scope of works as appropriate. Identify separately any proposed additional capital expenditure justifiable in value for money terms (details to be provided).

* Delete as appropriate.

(1) "External" to Departments

(2) Identify any enabling or preliminary works to prepare the site in advance e.g. demolitions; service diversions; decanting costs; site investigation and other exploratory works.

This form completed by:..... McPhersons

Telephone No:..... 02380 774607

Date:..... 31-May-06

OUTLINE BUSINESS CASE FOR PREFERRED OPTION

COST FORM OB4

TRUST / PROVIDER UNIT*.. Fareham & Gosport NHS PCT

SCHEME: ..... Redevelopment of Gosport War Memorial Hospital

PHASE..... Projects 1 to 5 (Version 4.0)

CAPITAL COSTS: FEES AND NON-WORKS COSTS

		£	Percentage of Works Cost %
1	Fees (including "in-house" resource costs)		
	a. Architects	145,765	4.50
	b. Structural Engineers	16,196	0.50
	c. Mechanical Engineers	48,588	1.50
	d. Electrical Engineers	48,588	1.50
	e. Quantity Surveyors	32,392	1.00
	f. Project Management	48,588	1.50
	g. Project Sponsorship	32,392	1.00
	h. Legal fees		
	i. Site Supervision	16,196	0.50
	j. Building Regulations and Planning Fees	16,196	0.50
	k. PSCP fees	129,569	4.00
	l. Cost advisor	32,392	1.00
	m. Traffic impact study	15,000	0.46
	Total Fees to Summary (OB1)	£ 581,863	17.96

		£
2	Non-Works Costs (including fees, excluding VAT)	
	a. Land purchase costs and associated legal fees	Nil
	b. Statutory and Local Authority charges	
	c. Removals, data and communications links	50,000
	d. Decanting works to Haslar Hospital	98,000
	e. Decanting works to Redclyffe House	Excluded
	f. Grange Lane decant building for Community Services	30,000
	Non-Works Costs to Summary (OB1)	£ 178,000

Notes:

* *Delete as appropriate.*

This form completed by:. McPhersons

Telephone No:..... 02380 774607

Date:..... 31-May-06

APPENDIX D

OPTIMISM BIAS

APPENDIX D

OPTIMISM BIAS

Treasury Guidance on public sector capital projects advises that estimates to capital costs are reviewed to address a tendency for project appraisals to be overly optimistic.

Percentage adjustments are recommended based on national analysis of actual costs of capital projects compared to initial estimates.

The Gosport War Memorial Hospital (GWMH) redevelopment project is classified as a "standard building type." The range of optimism bias in Treasury guidance is estimated at between 3-28% for capital expenditure on this type of scheme.

Estimated optimism bias percentages are set out in the guidance. This is based on a set of 5 contributory factors grouped as follows:

- Procurement
- Project specific
- Client specific
- Environment
- External Influences

Set out below is an assessment of the extent to which the contributory factors can be mitigated at this stage of the project. Development of this Outline Business Case to Full Business Case will be expected to further mitigate the optimism bias, to the lowest possible figure.

The Table below sets out each of the factors which contribute to the upper limit for optimum bias for standard building projects. The Table shows the contribution to potential bias for each factor, as set out in national guidance, and the assessed element of mitigation which can be applied at this stage in the GWMH redevelopment project.

Procurement
These factors relate to late Contractor involvement in design, poor contractor capabilities and potential for disputes and claims. These factors account for around 11% of the upper bound of 28% optimism bias.

The Procure 21 processes and systems to be followed for this project will mitigate many of these potential risks. Thus the successful supply chain will involve the design and building contractor at an early stage, and potential contractors have established track records verified by national processes. With a full design team, quantity surveyor input and nationally vetted contractors this risk is considered at this stage to have a mitigation factor assessed at 0.60

Project Specific
These factors relate to design complexity and innovation and account for around 2% of the upper bound of 28% optimum bias.

This project is refurbishment of buildings built and managed by the NHS. Full estate records and original drawings are available and there is access to designers of the existing buildings, which are to be re-planned and refurbished. The project incorporates a range of well-established NHS departments, most of which are varying forms of consulting room facilities. It is considered that these factors can be fully mitigated at this stage.

Client Specific
These factors relate to inadequacies in the business case and project team and project intelligence.

The project brief for this scheme has been subject to detailed consultation and development over a period of years. A detailed set of schedules of accommodation were developed for feasibility and 1:100 layout drawings were developed with representatives of the user clinical departments. Further detailed planning will refine and develop the brief following outline business case approval. Further development of requirements and more detailed discussion with end users may include some updates and refinements since the feasibility brief was prepared around four months ago. The project includes a range of decanting requirements. The mitigation of this factor is assessed at 0.6 at this stage.

With very experienced Project Management staff available and excellent site intelligence supplemented by recent structural survey the other risks in client specific contributory factors are assessed as fully mitigated.

Environment
Comprehensive public consultation has been undertaken, and there is a well-defined communications strategy. Public relations risks are assessed as fully mitigated. There are no general environmental issues associated with re-planning existing buildings on this site.
The proposed scheme involves contractors working on an operational site. Site characteristics associated with an operational site are assessed such that a mitigation factor of 0.5 is assessed at this stage.

External Influences
These contributory factors relate to economic conditions and changes in legislation or regulations. Given the political commitment to the scheme, with explicit Minsterial support for the project and the identified funding in the SHA Capital programme for this scheme, the political and economic factors are assessed as fully mitigated.

Each of the contributory factors for a standard building project is set out in the Table below, together with the assessed mitigation factors.

Contributory Factor	**% Contribution to Bias**	**Mitigation Factor**	**Reduction in Bias**
Procurement			
Late contractor Involvement	2	1.0	2
Poor Contractor capabilities	9	1.0	2
Disputes and claims	29	0.6	17

Project Specific			
Design complexity	1	1.0	1
Degree of Innovation	4	1.0	4
Client Specific			
Inadequacy of Business Case	34	0.6	21
Project Management Team	1	1.0	1
Poor Project Intelligence	2	1.0	2
Environment			
Public Relations	2	1.0	2
Site Characteristics	2	0.5	1
External Influences			
Economic	11	1.0	11
Legislation/regulations	3	1.0	3
			67

Capital expenditure optimism bias calculation

This is calculated as follows:
Reduction in optimism bias is 67% (see Table above)
Resultant capital expenditure optimism bias is 33% (100-67%) of upper limit of 28% for a project of this type; this gives a forcast capital expenditure, including optimism bias of 9.24% (0.33x 28%) as follows:

Forcast capital expenditure out-turn is £5.6m; allowing 9.24% for optimism bias revises this figure to £6.1m.

APPENDIX E

BENEFITS REALISATION PLAN

APPENDIX E

GOSPORT WAR MEMORIAL HOSPITAL REDEVELOPMENT: BENEFITS REALISATION PLAN

BENEFITS	DELIVERY	MEASUREMENT AND MONITORING
STRATEGIC BENEFITS		
Provision of services in Gosport to meet NHS commitments following Public Consultation and Ministerial approval	Re-modelling of accommodation to provide Accident Treatment Centre, additional diagnostic facilities, out patient suites and additional physiotherapy facilities	Post project evaluation using AEDET through Project Director
Provision of 30% of out patient capacity for Gosport on GWMH site to support NHS strategy for local service provision	Creation of 6 additional consulting rooms and support facilities as an extension of the main Out Patient Dept at GWMH	Post Project evaluation through Project Director
Integration of local emergency/urgent care services	Single access point and co-location of Accident Treatment Centre, Out of Hours primary care consultation. Rapid assessment for older people	Post Project evaluation through Project Director
FINANCIAL BENEFITS		
Cessation of annual rental charges to PHT Transfer of services from Haslar site (£7.8m pa)	PHT Director of Finance	
MODERNISATION OF FACILITIES		
Availability of purpose designed facilities to replace current rooms used for some endoscopic procedures at GWMH	Provide a new endoscopy suite	Director of Provider Services
Bookable new consulting rooms for nurse and therapist clinics and support PbC	Use of new consulting suites	Director of Provider Services
All physiotherapy out patients seen in single Department with new facilities	Extended Physiotherapy Dept	Director of Provider Services

Courtyard Garden access from in patient ward for older persons mental health services	Re-location of Ward to ground floor with safe access to garden	Director of Provider Services
Occupational and speech therapy areas in association with in patient rehabilitation	Re-location and multi purpose use of adapted first floor accommodation	Director of Provider Services
Improved reception and waiting areas for Community Services clinics on site	Podiatry, SLT, CASH, CFT and Health Education to share new reception and waiting facilities	Post project evaluation through Project Director
Upgraded accommodation for all Community Services clinics on site	Upgrading to current standards of consulting and treatment facilities for Podiatry, Dental, SLT,CASH, CFT and Health Education clinics	Post Project evaluation through Project Director

JK/21.04.06

APPENDIX F

ESTATES STATEMENT

East Hampshire, Fareham and Gosport
Primary Care Trusts

GOSPORT WAR MEMORAIAL HOSPITAL REDEVELOPMENT

'ESTATES' INPUT TO OUTLINE BUSINESS CASE

Document Control:-

1.0 THE CLIENT/USER REQUIREMENTS AND BENEFITS FOR CHANGE

See Benefit Realisation Plan at Appendix 'E' of OBC.

2.0 SITE

Drawing No: CD124/SK1 shows the current general layout of the site comprising of both single and two storey buildings. The buildings are of various ages with the original War Memorial Hospital being built in 1923. The building was subsequently extended in the 60's for OPD and early 70's with the Health Centre. The main new inpatient and day units were added in the mid/late 80's.

3.0 DESIGN QUALITY

The Project Team and User Group which will be constituted in accordance with the Project Initiation Document will provide the Principal Supply Chain Partner (PSCP) with detailed Clients Requirements. They will be based on and will cross refer to all current and applicable National and NHS design and construction standards.

Regular meetings will take place during the design development with the PSCP, its construction team and designers which will culminate in the agreement of the Clients Proposals, to supplement the detailed feasibility space planning already undertaken and will include:-

- Site development plans
- Departmental relationship plans
- Room relationship plans
- Room layout plans

These meetings will involve the Project Team and User Groups as appropriate and will be managed by the Scheme Project Manager. During the design development phase, the Project Team and User Groups will consult with, and take advice, from the PCT's Fire Officer, Control of Infection Advisor, Hotel Services Adviser and Contracts & Compliance Officer.

The 'Achieving Excellence Design Evaluation Toolkit' (AEDET) will be used by the Project Team and PSCP during the design development.

The AEDET toolkit will also be employed by the Project Team, in conjunction with the PSCP, as part of the Post Project Evaluation to ensure the design intention have been achieved.

4.0 SUSTAINABILITY

The PSCP, its construction team and designers, in association with the PCT's Estates & Facilities Services will undertake the 'NHS Environmental Assessment Toolkit' (NEAT) assessment for the scheme.

It is recognised that refurbishment schemes are required to achieve at least very good (55%) rating. The PSCP and Estates & Facilities Services will be reviewing the assessment during the latter stages of the design development in order to confirm the rating is achieved.

The Client is mindful of the change to energy conservation as set out in the latest edition of NHS Encode.

5.0 SITE OWNERSHIP

The freehold of the Gosport War Memorial Hospital site, at Bury Road, Gosport, Hants, is held by Fareham & Gosport Primary Care Trust (and is registered with Land Registry).

6.0 CONSTRUCTION/COSTS

It is intended to secure this project using a NHC ProCure 21 Principal Supply Chain Partners (PSCP).

Feasibility Costs at MIPS TP1 455	= £5,020,000
Outturn Business Case	= £5,605,000

7.0 PLANNING ISSUES

Minimal change is expected from the pre-planning work which would necessitate the need for a Planning Application with the exception of a new canopy for the Accident Treatment Centre. The siting of this to the rear of the former Health Centre is not expected to raise any objections from the Local Authority.

8.0 PUBLIC CONSULTATION

The is referenced in Section 3, 'Patient and Public Involvement' of the OBC. Because the works only involve internal modifications, it is not intended to hold a public exhibition.

9.0 EMPLOYMENT ISSUES

No change to current arrangements.

10.0 POST PROJECT EVALUATION

A draft Post Project Evaluation (PPE) Plan has been drawn up for the scheme. It is included in the Project Initiation Document (PID).

APPENDIX G

RISK POTENTIAL ASSESSMENT FORM

RISK POTENTIAL ASSESSMENT

Programme/Project Details

Programme/project name or title	GWMH Redevelopment
Programme/project description	Re-planning of existing buildings
Programme/project type	Construction
If a programme, list name of supporting projects	
If a project, provide, where applicable, the name of the overarching programme	
Department, Agency or NDPB name	Fareham and Gosport PCT
Name of parent department	NHS
Total (whole life) costs of the programme/project to be OGC Gateway Reviewed	£10M+
Proposed contract/service length (yrs)	Building contract; two main phases total 28 months
Proposed procurement arrangements (e.g. conventional/PFI/PPP/design & build/PRIME)	Conventional
Expected next OGC Gateway review	0
OGC Gateway review requested for week commencing dd/mm/yyyy (8 weeks after the assessment meeting)	
Date of first issue of RPA dd/mm/yyyy	21.04.06
Date of current update/version number	Version 1

Senior Responsible Owner

Name	Director of Strategic Development
Address	Fareham and Gosport PCT
Town	
Postcode	
Telephone no.	2392248800
Mobile no.	
E-mail address	

Programme/Project Manager

Name	Director of Estates
Address	St James Hospital
Town	Portsmouth
Postcode	
Telephone no.	2392892444
Mobile no.	
E-mail address	

If not the SRO or PM, please provide details of official who completed the return

Name	John Kirtley
Postal address	I, Rowan Close,South Wonston, Winchester SO21 3JA
Telephone no.	
Mobile no.	07973 703490
E-mail address	

In addition, for all Mission Critical and/or high risk programmes/projects, the following details are required:

Further information is available from your departmental Centre of Excellence (CoE), or Gateway Co-ordinator or at:

Centres of Excellence Information Pack

The RPA is to be completed for all Mission Critical and/or high risk programmes/projects to help understand the nature of the programme/project and its associated complexity. Programmes/projects without the entries below completed are not ready for review.

Programme/Project Approach - This section applies to DH programmes and projects and must be completed for any initiative which is Mission Critical or High Risk. The definition of Mission Critical can be found by following the Centres of Excellence Information Pack link above and clicking on Prioritisation Categories.

Please enter the name of the responsible Minister	
Confirm that the track record of the SRO has been verified	
Confirm that the track record of the PM has been verified	
• Confirm that, for projects at Gate 2 or beyond, the Accounting Officer has assured him/herself that the project does not suffer from any of the NAO/OGC common causes of failure	
• For **IT enabled projects**, is the project development or implementation approach Big Bang?	

• If yes, please confirm that any 'Big Bang' approach has Central Scrutiny Group approval	

(Note: Mission Critical/high risk programmes/projects without the above entries completed are not ready for review)

Data Protection Act 1998

It is intended that the data collected via this form will be used by the Office of Government Commerce (OGC) for its own purposes and also to inform other areas of Government business. The data may also be used to make you aware of services, advice and guidance. Issues related to the use of personal data within this form should be addressed to the OGC Service Desk on 0845 000 4999 or by email at ServiceDesk@ogc.gsi.gov.uk

STRATEGIC CONTEXT AT REQUESTED OGC GATEWAY™ REVIEW

Programme/Project Status

For Departments, Agencies and NDPBs, what is the present programme/project categorisation agreed with your Centre of Excellence?

- ○ Mission Critical (*)
- ○ Highly Desirable
- ◉ Desirable

Legislative Requirement

To what extent is the programme/project a prerequisite for the successful delivery of a major legislative requirement?

- ○ Essential (*)
- ○ Important
- ◉ Not linked

PSA Target

To what extent is the programme/project directly linked to a PSA (Public Service Agreement) target?

- ○ Essential (*)
- ○ Important
- ◉ Not linked

Relationship to Major Policy Initiative announced or owned at Cabinet level

To what extent is the programme/project a prerequisite for the successful delivery of a major policy?

- ○ Essential (*)
- ○ Important
- ◉ Not linked

Dependency Level

Is the delivery of a key public service, national security or key internal operation dependent on this programme/project?

- ○ Yes (*)
- ◉ No

Assessment

If any of the above options marked with an asterisk are chosen, then the programme/project may be Mission Critical and therefore treated as high risk. If this differs from the agreed status, please consult your CoE.

Stakeholder Buy-In

Have the key stakeholders been identified and engaged with the programme/project?

	Potential Score
◉ Key stakeholder buy-in secured	0
○ Stakeholder analysis undertaken	1
○ Key stakeholders not identified	2

Actual Score: 0 — Enter only one score according to chosen option

Potential impact on the public and other businesses/organisations on implementation

Please tick all those sectors who will be directly affected by the outcome of this programme/project

☐ Internal	1
☐ Other departments/ organisations	2
☐ Private sector organisations	3
☑ Members of the public	4

4 — Enter sum of scores for all chosen options

BUSINESS ISSUES AT REQUESTED OGC GATEWAY™ REVIEW

Potential Benefits - There is no methodology with the NHS for equating benefit points to benefit pounds. Rank at same level as whole life costs below.

Total value of the business benefits (advice is available from HM Treasury Green Book)	○ Less than £10M	1	2	Enter only one score according to chosen option
	◉ £10M - £100M	2		
	○ More than £100M	4		

Costs - The definition of whole life costs is: Costs incurred across the whole lifetime of a contract, e.g. the sum of the costs of procuring an asset or service, the costs of operating an asset or service, the costs of disposing of an asset or ending a service. A more complete definition of Life Cycle Costing can be found at the following address http://www.ogc.gov.uk/sdtoolkit/reference/deliverylifecycle/lifecyclecosting.html

Total whole life costs including all bought in and in house costs (advice is available from HM Treasury Green Book)	○ Less than £10M	1	2	Enter only one score according to chosen option
	◉ £10M - £100M	2		
	○ More than £100M	4		

Staff Affected

Number of people affected within organisation	◉ Fewer than 1,000	1	1	Enter only one score according to chosen option
	○ 1,000 to 10,000	4		
	○ More than 10,000	6		

Business Process Change

Impact that the programme/project will have on the organisation both during development and after implementation	☑ Not significant	0	0	Enter sum of scores for all chosen options
	☐ New business processes	2		
	☐ Significant re-training	2		
	☐ Significant organisational restructuring	2		
	☐ Significant logistical staff & equipment move	2		
	☐ Transfer of staff/ outsourcing	4		

Programme/Project Impact on Organisation

Which business areas/units will be directly affected by this programme/project?	○ Single business stream within org.	1	2	Enter only one score according to chosen option
	◉ Multiple business streams within org.	2		
	○ Multiple organisations	4		

Complexity of Contractual Arrangements

Complexity of the supply side arrangements	◉ Single Supplier	1	1	Enter only one score according to chosen option
	○ Multiple with prime contractor	3		
	○ Multiple without prime contractor	4		

DELIVERY CAPABILITY AT REQUESTED OGC GATEWAY™ REVIEW

Delivery Skills/Team Capability

What is the allocated team's experience of successful delivery of this type of programme/project?

(•) Successful track record	1
( ) Mixed track record	2
( ) No track record	4

1 — Enter only one score according to chosen option

Supplier Side Capability

How mature is the prospective market in delivering or meeting the needs of this programme/project?

( ) Not Applicable	0
(•) Successful track record	1
( ) Mixed track record	2
( ) No track record	4

1 — Enter only one score according to chosen option

Organisation Resource

Is the allocated team resourced according to the programme/project requirements?

( ) Fully resourced	1
(•) Most key posts filled	2
( ) Posts to be allocated	4

2 — Enter only one score according to chosen option

Supplier Resource

Has the supplier allocated the agreed resources to this programme/project?

(•) Not applicable	0
( ) Fully resourced	1
( ) Most key posts filled	2
( ) Posts to be allocated	4

0 — Enter only one score according to chosen option

TECHNICAL ISSUES AT REQUESTED OGC GATEWAY™ REVIEW

Innovative Approach

The extent to which the programme/project depends upon an innovative solution to the business requirement

(•) Stable, proven technology	1
( ) Stable technology, new application	2
( ) New technology, stable application	2
( ) Unproven approach	4

1 — Enter only one score according to chosen option

IT-Enabled Related Criteria

Scope of IT Services and Supply

The range of activity that will be undertaken by the IT supplier

☑ Not applicable	0	
☐ Deliver infrastructure	1	
☐ Packaged software	1	
☐ Bespoke application	3	
☐ Packaged software plus some bespoke work	3	

0 — Enter sum of scores for all chosen options

IT Integration Issues

Highlight the level to which the project will need to develop interfaces to existing systems and processes

◉ Not applicable	0
○ Standalone - no integration	1
○ Data migration	2
○ Some links to legacy systems	3
○ Extensive links to legacy systems	5

0 — Enter only one score according to chosen option

Property & Construction Enabled Related Criteria

Scope of programme/project

What does this programme/project involve?

○ Not applicable	0
○ Acquiring/disposing of assets including lease renewal	1
○ Acquisition of services including managed workspace	1
○ Acquiring assets involving construction, e.g. PDS or PRIME contracts	1
◉ Construction Procurement e.g. Design & Build	1

1 — Enter only one score according to chosen option

Nature of Programme/Project

What is the nature of the programme/project?

○ Not applicable	0
○ New construction	1
◉ Refurbishment	2
○ Extension	3

2 — Enter only one score according to chosen option

Site Occupation

What will the status of the occupation of the site be during the project?

○ Not applicable	0
○ Unoccupied Site	1
○ Occupied site but segregated	2
○ Involves phased decants	2
◉ Occupied and remaining in use	4
○ Occupied, in use and open to the public	6

4 — Enter only one score according to chosen option

Type of Facility

What are the features of the facility that impacts on its complexity?

○ Not applicable	0
◉ New or existing facility standard construction	1
○ New or existing facility non-standard construction	3
○ Facilities with planning or heritage sensitivities	4

1 — Enter only one score according to chosen option

Site Constraints

Are there any constraints that will affect the site development?

☐ Not applicable	0
☐ Lack of site knowledge	1
☑ Site access	1
☐ Environmental Issues	1
☐ Location	1

1 — Enter sum of scores for all chosen options

TOTAL SCORE: 26

Note Score:
30 or less: Low risk
31-40: Medium risk
41 or more: High risk

APPENDIX H

SHA BUSINESS CASE REFERENCE CHECKLIST

Approval Process for Capital Schemes

23 June 2003
CG: 1

Business Case Reference Checklist for completion by NHS Trusts and PCTs

Key Feature	Where Covered in Business Case (eg Paragraph number/ page number)
1. NATIONAL PRIORITIES AND TARGETS	Section 1.1 Section 4.1 and 4.2
2. STRATEGIC FIT	Section 2: 2.1 - 2.5
3. PUBLIC / PATIENT INVOLVEMENT	Section 3: 3.1 – 3.3
4. MODERNISATION	Section 4: 4.1 – 4.2
5. CLINICAL ISSUES	Section 5: 5.1 – 5.3
6. WORKFORCE ISSUES	Section 5.4
7. ESTATES ISSUES	Section 7: 7.1 - 7.3 Appendix B and F
8. OPTION APPRAISAL / VFM	Section 6: 6.1 – 6.3 Appendices A,C,D,E
9. CAPITAL FUNDING To include details of proposed source of funding and timing of spend.	Section 6.3: Approval sought Cash Flow
10. REVENUE AFFORDABILITY	Section 8
Completed by: ..... Title: ..... Organisation:	Date: ..... Contact Tel. No: ..... E:mail address: .....