NHS Blood and Transplant

NHSBT BOARD

29 NOVEMBER 2018

Leeds / Sheffield – Business Case Re-approval

1. STATUS: Official

2. Executive Summary

The Board approved the business for the new Barnsley Centre in May 2017. Following approval by the Board, approval from the Department of Health and Social Care was secured in September 2017, and the lease was signed with the developer in December 2017. The shell and core construction commenced on site in January 2018 with the site now handed over to NHSBT on 12th November 2018. The internal fit out is planned to commence in January 2019 as part of a 60-week programme. NHSBT will then complete a phased occupation by Summer 2020.

The business case was primarily driven by the wish to create a new, fit for purpose NHSBT centre between Leeds and Sheffield, with financial benefits arising from the avoided cost of re-investment in those existing sites (around £16m over 10 years). Along with the lease cost of a new building the business case included the following non-recurring investments:

- £14.5m to fit out the new centre (mostly capital)
- £0.6m revenue to fit out two team bases in Leeds and Sheffield
- £1.6m revenue for other project costs (including decommissioning, redundancy costs and dual-running of the sites for a period)

The proceeds from the sale of the existing Leeds and Sheffield sites were assumed to be £2.3m.

Approval by the Board and DHSC enabled NHSBT to secure the preferred, highly attractive plot at Capitol Park, just off junction 37 on the M1. During design, however, a number of material changes were made to the original submission. This included the orientation of the building (to enable an opportunity for future expansion of the building), a larger fit out area and the addition of a mezzanine floor to support an expanded clean room suite. This will result in increased costs of £2.8m for the fit out of the Barnsley Centre versus the original business case. Revenue costs will also be £0.6m higher to fund resources required by DTS to manage the transition and support local reconfiguration of services.

Offsetting this the lease for the site / building was secured at below market rates, and £1.4m lower than assumed in the business case. Taken together the impact on the overall project return is neutral but results in a payback of 4.97 years versus 3.63 years in the initial business case.

3. Action Requested

The Board is asked to re-approve the business case and specifically the increase in capital expenditure of £2.8m for the fit out, of the new Barnsley Centre.

4. Purpose of the Paper

The purpose of the paper is to explain the changes to project costs, and especially the rationale for the increase costs of fitting out the new Barnsley Centre, and to seek re-approval of the business case and the additional capital funding required.

5. Project Background

Following a series of operational consolidations over recent years our existing centres at Leeds and Sheffield are now much too big for our needs and will require considerable investment in the future. Following a detailed options appraisal, and extensive employee/stakeholder engagement, a single new centre located between Leeds and Sheffield, at Capitol Park, Barnsley, was identified as offering an optimal combination of financial and non-financial benefits. The new centre would accommodate all services from the existing centres, excluding blood collection team bases, which would remain in new sites close to their current locations.

6. Post approval Developments

Following Board approval of the business case a contractual agreement with the site developer (Marshall Construction) was completed in December 2017, to a Royal Institute of Architects (RIBA) stage 3 design (developed design). This involved construction of a bespoke steel framed building to be occupied by NHSBT under a commercial lease of 25 years (changed from the initial proposal of 30 years following Government Property Unit advice). The building provides a structural shell, comprising external envelope and all foundation sub-structures up to and including ground slab level with supply of utilities. It further required completion of both hard and soft landscaping, within a secure boundary, and provides a twin-routed fibre optic IT installation designed to provide robust connectivity through two different BT exchanges. **The legal handover of the site/building from Marshall Construction to NHSBT took place on 12th November 2018.**

The Procure 22 Framework was used to contract with Kier Infrastructure and Overseas Ltd. in March 2018 for detailed fit out of the building on a design and build basis with Kier meeting agreed NHSBT requirements through the application of RIBA Stages 4-6. The stage 4 (technical design) was subsequently completed during the shell and core construction phase and achieved our aspiration to deliver a Building Research Establishment Environmental Assessment Method (BREEAM) rating of “Excellent”.

The design, however, changed during this time, and is materially different from that assumed in the original business case approved by the Board. This includes:

- Re-orientation of the building (rotation through 90 degrees). This change was prompted by a comment during the original approval process that we should look to maximise any opportunity to enable future expansion of the building. Rotation of the building provided an opportunity to extend to the side and support opportunities for further consolidation of the NHSBT estate in the future. As a result, a future expansion opportunity of circa 1,500m^2 over 2 floors has been provided. This, however, resulted in a shorter / wider building and impacted the design and cost of the mechanical and electrical works.

- Construction of a third staircase. This followed guidance from the fire officer, response to an increased headcount using the building and the benefit and ease of it being incorporated now rather than during any future expansion.

- A larger clean room suite, along with the recommendation to provide enhanced ventilation, which required the construction of a steel framed mezzanine plant deck to provide space needed for the associated increase in services.

- The three changes described above led to a fundamental change in the design and cost of the building's mechanical and electrical works by around £1m versus the initial business case.

- The original intention was to limit the amount of space fitted out to provide future expansion opportunity *within* the building. Hence it was planned that only 6,265m^2 of the 7,000m^2 floor area would be fitted out. Due to the increased space required by hospital services, expanded cleanrooms, office areas and for a small courtyard the total building is now being fitted out, representing a cost increase of circa. £1.5m.

- Purchase of a standby generator at £0.3m. The original business case assumed the transfer of existing (leased) equipment at Leeds but, due to larger capacity requirements, this will not be possible.

In addition to the above the lease been secured, and the fit out tendered, for the Leeds team base. A site also has been selected for the Sheffield team base and the lease is being negotiated with the landlord. Lease and fit out costs for the team bases are in line with the original business case.

9. Financial Appraisal

The financial justification for the project remains unchanged and continues to be driven by the future avoided costs of the maintenance and investment, that would otherwise be required at the current Leeds and Sheffield sites.

Changes to the initial business case assumptions include:

- Increased costs of the fit out by £2.8m as described above. Note that this has been agreed as a "no greater than" cost with Kier. Value engineering activities are continuing prior to confirming a potentially lower guaranteed maximum price (GMP) on 26 November 2018.

- Increased revenue costs of £0.4m to engage a clean room design specialist (Exmoor Pharma) that were not anticipated by the original business case.
- Increased revenue costs of £0.6m to fund resources required by DTS to manage the transition and support local reconfiguration of RCI and H&I services.
- Lower redundancy costs of £0.4m based on an updated view of the impact on staff and the level of re-deployment (so net non-recurring revenue costs for the project are £0.6m higher).
- An improved lease agreement over that assumed by the business case which resulted in a saving of £1.1m through a 21-month rent free period (and lower annual lease costs of £28,000 pa).

The project generates recurring savings to blood prices of £1.2m (a marginal increase over the £1.1m assumed in the original business case). The revised model has also been updated for inflation and assumes a change in cost avoidance from £16.1m to £17m over 10 years regarding maintenance and refurbishment of the existing sites (versus the original condition report in 2015). It is estimated that inflation has impacted project costs by around £0.5m but this is embedded within the overall £2.8m increase in fit out costs.

Taking all of the above into account, the project will now generate a payback of 4.97 years from the point of operational commissioning versus 3.63 years in the original business case. Including terminal values, the NPV of the project is maintained, however, at £17.4m versus £17.2m in the original business case.

Note that both this, and the original business case, exclude any additional income from the manufacturing of advanced therapeutic products that the new facility (clean rooms) will support. The latest strategy for CMT estimates, however, that the Barnsley Centre will generate additional contribution of £3.7m over 10 years.

As normal, post completion we will work to identify and recover any VAT that may be due (although this will be limited given the building is leased rather than constructed). We are also challenging the payment of rates of £230k p.a. so that these are only due from when NHSBT occupies the building in 2020.

8. Stakeholder Impact and Management

Extensive employee and stakeholder engagement continues to be a major feature of the project. Regarding employee engagement this includes;

- Establishing 9 separate work streams to support all aspects of the project including individual laboratory teams.
- Centre wide presentations
- Staff workshops
- Monthly Newsletter
- Monthly updates through centre partnership committees

We continue to be sensitive to the concerns of our customers with NHSBT continuing to attend appropriate forums. We have also developed very good relationships with both Barnsley Council and Barnsley College; both having visited the Leeds and Sheffield sites to understand our business so that they may be better placed to help and support the new centre (e.g. through improved public transport arrangements).

Assuming approval by the Board approval for the revised capital costs will be sought from the DHSC Capital Investment Branch to enable an order to be placed with Kier in mid-January 2019. Early contact has already been made to inform them of the capital increase and enable them to build this into their approvals process.

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Appendix 1 – Summary cash flows and project return (original business case)

	Year 1 2018/19 £'000	Year 2 2019/20 £'000	Year 3 2020/21 £'000	Year 4 2021/22 £'000	Year 5 2022/23 £'000	Year 6 2023/24 £'000	Year 7 2024/25 £'000	Year 8 2025/26 £'000	Year 9 2026/27 £'000	Year 10 202728 £'000	Terminal Value £'000
Base Case											
Existing in scope recurring functional costs	-7.188	-7.188	-7.188	-7.188	-7.188	-7.188	-7.188	-7.188	-7.188	-7.188	
Existing recurring estate costs	-1.949	-1.949	-1.949	-1.949	-1.949	-1.949	-1.949	-1.949	-1.949	-1.949	
Anticipated backlog maintenance	-2.194	-2.259	-0.053	-0.834	-0.256	-0.046	-0.044	-0.136	-2.247	-0.010	
Anticipated investments		-1.500	-2.000	-2.000	-2.000	-0.500					
Base case cash flow	**-11.331**	**-12.895**	**-11.190**	**-11.971**	**-11.393**	**-9.683**	**-9.181**	**-9.273**	**-11.384**	**-9.146**	
Investment Case											
New estates recurring cost	-2.200	-2.837	-1.715	-1.227	-1.227	-1.227	-1.227	-1.227	-1.227	-1.227	
Other new recurring estate costs											
New in scope recurring functional costs	-7.188	-7.188	-6.573	-6.573	-6.573	-6.573	-6.573	-6.573	-6.573	-6.573	
Additional travel / logistics			-0.253	-0.290	-0.290	-0.178	-0.140	-0.140	-0.140	-0.140	
Additional estates non pay, warehousing, plus PV benefits			-0.364	-0.486	-0.486	-0.486	-0.486	-0.486	-0.486	-0.486	
Investment case recurring costs	**-9.388**	**-10.025**	**-8.904**	**-8.577**	**-8.577**	**-8.465**	**-8.427**	**-8.427**	**-8.427**	**-8.427**	
Non recurring investments											
Fit out - Capitol Park (capital)	-9.774	-3.325									
Fit out - Capitol Park (revenue)		-1.589									
Project Management		-0.150									
Removals, decommissioning, IT, other		-0.524	-0.300								
Double running			-0.200								
Redundancy allowance			-0.816								
Non recurring investment	**-9.774**	**-5.588**	**-1.316**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	
Capital Costs/ Rcpt			2.300								
Differential cash flow	**-7.831**	**-2.718**	**3.270**	**3.394**	**2.816**	**1.219**	**0.753**	**0.846**	**2.956**	**0.719**	**20.553**
Cumulative differential cash flow	**-7.831**	**-10.549**	**-7.279**	**-3.885**	**-1.069**	**0.150**	**0.903**	**1.750**	**4.706**	**5.425**	

Pay back (years)	**3.63**	**post commissioning**
NPV @ 3.5%	**3.080**	**excluding terminal value**
NPV @ 3.5%	**17.158**	**including terminal value**

Appendix 2 – Summary cash flows and project return (revised business case)

	Year										
	2018/19 £'m	2019/20 £'m	2020/21 £'m	2021/22 £'m	2022/23 £'m	2023/24 £'m	2024/25 £'m	2025/26 £'m	2026/27 £'m	2027/28 £'m	Terminal Value £'m
Base Case											
Existing in scope recurring functional costs	-7.188	-7.188	-7.188	-7.188	-7.188	-7.188	-7.188	-7.188	-7.188	-7.188	
Existing recurring estate costs	-1.949	-1.949	-1.949	-1.949	-1.949	-1.949	-1.949	-1.949	-1.949	-1.949	
Anticipated backlog maintenance	-2.194	-2.371	-0.059	-0.864	-0.260	-0.047	-0.044	-0.136	-2.247	-0.010	
Anticipated investments	0.000	-1.650	-2.200	-2.200	-2.200	-0.550	0.000	0.000	0.000	0.000	
Base Case Cash Flow	**-11.331**	**-13.158**	**-11.396**	**-12.201**	**-11.597**	**-9.734**	**-9.181**	**-9.273**	**-11.384**	**-9.146**	
Investment Case											
New estate recurring costs	-2.118	-2.475	-1.673	-1.186	-1.186	-1.186	-1.186	-1.186	-1.186	-1.186	
New in scope recurring functional costs	-7.188	-7.188	-6.573	-6.573	-6.573	-6.573	-6.573	-6.573	-6.573	-6.573	
Additional travel/logistics			-0.253	-0.290	-0.290	-0.178	-0.140	-0.140	-0.140	-0.140	
Additional estates non pay, warehousing, PV benefit			-0.344	-0.451	-0.451	-0.451	-0.451	-0.451	-0.451	-0.451	
Investment Case recurring costs	**-9.306**	**-9.663**	**-8.843**	**-8.501**	**-8.501**	**-8.388**	**-8.351**	**-8.351**	**-8.351**	**-8.351**	
Non recurring investments											
Fit-out Capitol Park (Capital)	-3.140	-12.709									
Fit-out Capitol Park (Revenue)		-1.614									
Project Management	-0.260	-0.440	-0.050								
Removals, decommissioning, IT, other		-0.924	-0.300								
Double running			-0.200								
Redundancy allowance			-0.516								
Non recurring investment	**-3.400**	**-15.687**	**-1.066**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	
Capital Receipts - Land Sales			2.300								
Differential cash flow	**-1.375**	**-12.192**	**3.787**	**3.700**	**3.096**	**1.345**	**0.830**	**0.923**	**3.033**	**0.796**	**22.735**
Cumulative differential cash flow	**-1.375**	**-13.567**	**-9.780**	**-6.080**	**-2.984**	**-1.638**	**-0.809**	**0.114**	**3.147**	**3.942**	

Pay back (years)	4.97	post commissioning
NPV @ 3.5%	1.77	excluding terminal value
NPV @ 3.5%	17.35	including terminal value

The new Barnsley Centre building – as handed over to NSHBT