

## SCOTTISH HOSPITALS INQUIRY

**Hearing commencing 24 April 2023**

**Bundle 9 – Key Stage Reviews**

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SCOTTISH  
FUTURES  
TRUST

# **Validation of Revenue Funded Projects:**

## **NPD Programme**

### **Pre-Financial Close Key Stage Review**

#### **(NPD KSR 4 - Pre-FC)**

**RHSC/DCN, Edinburgh Project**

**11 February 2015**

**NPD Programme  
Pre-FC Key Stage Review**

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## Notes to the Reviewer

### 1.1. Background

It is a condition of Scottish Government (SG) funding support that all projects in the revenue funded programme are, in addition to any existing project approvals processes, externally validated by SFT. SFT undertakes validation by carrying out Key Stage Reviews (KSRs) of projects at key stages of a procurement. The KSR process is designed to support the successful delivery of revenue funded projects whether delivered through the non-profit distributing (NPD) model or the hub initiative as Design Build Finance and Maintain (DBFM) projects by providing an assessment of the readiness of a project before it moves onto the next stage in the procurement process.

### 1.2. Timing

This review is required to be completed in advance of the project achieving Financial Close and contract signature.

The review should be carried out by the member of the Scottish Futures Trust team who normally provides support to the relevant project (the Reviewer). The Reviewer must agree the precise timing of the review and submission of SFT's report with the Project Sponsor and/or SG to integrate with the other project approvals processes.

In the run up to each review point, the Reviewer will inform and keep up-to-date the SFT validation team of the estimated timetable for carrying out the KSR. The validation team will arrange for a member of the SFT's senior management team (SMT) to scrutinise the list completed by the Reviewer before it can be submitted to the Project Sponsor and/or SG. The Reviewer should thereafter liaise directly with the allocated SMT member and must return a countersigned copy of the list to the Validation Team upon SMT sign-off. The Reviewer should discuss arrangements with the allocated SMT member and provide a verbal briefing if requested in advance of review so that if required necessary background information can be made available.

### 1.3. Process

The Reviewer must familiarise him/herself of the requirements of the list and consider which elements s/he can answer on the basis of existing knowledge of the project and identify what additional information is required in relation to the project in order to complete the remaining sections. The Reviewer should, at the earliest opportunity, explain to the Procuring Authority / Project Team what additional information s/he will require, in what form and by when in order to complete the review within the agreed timescales.

The review is not intended to be a "stop-start" process and the Reviewer should refer to the list throughout each delivery stage so that all sections of the list can be completed without delay to the project. The process involves the Reviewer completing this pro-forma list on the basis of information obtained in his/her day-to-day dealings with the project, considering whether in his or her view the project is ready to proceed to the next stage of procurement and making recommendations as to what actions may be required to achieve appropriate state of readiness. No formal submission, as such, will be required from the Procuring

Authority, but the project team will be required to provide the Reviewer with information to allow him/her to complete the list and compile his/her report.

Once completed by the Reviewer, the list and draft report should be submitted to the allocated SMT member for scrutiny. The Reviewer in consultation with the SMT member must agree what follow-up will be required to any recommendations made, in what form and in what timescales before being issued to the relevant Project Sponsor and/or SG and copied to the Procuring Authority. The relevant Project Sponsor and/or SG will thereafter, as part of its overall sign-off process, determine whether and on what basis the project should proceed to the next stage taking into consideration any recommendations made in the KSR report. The Reviewer should liaise directly with the Project Sponsor and Procuring Authority as may be required to address any queries arising from the KSR report or recommendations.

#### **1.4. Further information**

Please contact the Validation Team for further information on the KSR process. Queries relating to the revenue funded programme requirements should be directed to the SFT Finance Team.

The Reviewer is responsible for updating the SMT member (or where SFT has a seat on the SPV Board, the relevant SFT representative) with progress made in accordance with the agreed follow-up plan.

## Section 1: Project Outline

<b>SFT Reviewer (Primary Reviewer)</b>	Donna Stevenson
<b>SFT Secondary Reviewer (SMT Member)</b>	Colin Proctor

<b>Project title</b>	<b>Royal Hospital for Sick Children and Department of Clinical Neuroscience (RHSC/DCN) Project</b>
<b>Brief project description</b>	The provision of the Royal Hospital for Sick Children, Edinburgh and the Department of Clinical Neuroscience, currently within the Western General, Edinburgh in a joint new building adjacent to the existing Royal Infirmary of (RIE) at Little France in Edinburgh. The new build will extend to approximately 50,000 square metres with separate energy centre and facilities management yard and basement.
<b>Outline of scope of services in project (please identify the services and who (NPD SPV or Procuring Authority) will provide those services</b>	The NPD SPV is to provide lifecycle replacement, hard FM service with associated helpdesk facilities including grounds maintenance, utilities procurement and management and window cleaning.  NHS Lothian (the Board) is to provide the soft fm services.
<b>Key programme dates:</b> • Financial Close	12 February 2015

### Project Contact Details

<b>Project Sponsor /SG Responsible Officer</b>  <b>(name &amp; contact details)</b>	Scottish Government's Health and Social Care Directorates ("SGHSCD")  David Browning, Acting Deputy Director, St Andrew's House, Waterloo Place, Edinburgh  Telephone: [REDACTED]
<b>Project Authority Responsible Officer</b>	Susan Goldsmith, Project Sponsor  Email: Susan.Goldsmith@nhslothian.scot.nhs.uk

<b>(name &amp; contact details)</b>	
<b>Project Director/Manager (name &amp; contact details)</b>	<p>Brian Currie, Project Director</p> <p>NHS Lothian, 56 Canaan Lane Edinburgh</p> <p>Telephone : [REDACTED]</p> <p>Email: brian.currie@luht.scot.nhs.uk</p>
<b>Principal legal, technical and financial advisers (firm/company &amp; name of main contact)</b>	<p>Technical : Richard Cantlay, Mott Macdonald</p> <p>Financial : Michael Pryor, Ernst &amp; Young</p> <p>Legal:     Andrew Orr, MacRoberts</p>



## Section 2: KSR Update

A) Please provide an update in respect of any outstanding Pre-PB KSR recommendations and provide a reason for delay.

Recommended actions:	To be completed by:	Status:
Annex A contains an update on all of the Pre KSR recommendations. The ongoing actions are noted below.		
<b>Question 1 (from Pre PB KSR)</b>  <b>(2) that the Board develops the detail of the implementation of its strategy, including interface management, so that catering arrangements will be in place in advance of the operational date, noting that an interim strategy will also require to be developed should the Board's long terms catering strategy not be fully implemented at the proposed facility opening date.</b>		The Board's catering strategy is ongoing and the project team has confirmed that it will monitor the progress of the development and implementation of the pan Lothian catering strategy in the context of the requirements of this project. The Board has confirmed that the provision of catering at the new facility can be provided either by using existing Board off site production kitchens or indeed the private sector should the strategy, as currently proposed, not be fully operational in September 2017
<b>Ongoing recommendations from the Pre COD KSR</b>  <b>(5) Ongoing recommendations from the Pre COD</b>		(5) There are some ongoing works, affecting the internal fit out of the link

<p><b>KSR (5) Recommendation:</b> that the Board continues to monitor closely the Consort works and takes appropriate mitigation measures to ensure that vacant possession can be provided to the NPD contractor at financial close without the timescale for that close being extended for that reason.</p> <p><b>Ongoing recommendations from the Pre COD KSR:</b></p> <p><b>(7) Recommendation :</b> that the Board place a focus on the issues which require to be resolved to ensure that the clinical enabling works are developed and completed within the timescale required to enable the new facility to operate properly on completion and to bring forward regular reports on proposals and progress to the Project Steering Board.</p>		<p>building, the works (outside the NPD site) relating to the completion of abutments, a pedestrian bridge, roads near the helipad and cycle path works. The Board has confirmed that it considers that this will not impact on the carrying out of the project so that financial close can still proceed and the preferred bidder and its funder has accepted that position. The Board has accepted an additional compensation event but considers the risk to be low.</p> <p>The recommendation to monitor the Consort works to ensure that it does not impact on the Project or trigger compensation for Project Co. is an <b>ongoing recommendation</b>.</p> <p>(7) The clinical works were always intended to be ongoing post FC so this remains an <b>ongoing recommendation</b>.</p>
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B) If any of the agreed KSR follow-up actions remain outstanding please restate these here and provide reason for delay.

SFT follow up actions:	Reporting requirement:	Status/Update:
Not applicable		



### Section 3: Project Requirements

	Question	Yes/No	Comments
1.	Please outline any changes that been made to the scope of the project since the last KSR and demonstrate that such changes have the required level of approval within the Procuring Authority and from the relevant Project Sponsor and/or SG.		During the PB period the Board has worked through the development of the 1:50s with the Preferred Bidder. There are a number of adjustments on the total capex spend resulting in an additional capex increase of £2,116,232, and consequent lifecycle adjustments, but no large changes to project scope. The adjustments schedule has been agreed with the bidder and the schedule and consequent funding has received approval from the Board and SG.
2.	Is the Procuring Authority satisfied that the preferred bidder's solution satisfies its operational and functional requirements and delivers the project objectives, benefits and outcomes?	Yes	The detail of the design has been discussed with user groups to ensure clinical support and the Board confirms that it has received appropriate internal sign off.
3.	Please confirm the status of the technical documentation (i.e. design, construction and FM requirements). Is the Procuring Authority, and are its advisers, satisfied that further development / document production (if any) is achievable within the current project timetable?		The Board has confirmed that the technical documentation is at a level of development consistent with the current stage of the Preferred Bidder to Financial Close programme. The Board advises that they are content with the documentation subject to further development through RDD following Financial Close and that the construction proposals are of sufficient detail to provide sufficient certainty to the Board as to what is to be provided and to permit a timely start on site. The Board has also confirmed that the FM Service Level Specification is agreed and that the

			FM Method Statements have been completed and agreed.
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#### Section 4: Affordability

Please complete the following project affordability table (with information for the relevant KSR stage)<sup>1</sup>:

The information below for Pre FC and relative and footnotes have been advised by the Board's financial advisers and explained to SFT in discussions as part of the KSR.

	Pre-OJEU	Pre-ITPD	Pre-IFT	Pre-PB <sup>2</sup>	Pre-FC
Construction cost (nominal cumulative)	£137.7m plus inflation to mid point construction of 1Q 2016 (from 3Q 2011) or earlier midpoint if applicable during procurement  See footnote 3	£137.7m plus inflation to mid point construction of 4Q 2015 (from 3Q 2011) or earlier midpoint if applicable during procurement  See footnote 4	£137.7m plus inflation to mid point construction of 4Q 2015 (from 3Q 2011) or earlier midpoint if applicable during procurement	£146.688m  [Note: construction cap, including inflation was £159.041m]	£150,014 m <sup>5</sup>

<sup>1</sup> It is expected that these costs will be based on internally generated estimates pre-OJEU and pre-ITPD and that cost expectations will be updated to reflect bids as they are submitted during the procurement process.

<sup>2</sup> Provisional Preferred Bidder's numbers have been included

<sup>3</sup> Note : The inflation allowance to be applied to the uninflated amount will be calculated on the basis of the pricing base date of Q3 2011 and a construction midpoint (the revised midpoint) being 1Q 2016 or, if earlier, the construction midpoint which is being proposed through the procurement process. The inflation allowance on the basis of the BCIS index published in October 2012 was £11,271,620 so that the Construction Cost Cap at that date on that basis is £149,027,938.

<b>Design fees (nominal cumulative)</b>	<b>See footnote 6</b>	<b>As Pre OJEU assumption</b>	<b>Included in construction cap</b>	<b>Figure not provided separately</b>	<b>£727k now separately identified and included in SPV costs below</b>
<b>Bid development costs 7 (nominal cumulative)</b>	<b>See footnote 8</b>	<b>As Pre OJEU assumption</b>	<b>See commentary</b>	<b>£5.365m</b>	<b>£6.620m<sup>9</sup></b>

The movements in the forecast index will be monitored periodically including through the KSR process as it proceeds. In addition there is significant capital requirement both for enabling works and equipment and support is to be provided as set out in the Funding Letter.

<sup>4</sup> Note : The inflation allowance to be applied to the uninflated amount will be calculated on the basis of the pricing base date of Q3 2011 and a construction midpoint (the revised midpoint) being 4Q 2015 or, if earlier, the construction midpoint which is being proposed through the procurement process. The inflation allowance on the basis of the BCIS index published in 18 Feb 2013 was £10,645,000 so that the Construction Cost Cap at that date on that basis is £148,402,000 on the basis of a mid point construction of 4Q 2015.

The movements in the forecast index will be monitored periodically including through the KSR process as it proceeds. In addition there is significant capital requirement both for enabling works and equipment and support is to be provided as set out in the Funding Letter.

<sup>5</sup> The key movements from the PB position are as follows: Additional £2.1 million of agreed (SG) capital expenditure; additional £1.05 million relating to construction price increase due to delay to financial close and lapse of 3 month bid validity period. This figure was negotiated with the bidder and is lower than the increase that would have applied if the FT formula alone had been applied. The total claim was £1.7m but settled at £1.25m, with £200k allocated to bid costs rather than capex. Figure also includes the inclusion of a performance bond at £650k not previously counted within capex.

<sup>6</sup> TC5B states that there is included an allowance based upon 8.5% of the estimated construction value and this is included in the construction cap figure. The assumption is that the design costs prior to financial closure are carried elsewhere.

<sup>7</sup> Including success fees

<sup>8</sup> The Board's advisers financial model assumes 5% of capex whereas SFT considers that 3% of capex is more appropriate, taking account of the level of design development pre procurement.

			above		
<b>SPV costs (in construction) (nominal cumulative)</b>	<b>See footnote 10</b>	<b>As Pre OJEU assumption</b>	<b>As Pre OJEU assumption</b>	<b>Figure not provided separately</b>	<b>£5.665m<sup>11</sup></b>  <b>Note : £4.928m if design costs considered separately: see above]</b>
<b>Hard FM costs (real per annum)</b>	<b>£29/m</b>  <b>See footnote 212</b>	<b>As Pre OJEU assumption</b>	<b>See commentary above</b>	<b>£27.93/m<sup>2</sup></b>	<b>£28.33/m<sup>2</sup></b>

<sup>9</sup> See note 11.

<sup>10</sup> The Board's advisers financial model does not have an entry for SPV costs during construction : development fees are 5%.

<sup>11</sup> The difference in the two fee values is due to a number of factors: 1) additional costs arising from the funding package put in place. Such costs were identified and accepted during the funding competition phase as being part of the most competitive overall package and are included under these headings to replace the board assumptions provided by the Board and SFT for Final Tender purposes 2) other additional costs agreed with the Board 3) reclassification of costs included in other headings not covered in this table previously 4) other costs items included but where the effect has been absorbed by the preferred bidder via, for example, reduction in SPV operating costs, retiming/delay of other cost payments, rendering the cost amendment NPV neutral. All values have been reconciled to previous models, with a full and verifiable audit trail in place, and accepted.

<sup>12</sup> The Board's advisers model also includes a risk allowance which significantly increases the overall sum for hard fm. The Atkins Report forming an annex to SFT's Project Review says that the figure of £29/m<sup>2</sup> sits within the expected range of benchmarks.

<b>Lifecycle costs (real cumulative)</b>	<b>£27/m2<sup>13</sup></b>	<b>As Pre OJEU assumption</b>	<b>See commentary above</b>	<b>£22.89/m2</b>	<b>£23.76/m 2</b>
<b>SPV costs (in operations) (real per annum)</b>	<b>£387,000  See footnote 14</b>	<b>As Pre OJEU assumption</b>	<b>See commentary above</b>	<b>£235k</b>	<b>£285k years 1 - 2 and £211k onwards</b>
<b>Operational Term (years)</b>	<b>25 years</b>	<b>As Pre OJEU assumption</b>	<b>As Pre OJEU assumption</b>	<b>25 years</b>	<b>25 years</b>
<b>Percentage of unitary charge indexation</b>	<b>22%<sup>15</sup></b>	<b>As Pre OJEU assumption</b>	<b>As Pre OJEU assumption</b>	<b>20%</b>	<b>26%</b>
<b>Swap rate<sup>16</sup></b>	<b>4%<sup>17</sup></b>	<b>As Pre OJEU assumption</b>	<b>Term sheet assumes LIBOR assumed to be 4.00% and all in</b>	<b>Term sheet assumes LIBOR assumed to be 4.00% and all in</b>	<b>Swap rate 1.66%, real gilt 2.61% [Note :</b>

<sup>13</sup> The Atkins Report says that “Based on a range of benchmark information the Life Cycle Cost per square metre per annum of £27/m2, at 3Q 2011 prices, sits within the acceptable range of benchmarks”

<sup>14</sup> SFT’s assumption is £350kpa

<sup>15</sup> Per EY’s shadow bid model : SFT’s estimate of indexed amount would be lower given lower estimates of lifecycle, hard fm and SPV costs.

<sup>16</sup> Including any buffer

<sup>17</sup> for swap rate plus buffer per EY’s shadow bid model : 3.41% (SFT model), but margin 2.25% (EY model), 3% (SFT model) and MLA + swap spread 0.38% (EY model), 0.5% (SFT model) – hence all in senior rate 6.63% (EY model), 6.91% (SFT model). (Also sub debt rate – 13% EY, 11% SFT – hence pro forma WACC 7.27% EY, 7.32% SFT. )



			rate for EIB as 5.50% p.a.	rate for EIB as 5.50% p.a.	final swap rate to be fixed at FC]
<b>Unitary charge (nominal year 1 of operations)</b>	<b>See footnote 18</b>	<b>As Pre OJEU assumption</b>	<b>See commentary above</b>	<b>£18.956m (ye 31 March 2018</b>	<b>£15.536m nominal in first full year ye 31 March 2018</b>
<b>SG funding support (nominal year 1 of operations)</b>	<b>See footnote19</b>	<b>As Pre OJEU assumption</b>	<b>See commentary above</b>	<b>£16.806m, but see note (f) above</b>	<b>£13.312m</b>

<sup>18</sup> As is made clear in the Funding Conditions (and see email correspondence between SFT and the Board culminating on 7 March 2012), there is discrepancy between the figures calculated by the Board and those by SFT : the relevant figures are : Unitary charge (nominal 1st full yr of ops - 12 months to 31/3/2018) - £22,381k (EY model), £20,970k (SFT model) – both excluding insurance costs. No unitary charge figures are to be provided to bidders.

<sup>19</sup> See footnote 14: the relevant figures SG Funding Support (nominal first full year of ops - 12 months to 31/3/2018) - £19,115k SFT. We cannot find the equivalent figure in the EY financial model but the OBC v3.0 at page 49 says £20,029k

	Question	Yes/No	Comments
4.	Please explain any changes that have been made to the cost and funding assumptions (both revenue and capital) since the last KSR and demonstrate that such changes have the required level of approval within the Procuring Authority and from the relevant Project Sponsor and/or SG.		<p>As noted above, there has been an increase in capex that has been agreed with the Bidder and received approval from the Board/SG. The resulting effect on FM and LCC has also been agreed. An increase in capex resulting from inflation due to delay in financial close has also been agreed as described in footnote 5 in the table above. Footnote 11 also contains an explanation of changes to the bid development and SPV bid costs. A reconciliation table has been provided to SFT and explained to it by the Board's financial advisers who have also confirmed that the full benefit of the reduction in margin from EIB has flowed through to the unitary charge.</p> <p>The Preferred Bidder model was based on an authority term sheet and this produced the affordability numbers at the PB KSR stage. Since the PB appointment, a funding competition has been conducted and a preferred funder selected jointly by the Bidder, the Board and SFT. The final numbers for ASP and NPV reflect the funding terms offered by the preferred funder, M&amp;G, along with EIB which produce significant savings for the for the project. The Board's financial advisers advise that overall NPV has reduced by £40.746 million (and £3.4 million ASP reduction) largely as a result of the significant</p>



			reduction in the price of debt.
5.	Please demonstrate that the project remains affordable to the Procuring Authority in terms of enabling capital costs, unitary charge contributions and ongoing operational costs (e.g. soft FM, utilities).		The Board has confirmed that the project remains affordable in terms of enabling costs, equipment costs, UC contributions and ongoing operational costs.
6.	What are the key risks / outstanding issues that may have an impact on the affordability of the project and what strategy is in place to manage these?		<p>The latest risk register for the project contains the following risk that is relevant to affordability:</p> <p>Specification changes post financial close: there is a process for dealing with change through the Project Board and the Board's governance arrangements in place.</p>
7.	Please demonstrate that any changes to the preferred bidder's financial model and input assumptions (since PB appointment) have been checked and verified and that these are in line with available benchmarks.		<p>The Board's financial advisers have confirmed that the bidder has provided a NPV log that tracks the effect of each amendment to the model made since PB and that each change has been evaluated and agreed by the Board and its advisors, using its own change tracker, including technical advisor agreement of cost inputs.</p> <p>The Board's advisers have confirmed that they are satisfied that there is a process in place whereby the model is to be optimised before FC.</p>

8.	Please provide details (including amount, proportion of total funding requirement and proposed timing) of any capital contributions that the Procuring Authority intends to make to the SPV during the project and confirm that this has been agreed with the preferred bidder. Please demonstrate that the amount of the capital contribution includes allowance for associated financing fees etc. Please confirm that documentation of this arrangement has been agreed and that this complies with relevant guidance.		<p>Contributions of a capital nature towards the base build from charities and the University of Edinburgh will not be finalised until after FC with the monies likely to be received on completion. The values are still being agreed and the current estimate is £3m. Any such contributions would be returned to SGHSCD in accordance with the Funding Letter.</p> <p>It remains the case that no capital contribution under the NPD Project Agreement is to be made.</p>
9.	Please demonstrate how any recommendations/actions/requirements in relation to the affordability of the project, detailed in the outline business case approval and previous KSRs, have been addressed.		See Annex A

**Section 5: Value for Money**

	Question	Yes/No	Comments
10.	Please confirm that the full business case contains a value for money assessment and that that assessment is in line with SFT's Value for Money guidance.	Yes	Paragraph 3.6.4 and Appendix 4 of the FBC refers.

## Section 6: Commercial

11.	What, if any, key commercial and/or contractual issues remain outstanding, what are the potential implications for the project programme and affordability position and how are these to be managed?		<p>The Board confirms that there are no outstanding commercial points.</p> <p>All parties are aware that any issues resulting in derogation from the standard NPD contract documentation would require SFT approval.</p>
12.	Please demonstrate that the Procuring Authority has identified the retained project and operational risks and how these will be managed during the construction and operational phases.		<p>The Board has identified a number of project and operational risks in the Project Risk Register that will continue to apply after financial close, and these will continue to be monitored by the Project Board going forward. The Board has provided the following updates as regards two of the risks on the current risk register :</p> <ul style="list-style-type: none"> <li>(1) Insufficient space in RIE to support RHSC/DCN clinical models (noted as a red in the risk register) : the controls that are in place are noted in the risk register and the Board has advised that while there has been a delay in vacating the offices in Canaan Lane that are required for eHealth, alternatives are being pursued and that it expects the issue to be resolved.</li> <li>(2) Procurement process challenge: in the most recent risk register it is noted that this risk remains until Financial Close. The Board has advised that it received a legal</li> </ul>

			<p>paper, stating that the legal advisers view the risk as low overall, was considered by the most recent Joint Steering Board. The Board has advised that it is not of a view that any material change has occurred since the production of this report and currently have no intention of seeking further legal opinion on this matter.</p> <p>.</p> <p>Key risk that will still be applicable post FC are already contained in the risk register.</p> <p>A series of workshops are being arranged with the contractor to work through in detail the risks during the construction period, as already reflected in the contractual documentation.</p> <p>After these workshops the risk register will be updated and will continue to be reviewed and refreshed on an ongoing basis.</p> <p>Once the project reaches the operational phase, risk management shall be undertaken by the Contracts Manager who has already been appointed, and whose role is also to extend to the management of the RIE PFI project, given the interconnections between the two facilities.</p> <p><b>Recommendation</b></p> <p>The intention to hold risk workshops with the contractor as soon as possible after financial close is noted. SFT considers the further development of a project risk register to deal with the</p>
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			<p>detail of issues that might arise during the construction and operational phases to be a high priority for the Board post Financial Close and recommends this is brought to the Project Board for review at the first meeting after the completion of the risk workshops.</p>
13.	<p>Please confirm the status of the project documentation (including sub-contracts and funding agreements) and of the preferred bidder's, its sub-contractors' and funders' due diligence processes. Please demonstrate that the processes and timescales for finalisation of these are realistic and synchronised with the overall projected timescale to financial close.</p>		<p>The Board advises that the documentation production is in proceeding well and considers that process and timescales for finalisation of the documentation pre FC is realistic.</p>
14.	<p>Please provide details of the final funding solution and demonstrate that this is deliverable and competitive (provide details of any post-preferred bidder funding competition).</p>		<p>After PB appointment SFT, the Board and the PB worked together to agree on the optimum financing solution for the project. After a funding competition it was agreed to appoint M&amp;G Investments as preferred funder along with European Investment Bank on the basis of a combination of pricing and deliverability factors.</p> <p>The SPV will obtain senior debt funding of £146.895 million from M&amp;G and EIB in equal proportions. In addition, M&amp;G and EIB will be providing two equal tranches of senior subordinated debt to a total value of £21.259 million. The remaining funding requirement is provided by Macquarie in the form of subordinated debt supported by a letter of credit.</p>

15.	It is a condition of SG revenue funding support that the project meets the requirements for classification as a non-government asset for national accounts purposes under relevant Eurostat (ESA10) guidance. Please confirm that the contract terms agreed with the proposed preferred bidder transfer availability and construction risk to the private sector.		The Board has confirmed that the Project Agreement has been amended to reflect all of the changes requested by SFT, including those sent to the Board on 9 February 2015, following revised guidance introduced on 1 September on the ESA 10 and is based on the SFT standard form, with only such derogations as have been approved by SFT, and thus has a calibrated payment mechanism and other provisions to transfer availability and construction risk to the private sector.



## Section 7: Readiness

	Question	Yes/No	Comments
16.	Please demonstrate how the recommendations / actions / requirements, detailed in the last KSR report, have been addressed (to the extent that these are not dealt with under separate sections of this KSR questionnaire).		See Annex A
17.	Please describe the relevant internal and external approvals processes required to reach financial close and provide a timetable showing the timings of these approvals.		<p>The project FBC has been considered by SG who issued its approval letter to the Board on 10 February 2015.</p> <p>The Board advises that the Finance and Resources Committee of the Board, that has delegated authority in relation to this issue, at its meeting on 21 January 2015 approved delegated Authority to the Chief Executive or the Director of Finance to sign the contract on the Board's behalf and that no further internal approvals are required and that signatories are aware of the timelines and the Director of Finance will be available to sign the documentation at financial close.</p>
18.	Please demonstrate that a risk management strategy for the contract has been developed with clear roles and responsibilities and approved monitoring arrangements.		The Authority continues to review project and operational risks and these are identified on the Project Risk Register and see comment at Question 12 above regarding the updating of the risk register. This process will continue during the construction phase, with the Project Board remaining in place and shall be



			<p>managed by Project Director. Ultimately once the project reaches the operational phase, risk management shall be undertaken by the Contracts Manager who will report to the Project Director during the construction period and then during the operational phase to the Director of Estates and Facilities.</p> <p>Question 12 contains a recommendation in relation to ongoing monitoring of risk management.</p>
19.	Please demonstrate how the delivery of the project outcomes, benefits and objectives will be measured over the contract life.		<p>A benefits realisation plan was originally prepared for the Project at OBC stage. This has been reviewed and updated and reflected in Appendix 3 of the FBC. It is proposed that benefits realisation shall form a component part of the post occupation work stream, led by Director of Scheduled Care and assisted by the project team that will continue in place with a post project evaluation to be carried out in 2018/19.</p>
20.	Please outline the key risks to the long-term successful delivery of the project and the key measures in place to manage these risks.		<p>The Board has noted that the Risk Register is subjected to a comprehensive review at each major project milestone. The next milestone is FC. After FC, the Risk Register will again be reviewed, including a series of joint risk workshops with the contractor, with a focus on the construction phase and thence the longer term delivery of the project and mitigation measures that will be required to manage these identified risks.</p> <p><b>Recommendation</b></p> <p>The Board is asked to consider the following factors in its consideration of long term delivery of the project and to regularly review that these factors are being properly reflected</p>

			<p>in the project and its operational strategies as it goes forward</p> <ul style="list-style-type: none"> <li>- strength of the relationship with Project Co (at a corporate level and a day to day level)</li> <li>- robustness of the Board's contract management and monitoring arrangements</li> <li>- the Board's effective co-ordination of the contract and the Board's internal activities such as migration, commissioning, soft FM ongoing interface with the RIE PFI project interface with service redesign</li> <li>- interface with workforce planning</li> </ul> <p>The Board should consult as appropriate with the NHS specialist team on operational PPP to obtain support on governance, resourcing and contract management monitoring.</p>
21.	Please demonstrate that the project timetable allows sufficient time for all outstanding staffing issues (if any) to be resolved, including (if applicable) achieving LGPS admitted body status / GAD scheme certification.		<p>There are no TUPE implications for the project, so LGPS/GAD does not apply.</p> <p>A Workforce Plan is being developed to deal with the Board's migration, training and ongoing staffing of the facility as part of the Commissioning Plan and to address and take forward any staff related matters.</p>
22.	Please provide an update on the land/site strategy (e.g. acquisition, title issues, ground conditions, surveys, enabling works) and planning matters (including position in relation to judicial review risk) and describe what strategy is in place to manage		<p>The Board considers that all land/site strategy matters have been addressed and resolved.</p> <p>All necessary Planning Permissions, including dealing with reserved matters for the facility (including the flue at the energy</p>

	<p>the impact of any outstanding matters on the project timetable and/or affordability position.</p>	<p>centre that was subject of a separate consent) and both the on site and external enabling works have granted. Resolution has been reached on all Planning Conditions, and the conditions of the Section 75 agreement that required to be satisfied prior to commencement of the works to build the main facility, have now been satisfied. The Board has confirmed that there is a schedule of planning obligations mapped out.</p> <p>These on site and external enabling works have all been costed and included in the agreed and finalised capex figure for the purposes of the Funding Letter.</p> <p>MacRoberts and CLO have been consulted on land/site related issues and consents required from Consort in relation to the RIE PFI project and are satisfied with the proposals and position reached. A compensation event has been added to the Project Agreement to cover the fact that there remain ongoing Consort works affecting the site post FC and the Board has confirmed that it is satisfied with the position.:</p> <p>All parties are content that there are no land/ site matters that could impact on the programme or the affordability position. Subject to the compensation event noted above.</p> <p>The Board retains the risk of judicial review of the planning permission for a period of 12 weeks from the date that full planning permission is granted, as per the standard form NPD <i>contract</i>. The Board has advised that the 12 weeks period will have expired by FC.</p>
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23.	Please outline the governance and project management arrangements to be put in place following financial close, covering the construction, commissioning and operational phases of the project. Please use organisational diagrams, provide job descriptions and, where applicable, confirm any recruitment strategy.		<p>The governance structures pre the operational period are shown at Figures 17 of the FBC and post operational structure is at Figure 18.</p> <p>The Project Board will continue post financial close until the operational phase and will report through the Board's normal governance processes.</p> <p>The project management arrangements post Financial Close are attached as Annex 2</p> <p>The existing project team will continue in to the construction phase as shown on Annex B. A commissioning lead is already in place and a commissioning manager is to be recruited. The contracts manager for the operational phase is already in place.</p>
24.	Please describe how the Procuring Authority will interface with the SPV's representatives during the construction and operational phases.		The PCPs contain a section (4.30) on working together in partnership and paragraph 4.30.3.3 sets out various workstreams and meeting frequencies during construction. 4.30.3.4 refers to operational arrangements.
25.	Please demonstrate that the Procuring Authority has approved a formal resourcing strategy that clearly identifies the Procuring Authority's roles and obligations during the construction, commissioning and operational phases of the project taking		Resourcing for the governance arrangements indicated in Annex B have been agreed by the Board. The Contracts Manager will report to the Project Director during the construction phase and to the Director of Estates and Facilities during the operational phase.

	account of, for example, the resourcing of:		Authority's Representative role	Project Director
	<ul style="list-style-type: none"><li>• Authority's Representative role</li></ul>		Authority Observer role	Project Director
	<ul style="list-style-type: none"><li>• Authority Observer role</li></ul>		Construction monitoring (including tests on completion and snagging)	Project Director (supported by technical consultants) subject to the contractual role including on completion testing of the Independent Tester
	<ul style="list-style-type: none"><li>• Construction monitoring (including tests on completion and snagging)</li></ul>		Reviewable Design Data	Project Clinical Director
	<ul style="list-style-type: none"><li>• Reviewable Design Data</li></ul>		TUPE transfers	Not applicable
	<ul style="list-style-type: none"><li>• TUPE transfers</li></ul>		Migration	Head of
	<ul style="list-style-type: none"><li>• Migration</li></ul>		Commissioning and Service Redesign	
	<ul style="list-style-type: none"><li>• Performance monitoring</li></ul>		Performance monitoring	Contracts Manager
	<ul style="list-style-type: none"><li>• Monitoring community benefits</li></ul>		Monitoring community benefits	Director of Capital Planning and Projects
	<ul style="list-style-type: none"><li>• Processing invoices</li></ul>		Processing invoices	Project Accountant
	<ul style="list-style-type: none"><li>• User satisfaction surveys</li></ul>		User satisfaction surveys	Director of Scheduled Care & Director of Estates and Facilities
	<ul style="list-style-type: none"><li>• Post-occupancy evaluation</li></ul>		Post-occupancy evaluation	Director of Scheduled Care & Director of Estates and Facilities
	<ul style="list-style-type: none"><li>• Change requests</li></ul>		Change requests	Project Director



			Insurance renewals Facilities	Director of Estates and
			Safekeeping of the project financial model Property and Asset Management Finance	Head of
26.	Please demonstrate that the Procuring Authority's resource strategy and budget have been benchmarked and are comparable with other similar projects.		Opinion and advice was sought from the external advisers to the project in determining the resource requirements post FC and the Board considers that this is line with that for other acute projects of the scale of the project and the additional requirements due to interface with the RIE PFI project. As noted above, it is the Board's intention that the operational management of this project and the RIE PFI be amalgamated and to ensure of approach and added value to monitoring responsibilities.	
27.	Please demonstrate how continuity of personnel and sharing of knowledge are maintained from the procurement phase into the construction phase and thereafter into the commissioning and operational phases.		All the key individuals from the Board's Project Team apart from the SRO are proposed to be involved in the project post FC,  To reflect the next stage of the project, the Board proposes to change the SRO with effect from financial close from the Director of Finance to the Director of Scheduled Care. The Board advises that it is proposing an internal reorganisation in which the post of Director of Scheduled Care would be removed and it has confirmed that it is proposed that the SRO would then pass to that post's successor at an equivalent level of seniority, being	

			<p>the Chief Officer, Acute Hospital Services.</p> <p><b>Recommendation:</b></p> <p>It is recommended that the Board reconsider the proposed change to the SRO. This is the key role on the project and continuity is vital.</p>
28.	Please outline any call-off arrangements with external advisers that will continue after financial close.		<p>Agreement is in place with Mott Macdonald for ongoing input and with a projected profile for input required for the first 9/12 months after financial close when it is anticipated that its input will be greatest and with the other advisers' services capable of call off post FC.</p>
29.	Please outline what performance monitoring will be undertaken and how this will be carried out in practice and demonstrate how this links to the payment mechanism, service specification and project objectives.		<p>Performance monitoring shall be undertaken by the Contract Manager through regular reporting and review processes in accordance with the contract.</p> <p><b>Recommendation :</b> that the Board continues to participate in the operational PPP Practitioners' Group on an ongoing basis that that it ensures that the Contract Manager attends training sessions and employs best practice in relation to contract management in accordance with recommendations and advice from the operational PPP Specialist Team.</p>
30.	Please demonstrate how project liaison and stakeholder/user communication will be managed.		<p>The Board advises as follows.</p> <p>Project liaison and stakeholder communication will continue at a strategic level through Board clinical management and SEAT representation on the Project Steering Board. User</p>

			<p>representatives, including staff, patients, families and charities have been heavily involved in design development to date and will finalise this post FC. Service redesign, workforce planning and revenue cost agreement are in partnership with NHS Lothian's clinical teams and SEAT representatives. The Project Communications Manager liaises with Scottish Government, Scottish Futures Trust and Project Co communications on consistency of the project message in the media and to the wider public.</p>
31.	<p>Please confirm how the helpdesk function will operate in practice, what shadow testing and what user awareness/training will be undertaken in advance of operations.</p>		<p>The Board advises as follows.</p> <p>The helpdesk is the key service interface between users and Project Co and both the BCR and the SLS details the performance standards to be attained during the operational phases of the facilities in terms of the Services.</p> <p>Project Co will operate a helpdesk facility in respect of Hard FM related issues. The helpdesk for soft services, provided by the Board, is to be confirmed.</p> <p>A detailed method statement and associated quality plan have been produced which lists the various policies and procedures in relation to this service.</p> <p>Training of both Project Co' staff and the Board' staff commences at induction. This will ensure a sufficient and</p>



			<p>appropriate level of understanding as to how the system will function and its purpose. The helpdesk function will operate for users 24/7.</p> <p>Continual monitoring of the method statement and user satisfaction levels shall be undertaken by the Board to ensure the helpdesk is as effective as possible. The Board shall provide sufficient resources to ensure the contract is being monitored. Project Co are also required to carry out satisfaction surveys.</p> <p>Training of both Project Co' staff and the Board' staff commences at induction. This will ensure a sufficient and appropriate level of understanding as to how the system will function and its purpose. 'Advertising' the helpdesk service needs to be effective to allow all users to access and know of its purpose.</p> <p>Project Co are required to develop a user guide for their services including the help desk.</p> <p>A 3 month (12 week) bedding in period has been agreed with Project Co which shall allow 'dry running' of the helpdesk prior to physical occupation of the facilities.</p> <p>The Board has requested read-only access to the Helpdesk and Computer Aided Facilities Management software to allow the Board to scrutinise and interrogate the system at any time. This will allow, in contract monitoring terms, the ability to check actual progress and any outstanding issues.</p>
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			<p><b>Recommendation</b></p> <p>This is an important element of managing the interface with the contractor and experience of earlier PPP schemes across Scotland evidences that this has traditionally not been afforded sufficient resource and ongoing training of staff. It is recommended that the effectiveness of reporting procedures are reviewed regularly. The Board should also confirm the arrangements in relation to the helpdesk for soft services to be provided by the Board, within 12 months of Financial Close.</p>
32.	Please describe the service interface arrangements that have been agreed and how these will operate in practice.		<p>The Board advises as follows.</p> <p>The delivery of the Facilities Management (FM) service is based on a set of key objectives, including a 'one-team' culture that fosters a collaborative approach between the Board, the SPV and the FM Service Provider supported by joint induction and there are to be monthly performance management meetings attended by SPV Manager, monthly joint hard and soft FM interface meetings as well as other meetings.</p> <p>The Board has produced its own performance standards and these detail the Board' expectations in terms of service performance. Project Co's FM provider are contracted to provide hard FM services which meets the Board expectations.</p> <p>In terms of how the service interfaces will operate in reality, there are key facets that need to be adhered by both the Board and Project Co. These are:</p>

			<ul style="list-style-type: none"> <li>▪ a proactive approach to service delivery;</li> <li>▪ commitment of key people;</li> <li>▪ detailed planning and budgeting;</li> <li>▪ efficient procurement and service delivery;</li> <li>▪ delivery on time and with value;</li> <li>▪ focus on innovation and collaboration; and</li> <li>▪ improved communication between all parties;</li> </ul> <p>A set of Service Level Specifications have been produced for all hard and soft FM services which detail the level of service expected from both the Board' soft FM services and Project Co Hard FM service. A Facilities Management Service Responsibilities Matrix has also been produced which details each service and the corresponding responsibility for performing that service.</p> <p>An indicative template has been developed on how monitoring shall be undertaken. This shall be further developed during mobilisation when Project Co and the Board shall have a workshop to go through each Performance Standard and agree the methodology and how the information shall be presented which is an important step in the mobilisation of the Helpdesk.</p>
33.	Please outline the process for dealing with changes to the facilities, service and/or performance requirements.		The Board notes that the key framework for managing change remains the processes set out within the Project Agreement in particular Schedule Part 16. This includes a number of items that are anticipated to be frequent changes specific to this

			<p>facility within the catalogue.</p> <p>On a governance level proposal arising from services redesign will be subject to approval by the Director of Scheduled Care and then prior to the operational phase the Project Board</p> <p>All changes during construction will be considered by the Project Director and then processed for approval through the Project Steering Board, if not delegated to the Director of Scheduled Care. During the operational phase changes will be subject to the Board's normal governance arrangements via the capital investment group and to the F and PR committee if required.</p>
34.	Please describe the arrangements have been put in place for a formal post-occupancy evaluation.		<p>The FBC confirms that in the 12-months post-project evaluation, the following issues will be considered:</p> <ul style="list-style-type: none"> <li>• To what extent relevant project objectives have been achieved?</li> <li>• To what extent the project went as planned?</li> <li>• Where the plan was not followed, why this has happened?</li> <li>• How plans for the future projects should be adjusted, if appropriate.</li> </ul> <p>Benefits realisation, using the benefits management plan at appendix 3 of the FBC, will be evaluated at the following stages</p> <ol style="list-style-type: none"> <li>a) Spring 2015 – recording the baseline in current services</li> <li>b) Spring 2017 – re-recording the baseline prior to the move</li> <li>c) Summer 2018 – evaluation of the benefits 12 months after opening</li> </ol> <p>This has been reviewed and updated and reflected in</p>

			Appendix 3 of the FBC
35.	Please describe what steps the Procuring Authority has taken to verify that the financial and economic standing of the proposed preferred bidder's consortium remains unchanged from the pre-qualification stage.		<p>A review of the bidders' financial and economic standing was undertaken at the appointment as preferred bidder. The consortium continued to pass the test as set out in the PQQ documentation.</p> <p>The Board has confirmed that no change of position in relation to the financial standing of the preferred bidder has been noted in relation to any new financial information.</p>

Is the project ready to proceed to the next stage?	Yes , subject to recommendations below
Reasons / Recommended actions:	To be completed by:
<p>Ongoing Recommendations from previous KSRS:</p> <p>Question 1 (from Pre PB KSR)</p> <p>(2) <b>Recommendation</b>: that the Board develops the detail of the implementation of its strategy, including interface management, so that catering arrangements will be in place in advance of the commissioning date, noting that an interim strategy will also require to be developed should the Board's long terms catering strategy not be fully implemented at the proposed facility opening date.</p>	
<p>Ongoing recommendations from the Pre COD KSR</p> <p>(5) <b>Recommendation</b>: that the Board continues to monitor closely the Consort works and takes appropriate mitigation measures to ensure that ongoing Consort works do not adversely affect the progress of the project of lead to a claim for compensation by the NPD Contractor.</p> <p>(7) <b>Recommendation</b> : that the Board place a focus on the issues which require to be resolved to ensure that the clinical enabling works are developed and completed within the timescale required to enable the new facility to operate properly on completion and to bring forward regular reports on proposals and progress to the Project Steering Board.</p>	

<p><b>Question 12 :</b></p> <p><b>Recommendation</b></p> <p>The intention to hold risk workshops with the contractor as soon as possible after financial close is noted. SFT considers the further development of a project risk register to deal with the detail of issues that might arise during the construction and operational phases to be a high priority for the Board post Financial Close and recommends this is brought to the Project Board for review at the first meeting after the completion of the risk workshops.</p>	
<p><b>Question 20 :</b></p> <p><b>Recommendation</b></p> <p>It is acknowledged that the Board has considered and is asked to consider the following factors in its consideration of long term delivery of the project and to regularly review that these factors are being properly reflected in the project and its operational strategies as it goes forward</p> <ul style="list-style-type: none"> <li>- strength of the relationship with Project Co (at a corporate level and a day to day level)</li> <li>- robustness of the Board's contract management and monitoring arrangements</li> <li>- the Board's effective co-ordination of the contract and the Board's internal activities such as migration, commissioning, soft FM ongoing</li> </ul>	



<p>interface with the RIE PFI project interface with service redesign - interface with workforce planning</p> <p>The Board should consult as appropriate with the NHS specialist team on operational PPP to obtain support on governance, resourcing and contract management monitoring.</p>	
<p><b>Question 27:</b></p> <p><b>Recommendation :</b> that the Board reconsider the proposed change to the SRO. This is the key role on the project and continuity is vital.</p>	
<p><b>Question 29:</b></p> <p><b>Recommendation :</b> that the Board continues to participate in the operational PPP Practitioners' Group on an ongoing basis that that it ensures that the Contract Manager attends training sessions and employs best practice in relation to contract management in accordance with recommendations and advice from the operational PPP Specialist Team.</p>	
<p><b>Question 31:</b></p> <p><b>Recommendation</b></p> <p>This is an important element of managing the interface with the contractor and experience of earlier PPP schemes across Scotland evidences that this has traditionally not been afforded sufficient resource and ongoing training of staff. It is recommended that the effectiveness of reporting procedures are reviewed regularly. The Board should also confirm the arrangements in relation to the helpdesk for soft services to be provided by the Board, within 12</p>	

months of Financial Close.			
<b>Signature of Primary Reviewer</b>		<b>Signature of Secondary Reviewer</b>	
<b>Date:</b>		<b>Date:</b>	
<b>Procuring Authority Declaration</b>	<b>I confirm that:</b> a) I am not aware of any information that would materially change the assessment and review of the project; and b) the project's details as logged in the Scottish Government's Infrastructure Projects Database (SGIPD) are up-to-date and complete and reflect the current state of the project (including the information on the project's time table and assurance activity). c) I will provide a copy of this review and action plan to the SG Programme and Project Management Centre of Expertise.		
<b>Name and Position:</b>	<b>Date and Signature:</b>		
<b>SFT follow up action:</b>	<b>Reporting frequency / deadline:</b>	<b>Date of completion:</b>	<b>Signature of Secondary Reviewer on completion:</b>

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### Annex A : Pre-Preferred Bidder Appointment Key Stage Review Recommendations

Reasons / Recommended actions:	To be completed by:	Update
<p><b>Question 1 :</b></p> <p><b>Recommendation :</b></p> <p>(1) that the Board advises SFT of the outcome of the consideration of this proposal and of the progress for the change in scope, including the steps to be taken by the board to ensure value for money in relation to the change in costs; and</p> <p>(2) that the Board develops the detail of the implementation of its strategy, including interface management, so that catering arrangements will be in place in advance of the operational date, noting that an interim strategy will also require to be developed should the Board's long terms catering strategy not be fully implemented at the proposed facility opening date.</p>		<p>(1) Catering change reflected in final design and additional costs agreed by SG: completed</p> <p>(2) Ongoing recommendation for KSR</p>
<p><b>Question 3 :</b></p> <p><b>Recommendation :</b></p> <p>a. The Authority is asked to share the developed version of the draft PB letter to allow SFT the opportunity to comment and to take due account of those comments.</p> <p>b. It is understood that the Board's communication strategy is such that</p>		<p>a. completed</p> <p>b. completed</p>

the Preferred Bidder will be announced publicly prior to receiving the signed PB letter from the proposed PB. The Board is asked to confirm to SFT that it has considered whether there are any significant issues which would merit obtaining signature to the PB letter prior to a public announcement and that the Board's final communications strategy for the PB announcement has been informed by this process.		
<p><b>Question 5:</b></p> <p><b>Recommendation :</b> The Authority's attention is drawn to the fact that the Construction Cost Cap of £159,041m is no longer relevant for affordability purposes and is replaced by the Preferred Bidders construction proposal. SG anticipates no increase in the revenue funded capital amount, subject to any changes agreed between SG and the Board in relation to any changes in costs due to any change the catering strategy, which are anticipated by the Board to reduce the costs. The revenue funded amount will be calculated on the basis of the funding letter and SFT's guidance at or near financial close and will take account of the actual financing terms and interest rates which are fixed at financial close.</p>		The construction and other costs are noted in the affordability table above and see Question 7
<p><b>Question 8:</b></p> <p><b>Recommendation :</b> It is recommended that the Board and its advisors continue to liaise with SFT up to and beyond the PB appointment in order to agree funding strategy and plan that is acceptable to all parties.</p>		completed
<p><b>Question 25:</b></p> <p><b>Recommendation :</b> It is recommended that provision of a detailed programme and work plan for the project, to include the capture of diligence and agreed funding procurement route is prioritised for</p>		completed

agreement at the first meeting with the PB.		
<b>Question 36</b>  <b>Recommendation:</b> The Board is asked to monitor engagement with the stakeholders during the PB period recognising the programme and tendered design and price agreed in the final tender process and the risks associated with these elements changing.		completed
<b>Ongoing recommendations from the Pre COD KSR : see Annex A</b>  <ol style="list-style-type: none"> <li>1. <b>Recommendation:</b> That the Board keeps SFT advised as to progress in relation to the development of the proposals for the scope and costs in relation to the works on the petrol filling station site during the period until financial close.</li> <li>2. <b>Recommendation:</b> that the Board operates and monitors the open book mechanism in relation to the cost of the petrol filling station works to maximise value for money.</li> <li>3. <b>Recommendation :</b> that the Board continue discussions as to potential charitable donations and consider how any such donations will be factored in the project, consistent with the funding letter and the timescale for achieving financial close.</li> <li>4. <b>Recommendation:</b> That these and any other key risks are closely monitored with mitigations put in place in a timely manner following discussions by the Project Steering Board</li> <li>5. <b>Recommendation:</b> that the Board continues to monitor closely the Consort works and takes appropriate mitigation measures to ensure that vacant possession can be provided to the NPD contractor at financial close without the timescale for that close</li> </ol>		<ol style="list-style-type: none"> <li>1. Capped provisional sum has now become a fixed sum.</li> <li>2. Thomson Gray, the Board's cost advisers analysed the costs and considered them to be reasonable.</li> <li>3. A contribution is expected to be received from Ronald MacDonald and will be remitted directly to</li> </ol>

<p>being extended for that reason.</p> <p>6. Recommendation : that (1) the Board progresses these planning procedures to obtain planning consent for the offsite works prior to financial close and (2) works with the preferred bidder to ensure that resolution of reserved matters and planning permission of main facility and the works the petrol filling station site are achieved within the timescales required by the overall programme for financial close.</p> <p>7. Recommendation : that the Board place a focus on the issues which require to be resolved to ensure that the clinical enabling works are developed and completed within the timescale required to enable the new facility to operate properly on completion and to bring forward regular reports on proposals and progress to the Project Steering Board.</p> <p>8. To be dealt with post PB stage:</p> <p>Recommendation : that the Board monitors and reports to SFT the cost of this change in scope (including inflation, financing, lifecycle and other consequent costs) separately so that the level of revenue support (excluding this change) can be calculated.</p>		<p>SGHSCD in due course so that there will be no capital contribution.</p> <p>4. Completed</p> <p>5. Ongoing as VP will not be fully available for FC: to be included in KSR</p> <p>6. Completed</p> <p>7. Ongoing rec for KSR</p>
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		<p><b>8. The Board has explained that this lab is to provide paediatric biolab services and would otherwise have formed part of the clinical enabling works. SG has confirmed that it is content that it should be included as part of the scope of the project so no adjustments to the revenue funding are required.</b></p>
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SCOTTISH  
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# Validation of Revenue Funded Projects:

## NPD Programme

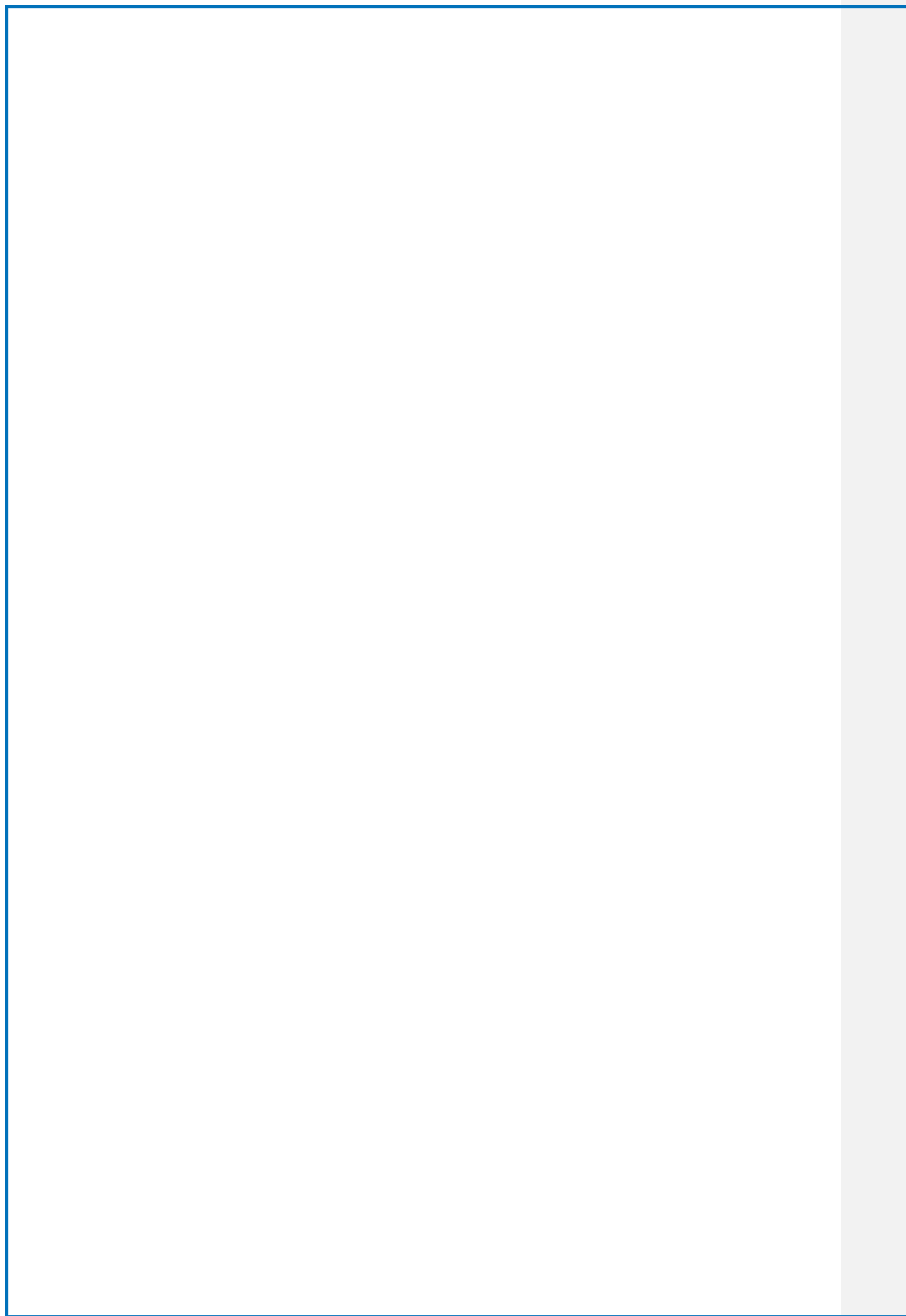
## Pre-Close of Dialogue Key Stage Review

## RHSC/DCN Project

## (NPD KSR 2 - Pre-CoD)

*Note: Outstanding Issues to be dealt with prior to close of dialogue: see questions 2, 28 (41), 34, 56 (NHSL to confirm text is correct and update ISFT)*

~~Draft 12-13~~ December 2013



## NPD Programme Pre-CoD Key Stage Review

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Scottish Government (SG)

Project Sponsor

E.g. SGHD, SFC, TS

Procuring Authority

E.g. LA, College, Health Board

Project Team

## Notes to the Reviewer

### 1.1. Background

It is a condition of Scottish Government (SG) funding support that all projects in the revenue funded programme are, in addition to any existing project approvals processes, externally validated by SFT. SFT undertakes validation by carrying out Key Stage Reviews (KSRs) of projects at key stages of a procurement. The KSR process is designed to support the successful delivery of revenue funded projects whether delivered through the non-profit distributing (NPD) model or the hub initiative as Design Build Finance and Maintain (DBFM) projects by providing an assessment of the readiness of a project before it moves on to the next stage in the procurement process.

### 1.2. Timing

This review is required to be completed in advance of the Competitive Dialogue phase being closed and Final Tenders being called.

The review should be carried out by the member of the Scottish Futures Trust team who normally provides support to the relevant project (the Reviewer). The Reviewer must agree the precise timing of the review and submission of SFT's report with the Project Sponsor and/or SG to integrate with the other project approvals processes.

In the run up to each review point, the Reviewer will inform and keep up-to-date the SFT validation team of the estimated timetable for carrying out the KSR. The validation team will arrange for a member of the SFT's senior management team (SMT) to scrutinise the list completed by the Reviewer before it can be submitted to the Project Sponsor and/or SG. The Reviewer should thereafter liaise directly with the allocated SMT member and must return a countersigned copy of the list to the Validation Team upon SMT sign-off. The Reviewer should discuss arrangements with the allocated SMT member and provide a verbal briefing if requested in advance of review so that if required necessary background information can be made available.

### 1.3. Process

The Reviewer must familiarise him/herself of the requirements of the checklist and consider which elements s/he can answer on the basis of existing knowledge of the project and identify what additional information is required in relation to the project in order to complete the remaining sections. The Reviewer should, at the earliest opportunity, explain to the Procuring Authority / Project Team what additional information s/he will require, in what form and by when in order to complete the review within the agreed timescales.

The review is not intended to be a "stop-start" process and the Reviewer should refer to the list throughout each delivery stage so that all sections of the checklist can be completed without delay to the project. The process involves the Reviewer completing this pro-forma list on the basis of information obtained in his/her day-to-day dealings with the project, considering whether in his or her view the project is ready to proceed to the next stage of procurement and making recommendations as to what actions may be required to achieve appropriate state of readiness. No formal submission, as such, will be required from the

Procuring Authority, but the project team will be required to provide the Reviewer with information to allow him/her to complete the list and compile his/her report.

Once completed by the Reviewer, the list and draft report should be submitted to the allocated SMT member for scrutiny before being issued to the relevant Project Sponsor and/or SG and copied to the Procuring Authority. The relevant Project Sponsor and/or SG will thereafter, as part of its overall sign-off process, determine whether and on what basis the project should proceed to the next stage taking into consideration any recommendations made in the KSR report. The Reviewer should liaise directly with the Project Sponsor and Procuring Authority as may be required to address any queries arising from the KSR report or recommendations.

#### **1.4. Further information**

Please contact the Validation Team for further information on the KSR process. Queries relating to the revenue funded programme requirements should be directed to the SFT Finance Team.

## Pre-CoD Key Stage Review List

<b>SFT Reviewer (Primary Reviewer)</b>	<b>Donna Stevenson</b>
<b>SFT Secondary Reviewer (SMT Member)</b>	Tony Rose

## Section 1: Project Outline

<b>Project title</b>	<b>Royal Hospital for Sick Children and Department of Clinical Neuroscience (RHSC/DCN) Project</b>
<b>Brief project description</b>	The provision of the Royal Hospital for Sick Children, Edinburgh and the Department of Clinical Neuroscience, currently within the Western General, Edinburgh in a joint new building adjacent to the existing Royal Infirmary of (RIE) at Little France in Edinburgh. The new build will extend to approximately 49,000 square metres with separate energy centre and facilities management yard and basement.
<b>Outline of scope of services in project (please identify the services and who (NPD SPV or Procuring Authority) will provide those services )</b>	<p>The NPD SPV is to provide lifecycle replacement, hard FM service with associated helpdesk facilities including grounds maintenance, utilities procurement and management and window cleaning.</p> <p>NHS Lothian (the Board) is to provide the soft fm services.</p>
<b>Key programme dates:</b> <ul style="list-style-type: none"> <li>• Invitation to submit Final Tenders</li> <li>• Preferred Bidder appointment</li> <li>• Financial Close</li> </ul>	<p>The following dates for key elements of the programme:</p> <ul style="list-style-type: none"> <li>• OJEU: was issued on 5 December 2012</li> <li>• ITPD : 11 March 2013</li> <li>• ITFT : to be issued 13 December 2013</li> <li>• PB appointment: to be made on 17 March 2014</li> <li>• FC: scheduled for 2 October 2014</li> </ul>



## Project Contact Details

<b>Project Sponsor /SG Responsible Officer</b>  <b>(name &amp; contact details)</b>	Scottish Government's Health and Social Care Directorates ("SGHSCD")  Mike Baxter, Deputy Director, St Andrew's House, Waterloo Place, Edinburgh  Telephone: [REDACTED]  Email : Mike.Baxter@scotland.gsi.gov.uk
<b>Project Authority Responsible Officer</b>  <b>(name &amp; contact details)</b>	Susan Goldsmith, Project Sponsor  Email: Susan.Goldsmith@nhslothian.scot.nhs.uk
<b>Project Director/Manager</b> <b>(name &amp; contact details)</b>	Brian Currie, Project Director  NHS Lothian, 56 Canaan Lane Edinburgh  Telephone : [REDACTED]  Email: brian.currie@luht.scot.nhs.uk
<b>Principal legal, technical and financial advisers</b> <b>(firm/company &amp; name of main contact)</b>	Technical : Richard Cantlay, Mott Macdonald  Financial : Michael Pryor, Ernst & Young  Legal:     Andrew Orr, MacRoberts

## Section 2: Project Requirements

The key objective of this section is to confirm that the project scope is firm and deliverable at the point of closing dialogue and inviting final tenders, maximizing the likelihood that the bids submitted will be capable of acceptance and minimising the risk of changes in the period up to financial close. Arrangements must be in place for anticipating, identifying and managing any changes to the project scope thereafter.

	Question	Yes/No	Comments
1.	Please outline any changes that been made to the scope of the project since the last KSR and demonstrate that such changes have the required level of approval within the Procuring Authority and from the relevant Project Sponsor and/or SG.		<p>(1) DCN Acute Care to include 2 x 4-bed rooms. Derogation for single room accommodation confirmed by Chief Medical Officer. Increase of one theatre to ten in total (upgrade of minor procedures Theatre into day case Theatre). Both changes approved by Project Steering Board. DSR's enlarged based on new guidance. Waste area enabled to take second compactor based on new guidance. Future-proofing for District Mains Heating.</p> <p><i>Note : these changes have all been acknowledged as being within scope of the funding letter on the basis that the construction cap remains unchanged.</i></p> <p>(2) The Board issued a clarification to bidders on 4 December to include certain remediation and landscaping works with the recently acquired petrol filling station site near the NPD site. The precise scope of the works is to be refined post preferred bidder in the context of a further ground conditions survey and planning requirements. The board is including within the ISFT a provisional sum of £500,000 together with an open book mechanism and the costs for these works is to</p>

			<p>be fixed before financial close. It has been agreed with Scottish Government that the costs of the works to be carried out by the NPD contractor can be covered by the NPD element in the funding letter subject to</p> <ul style="list-style-type: none"> <li>(a) the ISFT including an appropriate mechanism for ensuring value for money as the provisional sum is refined to be a fixed amount prior to financial close;</li> <li>(b) the amount to be included being capped at £500,000; and</li> <li>(c) the construction cap remaining at the same level as is set out in the funding letter.</li> </ul> <p><b>Recommendation</b> : that the Board operates and monitors the open book mechanism in relation to the cost of the petrol filling station works to maximise value for money.</p> <p>Note : At its meeting on 29 November 2013, the Project Steering Board considered a paper in relation to the Board's catering strategy which proposed that the catering operation for the new RHSC/DCN should be provided offsite. Nonetheless, the Board has confirmed that it is proceeding to close of dialogue on the basis of the retention of the full service kitchen as reflected in the current design. It is intended that a further report will be taken to the Project Steering Board in January 2014.</p> <p><b>Recommendation</b> : That the Board keeps SFT advised as to</p>
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			<p>(i) progress in relation to the development of the proposals for the scope and costs in relation to the works on the petrol filling station site during the period until financial close;</p> <p>(ii) the Project Steering Board's decision following consideration of a further paper on the Board's catering strategy.</p>
2.	Is the Procuring Authority, and are its advisers, satisfied with the overall quality and level of detail supplied by bidders during dialogue in respect of the design and build and service delivery solutions and that bidders' proposals are capable of meeting its requirements?		<b>Recommendation :</b> That, prior to close of dialogue, the Board receives and copies to SFT, letters, in the form of the drafts which the Board have earlier provided to SFT, from each of its financial, legal and technical advisers confirming that each consider that it is appropriate for the Board to close dialogue.
3.	<p>Based on dialogue with bidders is the Procuring Authority satisfied that the final tenders will contain solutions that satisfy its operational and functional requirements?</p> <p>Are the Procuring Authority's requirements in relation to the following matters clearly expressed in the IFT documents:</p>	Yes	
4.	- the scope, cost and timing of any enabling works that require to be carried out to support the effective construction and operation of the facilities;	Yes	(1) The enabling works to be carried out by Consort under supplementary agreements (SAs) entered into pursuant to the RIE PA have been scoped and costed under the processes in the SAs. The timing is intended to be before financial close and clarification has been issued to bidders on that basis. The Board is concerned that the Consort enabling works will not be fully completed by



			<p>financial close and in particular that that works at Hospital Square and an area near the new link building will such that vacant possession will not be provided. It is considering a number of mitigation measures to be put in place and agreed with Consort. The draft PA for the Project provides that failure to give access would be a Compensation Event<sup>2</sup>.</p> <p>(2) The clinical enabling works are still to be developed in final scope costing and timing.</p> <p>See Recommendation at Question 28 (under Pre ITPD Question 19) below.</p>
5.	- the scope of FM services within the project;	Yes	The scope has now been developed from the ITPD to clarify responsibility for window cleaning to reflect design solutions.
6.	- the impact of the project on staff (including potential impact of TUPE legislation);	Yes	No TUPE is anticipated.
7.	- the interface between FM services to be included within the project and those for which the Procuring Authority will retain responsibility;	Yes	The ITPD included a matrix of responsibilities and, as noted above, window cleaning has now been agreed.
8.	- the interface between design and the delivery of FM services (e.g. cleaning) and risks (e.g. energy consumption, security) retained by the Procuring	Yes	There has been fm input for the Board during the dialogue process

	Authority;		
9.	- the interface (during both construction and operations) between the works and services within the project and the Procuring Authority's other facilities and services (e.g. impact on use of adjoining facilities during the construction phase) ;	Yes	The PA reflects the interface provisions between the RIE and the Project and links to the enabling works (see 4 above)
10.	- sustainability;		The Board has accepted a derogation from the requirement that there be 20% renewable energy sourced for the project and there is now to be CHP provision. The Board has confirmed that BREEAM 6 stars can still be achieved. Space provision has been made for the eventuality of district heating being provided in the <del>future-future</del> .
11.	- community benefits;		The Board advises that all bidders meet or exceed the requirements but have different approach <u>as</u> to remedies.
12.	- the inclusion of equipment within the project;	Yes	No comment required
13.	- the delivery of the Procuring Authority's IT requirements within the new facilities;	Yes	No comment required
14.	- decant from existing facilities and migration to new facilities;	Yes	An outline commissioning programme has been produced
15.	- any conditions or recommendations on scope/specification/design identified in the outline business case approval or previous KSRs.	Yes	Responses to Pre ITPD recommendations are contained at 28.



16.	Please confirm what further development of technical information is required from bidders between now and final tender submission and from the preferred bidder between appointment and financial close. Is the Procuring Authority, and are its advisers, satisfied that this is achievable within the current project timetable?	Yes	100% compliance for operational functionality and minimum room layouts has now been achieved with all bidders. The Board has reviewed the bidders' programmes for design development through to financial close. The Board consider that the programme from preferred bidder to financial close is challenging.
17.	Please demonstrate that a control mechanism and an approvals process are in place for identifying and managing changes to scope, costs and timescales during the procurement process, and that the Procuring Authority has agreed with bidders a method of costing any changes instigated by the Procuring Authority in the period up to financial close.		Governance in place for changes in scope to date through Project Steering Board.  Bidder specific design development and change protocols have been agreed.
18.	Please describe any mandatory variant bids that the Procuring Authority will require from bidders and its intended approach to dealing with any non-mandatory variant proposals put forward by bidders.		No mandatory variant bids are being sought.

### Section Three: Affordability

*The key objective of this section is to consider and test the overall affordability position of the project for both, the Procuring Authority and the Scottish Government, in terms of both revenue and capital funding requirements.*

2. **Please complete the following project affordability table (with information for the relevant KSR stage)<sup>1</sup> to include details of current affordability targets and caps where appropriate:**

The issues arise in relation to the bidders' financial submissions and the table below:

- 2.1. Construction cap:** the construction cap remains at £137.757m plus inflation to mid point construction of 4Q 2015 (from 3Q 2011) or earlier midpoint if applicable during procurement: the earlier date is not applicable. The inflated construction cap has been fixed at 28 November 2013 on which date the relevant BICS indices were 3Q2011: 220; 4Q2015: 254. This gives an inflation percentage of 15.45% (£21,283,457) and revised, and now fixed, construction cap of £159,040,567.

<sup>1</sup> It is expected that these costs will be based on internally generated estimates pre-OJEU and pre-ITPD and that cost expectations will be updated to reflect bids as they are submitted during the procurement process

**2.2. SPV average annual operating costs:** The funding letter was based on estimated SPV costs of £387k. Only one Bidder's costs exceed this amount.

**2.3. SPV project development costs** The funding letter envisaged an indicative level of 3%, and all of the bids are outside of this estimate. The Board challenged these costs during dialogue and made clear its expectation that they could be reduced. A more detailed analysis of the breakdown and content of these costs will be required at ISFT stage to ensure comparability with the funding letter indicative sum.

**2.4. Lifecycle maintenance fund :** lifecycle costs are to be compared to the £27m2 indicated in the funding letter. All Bidders are below this number.

**2.5. Hard Fm costs :** these costs are to be compared to the £29m2 assumed in the OBC . The Board challenged the costs of the bidder whose cost exceeds this amount and there may be potential for this to be reduced at the final tender stage.

**2.6. Unitary charge:** both the total and SG's share of the first full year's unitary charge (which is to be adjusted per the note below) for all three bidders is below SFT's current affordability assumptions.

**Note:** as stated in Question 28 (referring to Question 1 of the Pre ITPD KSR) the costs of the specialist paediatric biochemical laboratory are excluded from SG's funding and the costs of the petrol filling station works are capped.

	Pre-OJEU	Pre-ITPD	Pre-IFT	Pre-PB	Pre-FC
Construction cost (nominal cumulative)	£137.7m plus inflation to mid point construction of 1Q 2016 (from 3Q 2011) or	£137.7m plus inflation to mid point construction of 4Q 2015 (from 3Q 2011) or	£137.7m plus inflation to mid point construction of 4Q 2015 (from 3Q		

	earlier midpoint if applicable during procurement  See footnote 2	earlier midpoint if applicable during procurement  See footnote 3	2011) or earlier midpoint if applicable during procurement		
Design fees  (nominal cumulative)	See footnote 4	As Pre OJEU assumption	Included in construction cap		
Bid development costs 5 (nominal cumulative)	See footnote 6	As Pre OJEU assumption	See commentary above		
SPV costs (in construction)	See footnote 7	As Pre OJEU	As Pre OJEU		

<sup>2</sup> Note : The inflation allowance to be applied to the uninflated amount will be calculated on the basis of the pricing base date of Q3 2011 and a construction midpoint (the revised midpoint) being 1Q 2016 or, if earlier, the construction midpoint which is being proposed through the procurement process. The inflation allowance on the basis of the BCIS index published in October 2012 was £11,271,620 so that the Construction Cost Cap at that date on that basis is £149,027,938.

The movements in the forecast index will be monitored periodically including through the KSR process as it proceeds. In addition there is significant capital requirement both for enabling works and equipment and support is to be provided as set out in the Funding Letter.

<sup>3</sup> Note : The inflation allowance to be applied to the uninflated amount will be calculated on the basis of the pricing base date of Q3 2011 and a construction midpoint (the revised midpoint) being 4Q 2015 or, if earlier, the construction midpoint which is being proposed through the procurement process. The inflation allowance on the basis of the BCIS index published in 18 Feb 2013 was £10,645,000 so that the Construction Cost Cap at that date on that basis is £148,402,000 on the basis of a mid point construction of 4Q 2015.

The movements in the forecast index will be monitored periodically including through the KSR process as it proceeds. In addition there is significant capital requirement both for enabling works and equipment and support is to be provided as set out in the Funding Letter.

<sup>4</sup> TC5B states that there is included an allowance based upon 8.5% of the estimated construction value and this is included in the construction cap figure. The assumption is that the design costs prior to financial closure are carried elsewhere.

<sup>5</sup> Including success fees

<sup>6</sup> The Board's advisers financial model assumes 5% of capex whereas SFT considers that 3% of capex is more appropriate, taking account of the level of design development pre procurement.



(nominal cumulative)		assumption	assumption		
Hard FM costs (real per annum)	£29/m  See footnote 28	As Pre OJEU assumption	See commentary above		
Lifecycle costs (real cumulative)	£27/m29	As Pre OJEU assumption	See commentary above		
SPV costs (in operations) (real per annum)	£387,000  See footnote 10	As Pre OJEU assumption	See commentary above		
Operational Term (years)	25 years	As Pre OJEU assumption	As Pre OJEU assumption		
Percentage of unitary charge indexation	22%11	As Pre OJEU assumption	As Pre OJEU assumption		

<sup>7</sup> The Board's advisers financial model does not have an entry for SPV costs during construction : development fees are 5%: see footnote 10.

<sup>8</sup> The Board's advisers model also includes a risk allowance which significantly increases the overall sum for hard fm. The Atkins Report forming an annex to SFT's Project Review says that the figure of £29/m2 sits within the expected range of benchmarks.

<sup>9</sup> The Atkins Report says that "Based on a range of benchmark information the Life Cycle Cost per square metre per annum of £27/m2, at 3Q 2011 prices, sits within the acceptable range of benchmarks"

<sup>10</sup> SFT's assumption is £350kpa

<sup>11</sup> Per EY's shadow bid model : SFT's estimate of indexed amount would be lower given lower estimates of lifecycle, hard fm and SPV costs.

Swap rate <sup>12</sup>	4% <sup>13</sup>	As Pre OJEU assumption	Term sheet assumes LIBOR assumed to be 4.00% and all in rate for EIB as 5.50% p.a.		
Unitary charge (nominal year 1 of operations)	See footnote 14	As Pre OJEU assumption	See commentary above		
SG funding support (nominal year 1 of operations)	See footnote 15	As Pre OJEU assumption	See commentary above		

<sup>12</sup> Including any buffer

<sup>13</sup> for swap rate plus buffer per EY's shadow bid model : 3.41% (SFT model), but margin 2.25% (EY model), 3% (SFT model) and MLA + swap spread 0.38% (EY model), 0.5% (SFT model) – hence all in senior rate 6.63% (EY model), 6.91% (SFT model). (Also sub debt rate – 13% EY, 11% SFT – hence pro forma WACC 7.27% EY, 7.32% SFT. )

<sup>14</sup> As is made clear in the Funding Conditions (and see email correspondence between SFT and the Board culminating on 7 March 2012), there is discrepancy between the figures calculated by the Board and those by SFT : the relevant figures are : Unitary charge (nominal 1st full yr of ops - 12 months to 31/3/2018) - £22,381k (EY model), £20,970k (SFT model) – both excluding insurance costs. No unitary charge figures are to be provided to bidders.

<sup>15</sup> See footnote 14: the relevant figures SG Funding Support (nominal first full year of ops - 12 months to 31/3/2018) - £19,115k SFT. We cannot find the equivalent figure in the EY financial model but the OBC v3.0 at page 49 says £20,029k

	Question	Yes/No	Comments
19.	Please explain any changes that have been made to the cost and funding assumptions (both revenue and capital) since the last KSR and demonstrate that such changes have the required level of approval within the Procuring Authority and from the relevant Project Sponsor and/or SG.		The changes made are as follows: (1) the Board has updated the construction cost cap via revision of the cap value by application of BCIS indices as set out in the funding letter, and has communicated the revised values to bidders : the construction cap has been set at the level noted above and the changes to the scope of the project noted at Question 1 above are being managed within that construction cap; (2) revision of financing terms to be used in the Authority term sheet, again agreed with SFT and issued as part of the DFT and hence now ISFT package; <u>and</u> (3) activity-driven increases in NHSL revenue will be managed through NHSL financial planning.
20.	Is the Procuring Authority satisfied that the cost assumptions contained within the outline business case (or, if applicable, the cost assumptions revised and approved since then) remain accurate and deliverable? Do these costs mirror the scope and specification that bidders will be asked to price? Has this been verified by the Procuring Authority's advisers? Please indicate relevant benchmarks that have been used by the Procuring Authority and/or its advisers.	Yes	<p>The construction cap has been updated by SFT to reflect the current BCIS All in TPI indices in accordance with the revenue funding conditions for the project. The construction cap set out in the IFT is now the fixed construction cap (capped value for outturn construction that will be funded by SG, subject to the lab exclusion and other sub cap) for the project and is no longer subject to inflationary movements.</p> <p>The Board has confirmed based on the draft final tender submissions and dialogue meetings that the Annual Service Payments (also described in this document as unitary charge) remain affordable to the Board. For details of benchmarking of the constituent costs, see the commentary above the table at the beginning of this section.</p>
21.	Please confirm that the project remains affordable and that the bids are within the affordability caps	Yes	The Board has confirmed that, consistent with its sign off on



	outlined above.		<p>affordability at OBC stage, the project remains affordable for it.</p> <p>As noted above the project remains within the construction cap and within SFT's affordability model in respect of the Scottish Government's contribution.</p>
22.	Please confirm what sensitivities have been applied in assessing the affordability of the project and demonstrate that an appropriate allowance is in place to absorb reasonable cost movements.		<p>The Board's financial adviser has indicated that it has not conducted any specific sensitivities as the FM and other costs for each bidder are comfortably within the cap/target sums.</p> <p>The Project Team reports affordability position regularly to the Project Steering Board and updates on risks associated with the affordability of the project.</p>
23.	What are the key risks / outstanding issues that may have an impact on the affordability of the project and what strategy is in place to manage these?		<p>(1) The information on clinical enabling works to be carried out within the RIE information is based on feasibility rather than detailed design. The Board will monitor the projected costs of the clinical enabling works, which are outwith the scope of the NPD funding, and report on the position regularly to the Project Steering Board;</p> <p>(2) The costs of the Consort enabling works are expected to remain within the maximum cost envelope approved by the Board's F&amp;PR committee in October 2013;</p> <p>(3) The petrol filling station works are based on a provisional sum and there is included in the ISFT a process for</p>

			tendering sub contract packages and open book accounting designed to contain the costs.
24.	Please provide details (including amount, proportion of total funding requirement and proposed timing) of any capital contributions that the Procuring Authority intends to make any capital contributions to the SPV during the project and confirm that the size and timing of these has been agreed with the bidders. Please demonstrate that the amount of the capital contribution includes allowance for associated financing fees etc.		<p>None confirmed at this stage. Discussions are ongoing as regards potential charitable donations.</p> <p><b>Recommendation</b> : that the Board continue discussions as to potential charitable donations and consider how any such donations will be factored in the project, consistent with the funding letter and the timescale for achieving financial close.</p>
25.	Please confirm what affordability information will be made available to bidders in the IFT documentation.		The only information provided to bidders in the ISFT specifically in relation to affordability is the updated construction cost cap. All other affordability information remains as it was in the ITPD.
26.	Have all bidders assumed composite trader tax treatment and has the full benefit of this been passed on to the Procuring Authority?		All bidders are proposing the use of a composite trader approach and are passing the full benefit of this on to the Board.
27.	Please provide details of how delays to financial close and indexation of input costs are to be treated.		Bidders have undertaken to adhere to price validity for three months post-financial close. The ISFT text contains specific requirements on bidders to confirm the application specific

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			indexes of capital, SPV costs, <del>life</del> lifecycle costs and FM <u>for</u> their price after the validity period has elapsed and to confirm that these are the only costs which will be affected.
28.	Please demonstrate how any recommendations / actions / requirements in relation to the affordability of the project, detailed in the outline business case approval and previous KSRs, have been addressed.		Recommendations from ITPD are as follows:
	Recommendations from ITPD are as follows:		
	<p>Pre ITPD issue recommendation:</p> <p>Recommendation : that before the issue of the ITPD documentation to bidders:</p> <p>(1) The provisions for the energy target(s) to be included in the documentation is agreed with Mike Baxter at Scottish Government and that any necessary consequential amendments are made to the documentation on the basis that the mechanism included in the draft ITPD which allows for the testing of value of money is retained;</p> <p>(2) The documentation is updated to reflect the remaining issues which have been discussed and agreed with SFT and that the items referred to in</p>		All parts of this recommendation were completed: confirmation received by SFT by email from the Project Director dated 12 March 2013.

	<p>Volume 4 is available in the data room; and</p> <p>(3) The Project Director confirms to SFT that the foregoing conditions have been satisfied and that all parts of the ITPD documentation are clear, complete and consistent and that the Board's legal advisers have confirmed that the documentation complies with the all procurement legislation and requirements</p>		
	<p><b>Question 1 : Recommendation :</b> that the Board monitors and reports to SFT the cost of this change in scope (including inflation, financing, lifecycle and other consequent costs) separately so that the level of revenue support (excluding this change) can be calculated.</p> <p>Note : this related to the following response to Question 1 of the Pre ITPD KSR</p> <p>"The Board advises that specialist paediatric biochemical laboratory from RHSC (currently in Sciennes Road) are now to be house in shelled space due to no available location within RIE. The Board acknowledge that the cost of this change scope is to be borne by NHSL. If this is included in the scope of the NPD contract then an adjustment will be required to exclude the cost (including lifecycle</p>		<p>The Board has advised that the costs of these works for the specialist paediatric biochemical laboratory range from £500,000 to £610,000.</p> <p>The ISFT text is to be updated to ensure that the final tender will show separately the various cost heads to enable this exclusion for SG's funding support to be calculated.</p> <p><b>Recommendation :</b> that the Board monitors and reports to SFT the cost of this change in scope (including inflation, financing, lifecycle and other consequent costs) separately so that the level of revenue support (excluding this change) can be calculated.</p>

	<p>when the revenue support is being calculated.</p> <p>The Board estimates that the cost of the lab will be approximately £500k.</p> <p>The ITPD will require bidders to show the cost of the lab, including inflation, financing, lifecycle and other consequent costs separately so that the level of revenue support can be calculated.”</p>		
	<p><b>Question 2 : Recommendation:</b> that the Project Team continues to target the net to gross ratio with bidders throughout the dialogue period in accordance with the recommendation of the Project review and produces a mock up of rooms at an appropriate stage.</p>		<p>The areas and net to gross ratios have been reviewed as part of the dialogue process. The ratio in the reference design was 53.73% and in the bids ranges from 53.39% to 55.1%.</p>
	<p><b>Question 6 : Recommendation :</b> The Board should continue to work with Consort Healthcare to re programme the enabling works such that vacant possession of the whole NPD site, and an effective stopping up order in place, can be given to Project co at financial close and that Project co will be entitled in terms of planning and other requirements</p>		<p>The stopping up order has now been completed: see further the response to Question 19 of the Pre ITPD KSR below.</p>

	or constraints to proceed with all works on site.		
	<b>Question 6 : Recommendation:</b> that the Board advises SFT of any proposed change to the energy target and the reasons therefore before a change is made.		<p>No change to energy target requirements from the ITPD subject to the issue noted at Question 10 above re the provision of a CHP.</p> <p>The Board advised that the bid where the utilities cost was calculated to be higher than the other two had used the wrong calculation and that an update will be provided with the FT which the Board expects to be more in line with the other two bids.</p>
	<p><b>Question 18: Recommendation:</b> that the Board keeps SFT advised of submissions and consult with SFT in relation on the listed items to allow SFT to provide input to assist in the Board's assessment and dialogue with bidders.</p> <p><i>Note : the items listed were</i></p> <ul style="list-style-type: none"> <li>• <b>capital cost inputs</b></li> <li>• <b>SPV average annual operating costs</b></li> <li>• <b>SPV project development costs</b></li> <li>• <b>lifecycle maintenance fund and profile</b></li> <li>• <b>tax efficiency</b></li> <li>• <b>subordinated debt return.</b></li> </ul>		<p>The items have been discussed as part of the feedback and discussion on the draft final tender : see affordability section above.</p> <p>Revised commentary has been provided by SFT for inclusion in the ISFT as to the tax treatment of surpluses.</p>
	<b>Question 19 : Recommendation:</b> The Board should monitor closely the interface issues with the RIE and Consort, including in particular the dependencies		The Board has been monitoring the interface between the progress of the Consort enabling works and the requirement to give ProjectCo vacant possession of the NPD site at financial



<p>between the works to be carried out by Consort which are required to be completed before financial close so as to give the NPD Contractor full vacant possession of the NPD site and ensure that the stopping up order will be effective and unconditional by financial close, and provide to the Project Steering Group at each meeting an update on these risks and should ensure that the project programme includes both the NPD programme and all elements of enabling works and other issues which are required to ensure the successful delivery of the overall project.</p> <p><b>Question 19: Recommendation :</b> that the Board progresses these planning procedures to obtain planning consent within the timescales required by the overall programme so as to achieve completion of all of the works prior to financial close of the NPD programme.</p>	<p>close.</p> <p>As noted at 4 above, the Board is concerned that the Consort enabling works will not be fully completed by financial close and in particular that that works at Hospital Square and an area near the new link building will such that vacant possession will not be provided. It is considering a number of mitigation measures to be put in place and agreed with Consort.</p> <p><b>Recommendation:</b> that the Board continues to monitor closely the Consort works and takes appropriate mitigation measures to ensure that vacant possession can be provided to the NPD contractor at financial close, without the timescale for that close being extended for that reason.</p> <p>The Board has confirmed that the Project Steering Group has been provided at each meeting an update on these risks and has ensured that the strategic programme includes both the NPD programme and all elements of enabling works and other issues which are required to ensure the successful delivery of the overall project.</p> <p>On planning matters, all reserved matters with exception of the main facility have been addressed. The bidders met with Planners during the dialogue phase and the Board advises that the planning issue which affected one of the bidders has been resolved so that its bid will now be complaint in this regard.</p> <p>The planning permission for the offsite flood works is programmed for August 2014. It is a condition of the section 75 Agreement that this consent is in place before works start in the</p>
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			<p>main site.</p> <p>Planning permission will be required for the works on the petrol filling station site and the Board expects that this will be considered along with the consideration of the main facility.</p> <p><b>Recommendation</b> : that <del>(1)</del> the Board <u>(1)</u> progresses these planning procedures to obtain planning consent for the offsite works prior to financial close and (2) works with the preferred bidder to ensure that resolution of reserved matters and planning permission of main facility and the works the petrol filling station site are achieved within the timescales required by the overall programme for financial close.</p>
	<p><b>Question 19: Recommendation:</b> that , within a timescale to enable the current programme to be met, there will be provided to Project Steering Board a report for approval providing proposals for the route of the electricity substation cable and that such report will include confirmation that the necessary rights are in place to enable cable(s) to be laid and maintained along such route and used to supply electricity to the new RHSC/DCN facilities on an ongoing basis.</p>		<p>All bidders are proposing an alternative HV Supply route directly off Old Dalkeith Road so no further rights are required.</p>
	<p><b>Question 19 : Recommendation:</b> That these and any other key risks are closely monitored with</p>		<p>The Board has confirmed that Project risks are discussed with the Project Steering Board regularly: <a href="#">recommendation remains</a></p>

	mitigations put in place in a timely manner, following discussions by the Project Steering Board.		relevant.
	<b>Question 23 : Recommendation:</b> that the Board completed the Q&A before the first meeting with bidders and the competitive dialogue guidance by 31 March 2013 and provides a copy of each to the Project Board members and SFT as soon as completed and to allow Project Board members and SFT to have the opportunity to comment before the first meeting with bidders on 2 April 2013.		The Board advises that this has been completed.
	<b>Question 26 : Recommendation:</b> that the Project team ensure that (1) the competitive dialogue is conducted in a robust, focussed and effective manner that maintains bidders' interest and encourages competitive responses and that it is structured to ensure that bidders understand the basis of evaluation of the evaluation criteria and the standard of the applicable pass/fail tests and (2) that the competitive dialogue process is a standing item on the agenda of the Project Board and that the Board is updated at each meeting as to issues and risks arising from the process.		The Board advises that this has been completed.
	<b>Question 35 : Recommendation :</b> that the planning applications are submitted in accordance with		The Board advises that all planning permissions have been obtained except that (a) for the off site flood works (b) the NPD

	current programme and monitored to ensure compliance with programme.		works where there have been meetings among bidders, the Board and planners through the dialogue period and that all issues raised have been dealt with satisfactorily and (c) the works on the petrol filling station site : see response to Question 19 above.
	<b>Question 41 : Recommendation:</b> that the Board and its advisers liaise with SFT and on the approach to financing and engage SFT in discussions with the project team and its advisers, where appropriate, to better ensure the learning from experience of cross projects issues, to enable SFT both to decide whether there should be a post preferred bidders funding competition and to make recommendations as to financing matters during the dialogue period.		<p>Detailed drafting has been included in the <u>ISFT</u> instructions on the issue of financing. Specifically, bidders are required to set out their proposals on how the post-PB funding competition is to be carried out. These proposals must be based on a protocol set out in the <u>ISFT</u> that obliges the bidder to actively involve both NHSL and SFT in the funding competition process and makes it clear that SFT must be involved in the decision process. The Board and its advisors, EY, have liaised closely with SFT in this respect, including agreeing the <u>ISFT</u> wording with SFT, and are committed to continuing this close working relationship as the project progresses.</p> <p><del>Recommendation: the ISFT text is to be updated prior to close of dialogue to include a requirement to provide the updated protocol to reflect SFT's issues as agreed.</del></p>
	<b>Question 44 : Recommendation:</b> that the Board completed the bed modelling, reappraises the risk of change post financial close and advises SFT and the		The Board advise that this has been completed and that the outcome is that there has been no change.

	Project Board of the outcome by 31 March 2013.		
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#### Section 4: Value for Money

The objective of this section is to ensure that the key drivers of value for money are addressed in the Procuring Authority's approach to development and delivery of the project. Please refer to relevant Value for Money guidance<sup>16</sup>.

	Question	Yes/No	Comments
29.	Please demonstrate how the Procuring Authority intends to drive value for money through "Effective Delivery". [Response required only to the extent that the position has changed since last KSR]		There has been no change since the last KSR. _____
30.	Please describe how any changes to scope and procurement options since the last KSR have been assessed and the impact that these have on the delivery of value for money.		See question 1 re scope. There has been no change to the procurement options save that it has been confirmed that there will be a post preferred bidder funding competition.
31.	Please demonstrate the Procuring Authority's continuing efforts to discharge its obligation (as detailed in the SG conditions of funding letter dated 22 March 2011 and/or the outline business case approval) to minimise capital and operating costs by reference to design and specification development within the agreed project scope.		Given the level of development of the reference design there has not been any material change to the scope of the design and specification, subject to the changes noted at Question 1 above. The Board has used the dialogue process to encourage the bidders to drive out economies through design development. The interface with clinicians during dialogue was not so intense because of the consultation during the development of the reference design. As noted at 1 above, the ISFT includes a provisional sum of £500,000 together with an open book mechanism for the works on the petrol filling station site and

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<sup>16</sup> Value for Money Assessment Guidance: Capital Programmes and Projects (updated October 2011) and SFT's Supplementary Guidance for projects in £2.5bn Revenue Funded Investment Programme (October 2011)

			the costs for these works is to be fixed before financial close.
32.	Please describe what steps the Procuring Authority has taken to ensure a level playing field amongst shortlisted bidders during the final tender stage. <i>[Response required only to the extent that the position has changed since last KSR]</i>		There has been no change since the last KSR.
33.	Please describe the steps that the Procuring Authority and advisers have taken during the competitive dialogue to assess and benchmark the sufficiency / efficiency/competitiveness of bidders' proposals in relation to the following: <ul style="list-style-type: none"> <li>- capital cost inputs</li> <li>- SPV average annual operating costs</li> <li>- SPV project development costs</li> <li>- lifecycle maintenance fund and profile</li> <li>- tax efficiency</li> <li>- subordinated debt return</li> </ul>		<p>(1) The capital costs were evaluated having regard to the Reference Design cost plan which was benchmarked and current benchmarking. The deliverability of capital costs were assessed by the Board's technical advisers.</p> <p>2) Bidders have been providing key metrics to the Board in relation to key financial aspects of their bids. These have been benchmarked against other projects and market expectations and challenged where inconsistent. The Board's view is that all bidders are currently largely in line with expectation with regard to SPV costs, sub-debt return and development costs. The issue of tax approach has been discussed specifically with each bidder, and SFT have been involved in these discussions. Bidders have been instructed with regard to the preferred approach devised by SFT to tax treatment of surpluses and have accepted the risk sharing position associated with this. As noted above, updated wording on the tax treatment of surpluses is incorporated within the ISFT. One bidder had not appointed a tax adviser but has now done so to carry out a full review of tax and accounting prior to the submission of the final bid.</p>

			See also the commentary above the table at the beginning of Section Three.
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### Section 5: Commercial

The key objective of this section is to test that a robust commercial position has been established before dialogue is closed and final tenders invited, maximizing the likelihood of bidders submitting final tenders that are capable of acceptance by the Procuring Authority and minimising the number of issues to be resolved thereafter. A strategy needs to be in place to deal with any outstanding issues after final tenders have been submitted.

	Question	Yes/No	Comments
34.	Please confirm that a list of derogations from the standard NPD contract documentation (including service specification, payment mechanism, NPD articles of association and accompanying guidance) has been agreed with each bidder and approved by SFT.	Yes (subject to the recommendation)	<p><b>Recommendation</b> : that prior to closing dialogue,</p> <p>(1) the Board is satisfied that all of the NPD documentation, with bidder specific derogations, as agreed with SFT, covers all commercial issues and is complete and reflects the agreement reached with each of the bidders during the dialogue process; and</p> <p>(2) The relevant bidder (in respect of which this point remains outstanding) confirms that it accepts that all of petrol filling works, including landscaping, will be completed at or prior to the same time as the works on the main hospital.</p>
35.	Are there any outstanding contractual points?	No (subject to the recommendation at 34 above)	
36.	Please explain how bidders have demonstrated that they have the support of sub-contractors in relation to their technical proposals and commercial positions communicated through		The Board confirms that it has been provided with and is satisfied with the heads of terms from each of the three bidders.

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	the dialogue period. Have heads of terms been agreed between bidders and their sub-contractors?		
37.	Please describe the engagement that each of the bidders has had with potential funders and provide the views of the Procuring Authority and its financial advisers on the competitiveness and deliverability of financing proposals discussed with bidders during the competitive dialogue and demonstrate that this complies with SFT guidance on managing financing aspects of projects.		Bidders have been fully engaged with funders throughout dialogue. The Board has ensured throughout the process that bidders (1) can demonstrate engagement with funders and are providing regular updates of the terms on offer from these providers - this in turn has helped to inform the formulation of the authority term sheet issued (2) are providing regular updates of progress (3) identify to the Board the funders with whom they are engaging (4) are engaging with a wide range of funders, including banks and capital market providers 5) have engaged shadow diligence teams who are working on behalf of yet to be appointed funders and will provide necessary certification of the work they have done which has been provided as part of the DFT process (6) have been kept up to date with progress in securing EIB funding. The Board has ensured that the assumptions relating to the funding process are made clear to bidders and has fully engaged with SFT in developing the approach to funding. A funding competition methodology has been agreed with each of the bidders and this forms part of the ISFT.
38.	Have bidders, sub-contractors and funders agreed the terms of the commitment letter?	Yes	The Board advises that, subject to funders (as there is to be a post PB funding competition), this is correct.

39.	<p>Please demonstrate Procuring Authority's approach to securing financing proposals at final tender stage complies with SFT guidance on the management of financing aspects of projects and that this is reflected in the IFT documents. In particular please confirm that the IFT documents reserve the right for the Procuring Authority, at the request of SG, to call for a funding competition after preferred bidder appointment.</p>		<p>The Board will require a funding competition to be run post-Preferred bidder, as agreed with SFT.</p> <p>This requirement has been communicated to bidders and an authority term sheet devised, agreed with SFT and issued, as part of the DFT documentation and this will also be included in the ISFT.</p> <p>Bidders are to submit their financial proposals based on this term sheet that assumes approximately 50/50 EIB and bank funding. A methodology for running this competition is set out in the post PB funding protocol which has been adjusted to take account of SFT's issues and is incorporated in the ISFT.</p> <p>EIB has now confirmed that it would, subject to satisfactory due diligence, be willing to provide funding for the Project up to a value of £98.81 million.</p>
40.	<p>What, if any, key commercial issues remain outstanding in relation to each bidder and how are the implications for the project programme and affordability position to be managed?</p>	<p>None (subject to the recommendation at 34 above)</p>	



41.	<p>Specifically, has agreement been reached with each bidder in relation to the following matters:</p> <ul style="list-style-type: none"> <li>- vandalism risk</li> <li>- warning notice and termination triggers</li> <li>- payment mechanism (including levels of deductions, unavailability thresholds etc)</li> <li>- TUPE and pensions</li> <li>- level of cash buffer applied before surplus payments</li> <li>- funders direct agreement</li> </ul>		<ol style="list-style-type: none"> <li>1. On vandalism risk, the standard form has been accepted.</li> <li>2. In relation to warning notice and termination triggers, all three bidders have now accepted the Board's position (or in one case with an adjusted amount to reflect the bid unitary charge). All of the bidders (one to a lesser extent) have put forward the caveat that funders have not signed off on the thresholds.</li> <li>3. On payment mechanism the drafting and calibration in the ITPD has been accepted by bidders.</li> <li>4. No TUPE is anticipated.</li> <li>5. In relation to the level of cash buffer applied before surplus payments, one bidder is proposing 2 months maximum of <u>the</u> indexing proportion of ASP while the other two <del>has</del><u>have</u> confirmed that they do not require any buffer: all three bidders are therefore complying with SFT's guidance.</li> <li>6. On funders direct agreement, all comments from legal advisers to the shadow funders have been included in the funder's direct agreements which have been approved through the SFT derogations process.</li> </ol>
42.	Is the Procuring Authority satisfied that the incentives delivered by the service specification and payment mechanism reflect its priorities and	Yes	<p>The position remains as per the ITPD and in accordance with the calibration model shared with SFT.</p> <p>Scenario testing carried out pre ITPD and calibration for all 3</p>

	desired outputs? Please describe what scenario testing has been applied in calibrating the payment mechanism.		bidders remains unchanged.
43.	Please confirm the status of the Procuring Authority's title investigations, and whether a list of disclosed title conditions, and the impact of these conditions, has been agreed with each bidder.		Title investigations completed: the PA sets out the title conditions, except in relation to the petrol filling station site where the relevant parts of the title conditions are referenced as requirements in the Board's construction requirements. The Board has confirmed that provision in the title conditions about "forming part of a healthcare facility for children" has been omitted is because the proposed incorporation into the wider external landscape and public realm is not an issue for the seller, whose concern related to building of a hospital with in patient accommodation within the confines of the petrol filling station site.
44.	Please demonstrate that a programme has been agreed with bidders for their various due diligence processes required to reach financial close and that these are realistic and synchronised with the overall procurement timetable.		Bidders have submitted programmes through dialogue and, having been reviewed by the Board, these are satisfactory.
45.	Please confirm the period for which bidders will be required to keep their final tenders open for acceptance.		Three months post target financial close date.
46.	Has the requirement to make the full business case publicly available been made explicit in the	Yes	This requirement was included in the ITPD and will be

	IFT documents?		referenced in the <u>ISFT</u> .
47.	It is a condition of SG revenue funding support that the project meets the requirements for classification as a non-government asset for national accounts purposes under relevant Eurostat (ESA95) guidance. Please confirm that the contract to be issued with the IFT transfers availability and construction risk to the private sector.		The Board has confirmed that this is the case.
48.	Please describe any changes that have been made to the risk register and risk management plan since the last KSR, and the impact that any such changes have on the project.		The risk register is periodically updated and provided to the Project Steering <u>Boardgroup</u> . Since the ITPD there has been an increased risk that the Consort works will not all be completed by financial close, as to which see above.
49.	Please describe the risks that the Procuring Authority considers to be most significant to the success of the final tender and preferred bidder stages and the strategy for managing these risks.		<p>The red risks which were reported to and discussed at the November Project Steering Board were :</p> <p>(1) Programme delayed due to protracted or inconclusive closure of dialogue and/or negotiations to reach financial agreement: the Project Team continue to be sceptical regarding delivery of FC in less than six months from appointment of Preferred Bidder: third party involvement in the town planning process or the funding competition are of particular concern;</p>



			<p>(2) Programme is delayed as Board unable to provide project site for NPD at Financial Close programme date of October 2014: see above re Consort works;</p> <p>(3) Accommodation required in RIE to support service models (e.g. adult critical care) is not feasible: this includes accommodation for the downstream works for transplant and renal critical care and the displaced laboratory / eHealth staff: The comment in the risk register is that this is not satisfactory at present and requires escalation as RIE accommodation requires to be cleared within 15 months.</p> <p>(4) Commissioning of services under 'clinical enabling' in RIE are delayed due to late delivery of works: the risk around Consort BBW resource to deliver wide range of clinical enabling works and additional beds project is limited;</p> <p>Recommendation : that the Board place a focus on the issues which require to be resolved to ensure that the clinical enabling works are developed and completed within the timescale required to enable the new facility to operate properly on completion and to bring forward regular reports on proposals and progress to the Project Steering Board.</p>
50.	Please describe any changes since the last KSR to the mechanism in place for reviewing and		The Board confirms that there has been no change.



	updating the risk register and risk management plan.		
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### Section 6: Readiness

*The key objective of this section is to determine whether the necessary steps have been taken to enable the project to move forward and to ensure that appropriate project management arrangements, processes, protocols and documentation are in place to support a successful final tender stage.*

	Question	Yes/No	Comments
51.	Please demonstrate how the recommendations / actions / requirements, detailed in the last KSR report, have been addressed (to the extent that these are not dealt with under separate sections of this KSR questionnaire).		See the response to 28 above
52.	Please provide an overview of the competitive dialogue phase (e.g. number of bidders, interim submissions, interim down-selection etc).		There are three bidders which remain in the procurement process as there was no down selection. Dialogue meetings have taken place covering technical, legal, commercial and financial and other issues and the dialogue period was extended by two months to enable the design development of all 3 bidders to achieve compliance and dialogue meetings have been held to clarify issues arising from the DFT submission. Following the issue of the clarification on the petrol filling station works, the dialogue period has been extended by a further week.
53.	Please explain any changes that have been made to the governance and project management arrangements, resourcing and budgets since the last KSR.		The Board confirms that there has been no change.

54.	Please confirm any changes that have been made to the Procuring Authority's procurement strategy (including timetable) since the last KSR and demonstrate that this remains/is realistic and deliverable.		The programme has been prolonged by two months to take account of design development issues which have now been resolved and by a further week to take account of the petrol filling station works clarification. <del>It</del> <u>It</u> has been agreed that there will be a post PB funding competition.
55.	Please demonstrate that a robust and comprehensive project plan is in place and that the project team has a clear understanding of all tasks / work streams (including evaluation, clarifications, and approvals) to manage the project through the final tender and preferred bidder stages of the procurement.		Two workshops have been held and there is an evaluation manual and the necessary resource <u>is</u> in place.
56.	Please demonstrate that the IFT documentation (including tender evaluation methodology) is complete and/or describe the process and timescales for finalising it. Please confirm whether the documentation has been reviewed by the Procuring Authority's external advisers and whether it has been approved (or the process for approval) at the appropriate level within the Procuring Authority.		<p><del>The Draft ISFT has been prepared and all of the appendices are available and being collated. the documentation is materially complete and the Board is in the process of final checking with and by the external advisers on Friday 13 December for sign off by the Board team for issue on 16 December 2013. This will include. The draft is to be updated. the updating of the draft to reflect (1) Recommendation at Question 28 (referring to Question 41 of the Pre ITPD KSR) and the Petrol Filling station works clarification.</del></p> <p><u>Recommendation</u> : That, prior to close of dialogue, the Board the ISFT updates the ISFT to reflect the petrol filling station works clarification, including the process for carrying out surveys and fixing the provisional sum prior to financial close.</p>

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57.	Please demonstrate that the tender evaluation methodology allows for an assessment of whole life costs, strikes an appropriate balance between price and quality in the assessment of “most economically advantageous tender” and assesses price on the basis of net present value of the unitary charge and that this methodology complies with SFT guidance on tender evaluation.		The tender evaluation remains as in the ITPD except for an update, as discussed with SFT to take account of deliverability of funding issue.
58.	Please demonstrate how the tender evaluation methodology assesses bidders’ acceptance of the standard form NPD documentation.		The Board submitted a draft Project Agreement was compliant with SFT’s NPD standard with agreed derogations and has been progressing the derogations process throughout the dialogue period and, subject to the recommendation at Question 34, this process has been completed.
59.	Please demonstrate that all consultations have been carried out and approvals (internal and external) obtained to allow the project to proceed to IFT and that any concerns/risks raised have been addressed.		The Board of NHS Lothian and SEAT approved the OBC. The Project Steering Board has delegated to approve Close of Dialogue.
60.	Please demonstrate how the project team intends to manage the interface between bidders and stakeholders (e.g. end users) going forward.		The Project Stakeholder Board continues to meet on a quarterly basis, and the announcement of the preferred bidder will involve extensive communications and engagement across sites and services to share the design to date and launch further detailed design development with Project Co. Design development proposals engage staff, patient and public representatives and charity organisations in the completion of



			the design before Financial Close.
61.	Please demonstrate that the project timetable allows sufficient time for all outstanding staffing issues (if any) to be resolved, including (if applicable) achieving LGPS admitted body status / GAD scheme certification.		It is assumed that TUPE will not apply.
62.	Please provide an update on the land/site strategy (e.g. acquisition, title issues, ground conditions, surveys, enabling works) and planning matters and describe what strategy is in place to manage the impact of any outstanding matters on the project timetable and/or affordability position.		Surveys were completed in dialogue period except for the survey of the petrol filling station site which is to be carried out in accordance with the recently issued clarification.
63.	Please describe what steps the Procuring Authority has taken to verify that the financial and economic standing of the bidding consortia remains unchanged from the pre-qualification stage.		The bidding entities were re-evaluated in August 2013, each passing the financial standing tests. The Board has been monitoring news reports on each bidder and has sought more information where relevant eg the potential sale of John Laing, BBW and press reports relating to Serco. Information relating to parent company guarantees has been provided and verified as appropriate. The Board will re-test the PB-elect prior to confirmation of appointment.

<p><b>Is the project ready to proceed to the next stage?</b></p> <p>(*Delete as applicable)</p>	<p><del>Yes.*</del></p> <p><b>Yes , subject to recommendations below*</b></p> <p><del>No, due to reasons outlined below.*</del></p>
<b>Reasons / Recommended actions:</b>	<b>To be completed by:</b>
<p><b>Question 1:</b></p> <p><b>Recommendation :</b> That the Board keeps SFT advised as to</p> <ul style="list-style-type: none"> <li>(i) progress in relation to the development of the proposals for the scope and costs in relation to the works on the petrol filling station site during the period until financial close;</li> <li>(ii) the Project Steering Board's decision following consideration of a further paper on the Board's catering</li> </ul>	<ul style="list-style-type: none"> <li>(i) as costs become refined;</li> <li>(ii) once report has been considered.</li> </ul>
<p><b>Question 1:</b></p> <p><b>Recommendation:</b> that the Board operates and monitors the open book mechanism in relation to the cost of the petrol filling station works to maximise value for money.</p>	Ongoing until costs fixed prior to financial close
<p><b>Question 2:</b></p> <p><b>Recommendation :</b> That, prior to close of dialogue, the Board receives and copies to SFT, letters, in the form of the drafts which the Board have earlier provided to SFT, from each of its financial, legal and technical advisers confirming that each consider that it is appropriate for the Board to close dialogue.</p>	Prior to close of dialogue

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<p><b>Question 24:</b></p> <p><b>Recommendation</b> : that the Board continue discussions as to potential charitable donations and consider how any such donations will be factored in the project, consistent with the funding letter and the timescale for achieving financial close.</p>	Pre financial close
<p><b>Question 28 (1 from Pre ITPD KSR):</b></p> <p><b>Recommendation</b> : that the Board monitors and reports to SFT the cost of this change in scope (including inflation, financing, lifecycle and other consequent costs) separately so that the level of revenue support (excluding this change) can be calculated.</p>	Within ISFT and evaluation of final tenders
<p><b>Question 28 (19 from Pre ITPD KSR):</b></p> <p><b>Recommendation:</b> That these and any other key risks are closely monitored with mitigations put in place in a timely manner following discussions by the Project Steering Board</p>	Ongoing to financial close

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<p><b>Question 28 (19 from Pre ITPD KSR):</b></p> <p><b>Recommendation:</b> that the Board continues to monitor closely the Consort works and takes appropriate mitigation measures to ensure that vacant possession can be provided to the NPD contractor at financial close without the timescale for that close being extended for that reason.</p>	Ongoing to financial close
<p><b>Question 28 (19 from Pre ITPD KSR):</b></p> <p><b>Recommendation :</b> that (1) the Board progresses these planning procedures to obtain planning consent for the offsite works prior to financial close and (2) works with the preferred bidder to ensure that resolution of reserved matters and planning permission of main facility and the works the petrol filling station site are achieved within the timescales required by the overall programme for financial close.</p>	Ongoing to financial close
<p><del><b>Question 28 (41 from Pre ITPD KSR):</b></del></p> <p><del><b>Recommendation:</b> the ISFT text is to be updated prior to close of dialogue to include a requirement to provide the updated protocol, to reflect SFT's issues as agreed.</del></p>	<del>Before closing dialogue</del>

<p><b>Question 34:</b></p> <p><b>Recommendation :</b> that prior to closing dialogue,</p> <p>(1) the Board is satisfied that all of the NPD documentation, with bidder specific derogations, as agreed with SFT, covers all commercial issues and is complete and reflects the agreement reached with each of the bidders during the dialogue process; and</p> <p>(2) the relevant bidder (in respect of which this point remains outstanding) confirms that it accepts that all of petrol filling works, including landscaping, will be completed at or prior to the same time as the works on the main hospital.</p>	Before closing dialogue
<p><b>Question 49:</b></p> <p><b>Recommendation :</b> that the Board place a focus on the issues which require to be resolved to ensure that the clinical enabling works are developed and completed within the timescale required to enable the new facility to operate properly on completion and to bring forward regular reports on proposals and progress to the Project Steering Board.</p>	Ongoing to financial close
<p><b>Question 56:</b></p> <p><b>Recommendation :</b> That, prior to close of dialogue, the Board the ISFT updates the ISFT to reflect the petrol filling station works clarification, including the process for carrying out surveys and fixing</p>	Before closing dialogue

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the provisional sum prior to financial close.		
Signature of Primary Reviewer		Signature of Secondary Reviewer
Date: <u>13 December 2013</u>		Date: <u>13 December 2013</u>
Procuring Authority Declaration	I confirm that: a) I am not aware of any information that would materially change the assessment and review of the project; and b) the project's details as logged in the Scottish Government's Infrastructure Projects Database (SGIPD) are up-to-date and complete and reflect the current state of the project (including the information on the project's time table and assurance activity).	
Name and Position:	Date and Signature:	



SCOTTISH  
FUTURES  
TRUST

# **Validation of Revenue Funded Projects:**

## **NPD Programme**

## **Pre-ITPD Key Stage Review**

## **(Pre-ITPD KSR)**

7 March 2013

## NPD Programme Pre-ITPD Key Stage

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Scottish Government (SG)

Project Sponsoring Body

E.g. SGHD, SFC, TS

Procuring Authority

E.g. LA, College, Health Board

Project Team



## Notes to the Reviewer

### 1.1. Background

It is a condition of Scottish Government (SG) funding support that all projects in the revenue funded programme are, in addition to any existing project approvals processes, externally validated by SFT. SFT undertakes validation by carrying out Key Stage Reviews (KSRs) of projects at key stages of a procurement. The KSR process is designed to support the successful delivery of revenue funded projects whether delivered through the non-profit distributing (NPD) model or the hub initiative as Design Build Finance and Maintain (DBFM) projects by providing an assessment of the readiness of a project before it moves on to the next stage in the procurement process.

### 1.2. Timing

This review is required to be completed in advance of the Invitation to Participate in Dialogue (ITPD) being issued to shortlisted bidders.

The review should be carried out by the member of the Scottish Futures Trust team who normally provides support to the relevant project (the Reviewer). The Reviewer must agree the precise timing of the review and submission of SFT's report with the Project Sponsoring Body and/or SG to integrate with the other project approvals processes.

In the run up to each review point, the Reviewer will inform and keep up-to-date the SFT validation team of the estimated timetable for carrying out the KSR. The validation team will arrange for a member of the SFT's senior management team (SMT) to scrutinise the list completed by the Reviewer before it can be submitted to the Project Sponsoring Body and/or SG. The Reviewer should thereafter liaise directly with the allocated SMT member and must return a countersigned copy of the list to the Validation Team upon SMT sign-off.

### 1.3. Process

The Reviewer must familiarise him/herself with the requirements of the checklist and consider which elements s/he can answer on the basis of existing knowledge of the project and identify what additional information is required in relation to the project in order to complete the remaining sections. The Reviewer should, at the earliest opportunity, explain to the Procuring Authority / Project Team what additional information s/he will require, in what form and by when in order to complete the review within the agreed timescales.

The review is not intended to be a "stop-start" process and the Reviewer should refer to the list throughout each delivery stage so that all sections of the checklist can be completed without delay to the project. The process involves the Reviewer completing this pro-forma list on the basis of information obtained in his/her day-to-day dealings with the project, considering whether in his or her view the project is ready to proceed to the next stage of procurement and making recommendations as to what actions may be required to achieve appropriate state of readiness. No formal submission, as such, will be required from the Procuring Authority, but the project team will be required to provide the Reviewer with information to allow him/her to complete the list and compile his/her report.

Once completed by the Reviewer, the list and draft report should be submitted to the allocated SMT member for scrutiny before being issued to the relevant Project Sponsoring Body and/or SG and copied to the Procuring Authority. The relevant Project Sponsoring Body and/or SG will thereafter, as part of its overall sign-off process, determine whether and on what basis the project should proceed to the next stage taking into consideration any recommendations made in the KSR report. The Reviewer should liaise directly with the Project Sponsoring Body and Procuring Authority as may be required to address any queries arising from the KSR report or recommendations.

#### **1.4. Further information**

Please contact the Validation Team for further information on the KSR process. Queries relating to the revenue funded programme requirements should be directed to the SFT Finance Team.

## Pre-ITPD Key Stage Review List

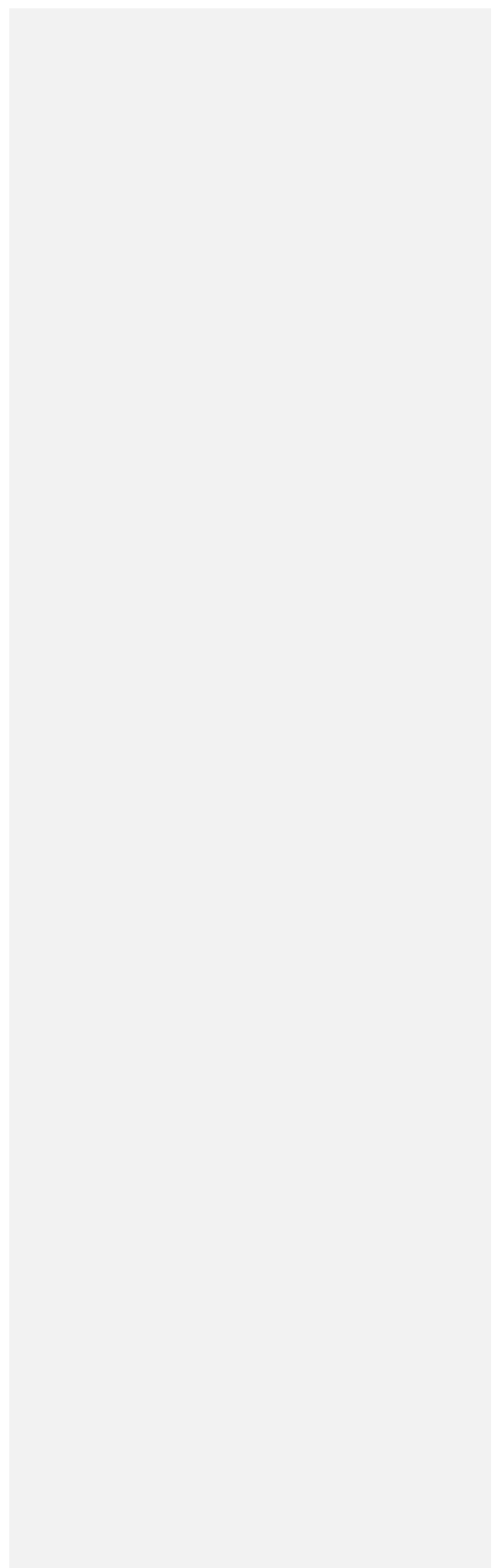
<b>SFT Reviewer (Primary Reviewer)</b>	Donna Stevenson
<b>SFT Secondary Reviewer (SMT Member)</b>	Tony Rose

## Section 1: Project Outline

<b>Project title</b>	<b>Royal Hospital for Sick Children and Department of Clinical Neuroscience (RHSC/DCN) Project</b>
<b>Brief project description</b>	The provision of the Royal Hospital for Sick Children, Edinburgh and the Department of Clinical Neuroscience, currently within the Western General, Edinburgh in a joint new building adjacent to the existing Royal Infirmary of (RIE) at Little France in Edinburgh. The new build will extend to approximately 49,000 square metres with separate energy centre and facilities management yard and basement.
<b>Outline of scope of services in project (please identify the services and who (SPV or Procuring Authority) will provide those services )</b>	<p>The NPD SPV is to provide lifecycle replacement, hard FM service with associated helpdesk facilities including grounds maintenance, utilities procurement and management and window cleaning.</p> <p>NHS Lothian (the Board) is to provide the soft fm services.</p>
<b>Key programme dates:</b> <ul style="list-style-type: none"> <li>• Invitation to Participate in Dialogue</li> <li>• Invitation to submit Final Tenders</li> <li>• Preferred Bidder appointment</li> <li>• Financial Close</li> </ul>	<p>The ITPD contains the following dates for key elements of the programme:</p> <ul style="list-style-type: none"> <li>• OJEU: was issued on 5 December 2012</li> <li>• ITPD : 11 March 2012</li> <li>• ITFT : 11 October 2013</li> <li>• PB appointment: 13 January 2014</li> <li>• FC: 7 August 2014</li> </ul>

Project Contact Details

<b>Project Sponsoring Body /SG Responsible Officer</b>  <b>(name &amp; contact details)</b>	Scottish Government's Health and Social Care Directorates ("SGHSCD")  Mike Baxter, Deputy Director, St Andrew's House, Waterloo Place, Edinburgh  Telephone: [REDACTED]  Email : Mike.Baxter@scotland.gsi.gov.uk
<b>Project Authority Responsible Officer</b>  <b>(name &amp; contact details)</b>	Susan Goldsmith, Project Sponsor  Email: Susan.Goldsmith@nhslothian.scot.nhs.uk
<b>Project Director/Manager</b> <b>(name &amp; contact details)</b>	Brian Currie, Project Director  NHS Lothian, 56 Canaan Lane Edinburgh  Telephone : [REDACTED] Email: brian.currie@luht.scot.nhs.uk
<b>Principal legal, technical and financial advisers</b> <b>(firm/company &amp; name of main contact)</b>	Technical : Richard Cantlay, Mott Macdonald  Financial : Michael Pryor, Ernst & Young  Legal: Andrew Orr, MacRoberts



## Section 2: Project Requirements

*The key objective of this section is to ensure that a clear, stable and deliverable project scope can be communicated to bidders at the start of the competitive dialogue. Arrangements must be in place for anticipating, identifying and managing any changes to the project scope during the tender process.*

	Question	Yes/No	Comments
1.	Have there been any changes to the project scope since the pre-OJEU KSR and have these received required approvals?	Yes	<p>The Board advises that specialist paediatric biochemical laboratory from RHSC (currently in Sciennes Road) are now to be house in shelled space due to no available location within RIE. The Board acknowledge that the cost of this change scope is to be borne by NHSL. If this is included in the scope of the NPD contract then an adjustment will be required to exclude the cost (including lifecycle when the revenue support is being calculated).</p> <p>The Board estimates that the cost of the lab will be approximately £500k.</p> <p>The ITPD will require bidders to show the cost of the lab, including inflation, financing, lifecycle and other consequent costs separately so that the level of revenue support can be calculated.</p> <p><b>Recommendation</b> : that the Board monitors and reports to SFT the cost of this change in scope (including inflation, financing, lifecycle and other consequent costs) separately so that the</p>



			level of revenue support (excluding this change) can be calculated.
2.	Have all issues arising from the OBC sign-off and/or design review(s) been addressed (conditions or recommendations on scope/specification/design)?		<p>The Funding Conditions was issued on or around 4<sup>th</sup> December 2012 contains a number of conditions some of which were to be implemented post the issue of OJEU and are addressed elsewhere in this KSR.</p> <p>In relation to the design review, by email dated 23 August 2012, the Board enclosed an updated of the table containing the recommendations of that review and confirmed that with the exception of a revised Cost Plan following completion of the reference design, (which was provided for the purposes of the Pre OJEU KSR), and two ongoing issues (preparation of mock ups and regular risk reviews) all actions have been closed.</p> <p>The Board has confirmed that all issues in the Project Review has been satisfactorily addressed in the Board's Construction Requirements and the remainder of the ITPD documentation, including the Reference Design, with the exception of (1) the ongoing monitoring of the risk register which is deal with elsewhere; (2) the mock up room, which it advises will be carried out after preferred bidder is identified as this is refining in rather than, for example, to consider adjusting the size of rooms; and (3) targeting of the net to gross ratio which has been dealt with as part of the reference design and is expected to be part of the way bidders address the cost of</p>

			<p>bids. The Board does not consider that there needs to be any specific reference to this in the ITPD.</p> <p><b>Recommendation:</b> that the Project Team continues to target the net to gross ratio with bidders throughout the dialogue period in accordance with the recommendation of the Project review and produces a mock up of rooms at an appropriate stage.</p>
3.	Please explain what, if any, aspects of the project scope remain intentionally unresolved because the Procuring Authority is actively seeking to discuss these with bidders during the competitive dialogue. Please explain the likely implications (e.g. on affordability and timetable) of adopting such an approach.		The Board has confirmed that there are no aspects of the project scope remaining intentionally unresolved.
4.	Please explain the approach that the Procuring Authority is taking in presenting its design and specification requirements to bidders (e.g. use of exemplar or reference designs) and the opportunities available for bidders to propose alternative or innovative solutions. Please demonstrate that this approach is consistent with (i) allowing opportunity for improved value for money through bidder innovation (ii) allowing scope for value engineering required to deliver the project within the affordability limits (iii) the procurement timetable and (iv) bidder access to project stakeholders during the procurement.		<p>The ITPD, Volume 1 section 2.5 and Appendix E sets out the elements of the Reference Design which is being provided to bidders are mandatory. These relate to the Operational Functionality as defined in the Project Agreement and there are elements of flexibility in relation to non mandatory elements of the Reference Design.</p> <p>The Pre OJEU KSR stated that ‘the Funding Conditions which provide that <i>“the extent of negotiable and non negotiable elements is developed by the Board on the basis that bidders should be provided with flexibility to propose their own design and engineering solution, within defined parameters, and avoiding the need to open up the clinical adjacencies which has been settled with the Board’s clinicians to date and reflecting the</i></p>

			<i>constraints in the site as reflected in SA6. The final position is to be reviewed by SFT as part of the Pre ITPD KSR.” Accordingly the finalisation of this issue will be considered as part of the pre ITPD KSR.’ This has now been satisfied.</i>
5.	Please describe any mandatory variant bids that the Procuring Authority will require from bidders and its intended approach to dealing with any non-mandatory variant proposals put forward by bidders.		There are to be no mandatory variant bids: Volume 1, section 6.16.
6.	Please demonstrate that the Authority has a clear position in relation to the following matters and is this clearly explained in the ITPD documents:		
	- the scope, cost and timing of any enabling works that require to be carried out to support the effective construction and operation of the facilities;		<p>ITPD Volume 1, section 2. the enabling works which are to be carried out by or on behalf of the Board. The costs of these enabling works are for the account of the Board and supported by a maximum capital allocation as set out in the Funding Conditions and are therefore not in the ITPD.</p> <p>A provisional "All Projects" Strategic Programme has been provided to the Project Steering Board and SFT. This anticipates that the enabling works on the NPD site (in particular the road infrastructure works) will not all be concluded by financial close as had been planned. The Board advise that further discussions are to take place with Consort healthcare (which is carrying out these enabling works to achieve a position where vacant possession of the whole NPD site can be given to Project co at financial close and that Project co will be entitled in terms of planning and other requirements or constraints to proceed with</p>



			<p>all works on site.</p> <p><b>Recommendation :</b> The Board should continue to work with Consort Healthcare to re programme the enabling works such that vacant possession of the whole NPD site, and an effective stopping up order in place, can be given to Project co at financial close and that Project co will be entitled in terms of planning and other requirements or constraints to proceed with all works on site.</p>
	- the scope of FM services within the project	Yes	The scope of the fm is summarised in Volume 1 of the ITPD and set out in detail in the Services level Specification.
	- the interface between FM services to be included within the project and those for which the Procuring Authority will retain responsibility;	Yes	<p>Outlined in Volume 1, rev L1: sections 2.11 and 2.12</p> <p>Detail in Volume 3 Schedule part 12</p>
	- the interface between design and the delivery of FM services (e.g. cleaning) and risks (e.g. energy consumption, security) retained by the Procuring Authority;	Yes	<p>The Board has confirmed that it is satisfied that its Construction Requirements will be enable it to deliver the FM services which it is to provide on the basis assumed by it.</p> <p>On energy consumption : see comment on sustainably below</p>
	- the interface (during both construction and operations) between the works and services included in the project and the Procuring Authority's other facilities and services (e.g. impact on use of adjoining facilities during construction phase);	Yes	The supplemental agreement 6 which was entered into between the Board and Consort Healthcare governs interface arrangements and this has been reflected in the ITPD.
	- the impact of the project on staff (including	Yes	Outlined in the ITPD Volume 1: sections 2.11 and 2.12 and in detail in Volume 3 Schedule part 12. It is not anticipated that

	potential impact of TUPE legislation);		staff will transfer under TUPE and the Project Agreement has been drafted accordingly.
	- the provision of equipment and the Procuring Authority's IT requirements within the new facilities;	Yes	Outlined in the ITPD Volume 1: and in detail in Volume 3 Schedule. The Board has confirmed that the fire board requirements for the Facilities and the RIE will be dealt with during dialogue and any consequent change made to the SLS.
	- decant from existing facilities and migration to new facilities and disposal of residual assets;	No : see comment	<p>These elements are outwith the scope of the NPD Project and will be covered in the Board's commissioning plan and asset disposal arrangements respectively.</p> <p>The Board has confirmed that decant and migration will be dealt, with as part of the Board's commissioning plan as part of the overall project.</p>
	- termination/variation of any existing contractual arrangements related to existing facilities;	No : see comment	These are outwith the scope of the NPD project and will be dealt with separately by the Board.
	- sustainability		<p>The energy target is to be agreed between the Board and Scottish Government before issue of the ITPD. The Board is asking in the ITPD that bidders provide the relative costs if meeting the target or a higher or lower target so that a vfm assessment can be carried out and the ITPD requirement changed if appropriate.</p> <p><b>Recommendation:</b> (1) that the provisions for the energy</p>

			<p>target(s) to be included in the documentation is agreed with Mike Baxter at Scottish Government and that any necessary consequential amendments are made to the documentation on the basis that the mechanism included in the draft ITPD which allows for the testing of value of money is retained;</p> <p>(2) that the Board advises SFT of any proposed change to the energy target and the reasons therefore before a change is made.</p>
	- community benefits		<p>Volume 1 of the ITPD, Appendix 1, which will be updated before issue to include the numbers provided by Construction Skills to reflect a £150m project, sets out the requirements for community benefits. This includes the provision of training places and jobs in accordance with the benchmarks provided by construction skills as a minimum requirement and the advertising of sub contracts as part of responding to SMEs as well as the potential for other community benefits.</p>
	- any conditions or recommendations on scope/specification/design identified in the outline business case approval and/or pre-OJEU KSR.		<p>The Funding Conditions and /or Pre OJEU KSR contained a number of recommendations which are dealt with at 20 below.</p>
7.	Is the Procuring Authority satisfied that the interface issues described above can be resolved during dialogue in a manner that will satisfy its operational	Yes	



	and functional requirements and deliver the project outcomes?		
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### Section 3: Affordability

The key objective of this section is to consider and test the overall affordability position of the project for both the Procuring Authority and the Scottish Government, in terms of both revenue and capital funding requirements.

2. Please complete the following project affordability table (with information for the relevant KSR stage)<sup>1</sup>:

Commented [BC1]: See revised figures in green

	Pre-OJEU	Pre-ITPD	Pre-IFT	Pre-PB	Pre-FC
<b>Construction cost (nominal cumulative)</b>	£137.7m plus inflation to mid point construction of 1Q 2016 (from 3Q 2011) or earlier midpoint if applicable during procurement. <sup>2</sup>	£137.7m plus inflation to mid point construction of 4Q 2015 (from 3Q 2011) or earlier midpoint if applicable during procurement. <sup>3</sup>			

<sup>1</sup> It is expected that these costs will be based on internally generated estimates pre-OJEU and pre-ITPD but that cost expectations will be updated to reflect bids as they are submitted during the procurement process

<sup>2</sup> Note : The inflation allowance to be applied to the uninflated amount will be calculated on the basis of the pricing base date of Q3 2011 and a construction midpoint (the revised midpoint) being 1Q 2016 or, if earlier, the construction midpoint which is being proposed through the procurement process. The inflation allowance on the basis of the BCIS index published in October 2012 was £11,271,620 so that the Construction Cost Cap at that date on that basis is £149,027,938. The movements in the forecast index will be monitored periodically including through the KSR process as it proceeds. In addition there is significant capital requirement both for enabling works and equipment and support is to be provided as set out in the Funding Letter.

<sup>3</sup> Note : The inflation allowance to be applied to the uninflated amount will be calculated on the basis of the pricing base date of Q3 2011 and a construction midpoint (the revised midpoint) being 4Q 2015 or, if earlier, the construction midpoint which is being proposed through the procurement process. The inflation allowance on the basis of the BCIS index published in 18 Feb 2013 was £10,645,000 so that the Construction Cost Cap at that date on that basis is £148,402,000 on the basis of a mid point construction of 4Q 2015.

<b>Design fees (nominal cumulative)</b>	See footnote <sup>4</sup>	As Pre OJEU assumption			
<b>Bid development costs<sup>5</sup> (nominal cumulative)</b>	See footnote <sup>6</sup>	As Pre OJEU assumption			
<b>SPV costs (in construction) (nominal cumulative)</b>	See footnote <sup>7</sup>	As Pre OJEU assumption			
<b>Hard FM costs (real per annum)</b>	£29/m <sup>2</sup> <sup>8</sup>	As Pre OJEU assumption			
<b>Lifecycle costs (real cumulative)</b>	£27/m <sup>2</sup> <sup>9</sup>	As Pre OJEU assumption			
<b>SPV costs (in operations) (real per annum)</b>	£387,000 <sup>10</sup>	As Pre OJEU assumption			
<b>Operational Term (years)</b>	25 years	As Pre OJEU assumption			

The movements in the forecast index will be monitored periodically including through the KSR process as it proceeds. In addition there is significant capital requirement both for enabling works and equipment and support is to be provided as set out in the Funding Letter.

<sup>4</sup> TC5B states that there is included an allowance based upon 8.5% of the estimated construction value and this is included in the construction cap figure. The assumption is that the design costs prior to financial closure are carried elsewhere.

<sup>5</sup> Including success fees

<sup>6</sup> The Board's advisers financial model assumes 5% of capex whereas SFT considers that 3% of capex is more appropriate, taking account of the level of design development pre procurement.

<sup>7</sup> The Board's advisers financial model does not have an entry for SPV costs during construction : development fees are 5%: see footnote 10.

<sup>8</sup> The Board's advisers model also includes a risk allowance which significantly increases the overall sum for hard fm. The Atkins Report forming an annex to SFT's Project Review says that the figure of £29/m<sup>2</sup> sits within the expected range of benchmarks.

<sup>9</sup> The Atkins Report says that "Based on a range of benchmark information the Life Cycle Cost per square metre per annum of £27/m<sup>2</sup>, at 3Q 2011 prices, sits within the acceptable range of benchmarks"

<sup>10</sup> SFT's assumption is £350kpa

Percentage of unitary charge indexation	22% <sup>11</sup>	As Pre OJEU assumption			
Swap rate <sup>12</sup>	4% <sup>13</sup>	As Pre OJEU assumption			
Unitary charge (nominal year 1 of operations)	See footnote <sup>14</sup>	As Pre OJEU assumption			
Unitary Charge (NPV)	See footnote <sup>15</sup>	As Pre OJEU assumption			
SG funding support (nominal year 1 of operations)	See footnote <sup>16</sup>	As Pre OJEU assumption			
SG Funding Support (NPV)	See footnote <sup>17</sup>	As Pre OJEU assumption			

<sup>11</sup> Per EY's shadow bid model : SFT's estimate of indexed amount would be lower given lower estimates of lifecycle, hard fm and SPV costs.

<sup>12</sup> Including any buffer

<sup>13</sup> for swap rate plus buffer per EY's shadow bid model : 3.41% (SFT model), but margin 2.25% (EY model), 3% (SFT model) and MLA + swap spread 0.38% (EY model), 0.5% (SFT model) – hence all in senior rate 6.63% (EY model), 6.91% (SFT model). (Also sub debt rate – 13% EY, 11% SFT – hence pro forma WACC 7.27% EY, 7.32% SFT.)

<sup>14</sup> As is made clear in the Funding Conditions (and see email correspondence between SFT and the Board culminating on 7 March 2012), there is discrepancy between the figures calculated by the Board and those by SFT : the relevant figures are : Unitary charge (nominal 1st full yr of ops - 12 months to 31/3/2018) - £22,381k (EY model), £20,970k (SFT model) – both excluding insurance costs. No unitary charge figures are to be provided to bidders.

<sup>15</sup> See footnote 14: the relevant figures for unitary charge (NPV – base date 1st January 2014, using 6.09% discount rate) - £262.1m EY, £230.6m SFT.

<sup>16</sup> See footnote 14: the relevant figures SG Funding Support (nominal first full year of ops - 12 months to 31/3/2018) - £19,115k SFT. We cannot find the equivalent figure in the EY financial model but the OBC v3.0 at page 49 says £20,029k

<sup>17</sup> See footnote 14: the relevant figures are the Board : SG Funding Support (NPV – base date 1st January 2014, using 6.09% discount rate) - £205.82m SFT. We cannot find the equivalent figure in the EY financial model.



	Question	Yes/No	Comments
8.	Are you satisfied that the project is affordable (including associated enabling capital costs, unitary charge contributions and other ongoing operational costs (e.g. utilities, soft FM services))?		As noted in the Pre OJEU KSR, the Outline Business Case, states that the financial consequences will ultimately be managed as part of the longer term financial and capital planning process. The Board has raised the issue of energy target in the context of affordability: see above and the costs of certain enabling works (which are capially funded) is still to be resolved.
9.	Have sensitivities been applied in assessing the affordability of the project and is an appropriate allowance in place to absorb reasonable cost movements?		Sensitivities were run as part of the OBC, as noted in the Pre OJEU KSR.
10.	Have any changes been made to the cost and funding assumptions (both revenue and capital) since the pre-OJEU KSR and do these changes have the required level of approval (i) within the Procuring Authority and (ii) from the relevant Project Sponsoring Body?	No	The Board advises that there has been no change.



11.	Do the costs assumptions contained within the outline business case (or revised and approved cost assumptions, if applicable) remain accurate and deliverable? Do these costs mirror the scope and specification that bidders will be asked to price? Have they been verified by the Procuring Authority's advisers? Indicate relevant benchmarks that have been used by the Procuring Authority and/or its advisers.	Yes	The Board is continuing to work on the basis of Technical Cost Summary 5B.
12.	Please provide details (including amount, proportion of total funding requirement and proposed timing) of any capital contributions that the Procuring Authority intends to make to the SPV during the project. Please demonstrate that the amount of the capital contribution includes allowance for associated financing fees etc.		There is the potential for a capital injection if capital charity or endowment monies become available and the Board has also reserved the right to make a capital contribution: for example this might apply to the fit out of the laboratory if it is included in the Facilities.
13.	Please demonstrate how any recommendations / actions / requirements in relation to the affordability of the project, detailed in the pre OJEU KSR have been addressed.		There were none applicable.
14.	What are the key risks / outstanding issues that may have an impact on the affordability of the project and what strategy is in place to manage these?		The Board has produced an updated risk register which was provided to the Project Steering Board on 22 February 2013. The key risk relating to affordability is an amber risk that the unitary charge might be unaffordable because the bidders cannot meet the specification within the constraints of the revenue funding support.

15.	Please confirm what affordability information will be made available to bidders in the ITPD documentation and/or during the dialogue period.		Volume 1 of the ITPD, section 3.8.1 discloses the construction cap and the Board's estimate of lifecycle and hard fm. This is in accordance with SFT's guidance.

#### Section 4: Value for Money

The objective of this section is to ensure that the key drivers of value for money are addressed in the Procuring Authority's approach to development and delivery of the project. Please refer to relevant Value for Money guidance<sup>18</sup>.

	Question	Yes/No	Comments
16.	Please demonstrate how the Procuring Authority intends to drive value for money through "Effective Delivery".		<p>The Effective Delivery section of the value for money guidance lists the following parameters:</p> <ul style="list-style-type: none"> <li>• Proper consultation and stakeholder involvement practices followed</li> <li>• Procurement team sufficiently skilled, experienced, resourced &amp; advised</li> <li>• Clear governance and accountability structures and arrangements in place</li> <li>• Project management disciplines in place and properly operated</li> <li>• Level of market interest considered and actively managed</li> <li>• Clear risk allocations evaluated and communicated</li> <li>• Stable and agreed affordability with appropriate contingencies / risk allowances</li> <li>• Interaction of design and procurement resolved</li> <li>• Land issues resolved</li> <li>• Impact on staff understood and communicated</li> <li>• Planning and other statutory processes considered and on-track</li> </ul>

<sup>18</sup> Value for Money Assessment Guidance: Capital Programmes and Projects (updated October 2011) and SFT's Supplementary Guidance for projects in £2.5bn Revenue Funded Investment Programme (October 2011)

			These issues are all covered, or issues specifically commented upon, elsewhere in this KSR and there are no additional issues to be noted.
17.	Has the Procuring Authority demonstrated continuing efforts to discharge its obligation (as detailed in the SG conditions of funding letter dated 22 March 2011 and/or the outline business case approval) to minimise capital and operating costs by reference to the development of the design and specification within the agreed project scope?	Yes	The cost plan remains as the Pre OJEU KSR. As noted above, the extension to scope to include a laboratory will be outside the ambit of the revenue support.
18.	Please describe how any changes to scope and procurement options since pre-OJEU KSR have been assessed and the impact that these have on the delivery of value for money.		The Board advises that there is no change apart from the lab in previous shelled space which is non NPD funded: see above.
.	<p>Please describe the steps that the Procuring Authority and advisers will take during the competitive dialogue to assess the sufficiency/efficiency/competitiveness of bidders' proposals in relation to the following:</p> <ul style="list-style-type: none"> <li>• capital cost inputs</li> <li>• SPV average annual operating costs</li> <li>• SPV project development costs</li> <li>• lifecycle maintenance fund and profile</li> </ul>	NHSL	<p>Volume 1 of the ITPD gives the bidders information as to the construction cap and the Board's estimate of lifecycle costs and also sets out the agendas for the dialogue meetings and the submission requirements. The Board has confirmed that the financial submissions at round three will be required to include a breakdown of each of these elements which will then be interrogated in accordance with benchmarks and discussed with individual bidders to enable them to develop this information at further rounds of dialogue</p> <p>SFT is taking advice on the tax treatment of surpluses and may provide guidance during the course of the dialogue period.</p> <p><b>Recommendation:</b> that the Board keeps SFT advised of submissions and consult with SFT in relation on the listed items</p>

	<ul style="list-style-type: none"><li>• tax efficiency</li><li>• subordinated debt return.</li></ul>		to allow SFT to provide input to assist in the Board's assessment and dialogue with bidders.
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### Section 5: Readiness

The key objective of this section is to ensure that the managing the project are robust and that the project is deliverable. This is intended demonstrate that the project has firm foundations on which to proceed, and that the project is operating within a clear decision making structure.

	Question	Yes/No	Comments
19.	Please demonstrate how the recommendations/actions/requirements detailed in the pre-OJEU KSR have been addressed (to the extent that these are not dealt with under any other sections of this KSR questionnaire).		<p>The pre OJEU KSR recommendations (referenced by the Pre OJEU KSR questions) which were:</p> <ol style="list-style-type: none"> <li><b>Question 16 Recommendation:</b> <i>The Board should monitor closely the interface issues with the RIE and Consort, including in particular the dependencies between the works to be carried out by Consort which are required to be completed before financial close so as to give the NPD Contractor full vacant possession of the NPD site, and provide to the Project Steering Group at each meeting an update on these risks and should ensure that the project programme includes both the NPD programme and all elements of enabling works and other issues which are required to ensure the successful delivery of the overall project.</i></li> </ol> <p>Update: see comment on the strategic programme : <b>Recommendation</b> remains relevant and is to be repeated in this the KSR with the addition of the provision that the stopping up order should also be effective and unconditional by financial close.</p> <ol style="list-style-type: none"> <li><b>Question 22 Recommendation :</b> that the Board finalise the</li> </ol>

			<p>documentation relating the SA (EW) for signing and that executed by the Board and Consort following the satisfaction of the condition in the agent bank's email (regarding sign off by Pinsents, solicitors) during December 2012.</p> <p><b>Update:</b> documentation was completed on 12 December 2012.</p> <p>3. <b>Question 23:</b> SFT <b>recommends</b> that the Project Steering Board is made explicitly aware of terms of the delegation scheme and that reference is made to it as part of the ongoing decision making of the Project Steering Board and within the project.</p> <p><b>Update:</b> The Board has referenced a paper tabled at the meeting of the Project Steering Board on 14 December 2012.</p> <p>4. <b>Question 25 :</b> SFT <b>recommends</b> that (1) NHSL continues to liaise with SFT and respond to its comments in the development and finalisation of the ITPD so that all of the documentation is available prior to appointment of the shortlisted bidders and within the current programme and that the fortnightly working group session are used for that purpose with advisers in attendance as required; (2) the Project Director ensures that all parts of the ITPD documentation is clear and consistent; and (3) that a workshop or series of workshops are held, with advisers and SFT in attendance, to discuss and finalise the competitive dialogue strategy in the context of the developed ITPD documentation.</p>
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			<p><b>Update:</b> (1) The Board has liaised with SFT; (2) the confirmation is to be obtained before the issue of the KSR: see the Pre ITPD issue recommendation; (3) a workshop was held by the Board's advisers to give the project team a presentation key issues and ask a series of questions which could be asked by bidders. As not all the questions were covered, the Board is arranging for the full list to be set out in a Q&amp;A for its own use during the dialogue process.</p> <p><b>5. Question 28:</b> SFT <b>recommends</b> that the Board communicates to bidders and others involved in the projects a clear reporting and decision making structure within the project team.</p> <p><b>Update:</b> The Board confirms that this was provided as part of the bidders' day presentations.</p> <p><b>6. Question 46 (1): Recommendation :</b> That the Board progresses these planning procedures to obtain planning consent within the timescales required by the overall programme so as to achieve completion of all of these works prior to financial close of the NPD programme.</p> <p><b>Update:</b> The Planning process is ongoing: recommendation remains relevant.</p> <p><b>7. Question 46 (2): SFT recommends that :</b></p> <p>(1) The amendment to the lease and other documentation is completed by the University of Edinburgh no later than the</p>
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			<p>commencement of dialogue;</p> <p>(2) The nursery is vacated and vacant possession of the crèche is obtained no later than 31 December 2012;</p> <p>(3) The Board obtains clear legal advice prior to the issue of the ITPD that it has all necessary rights to install use and maintain and renew the cable to serve the electricity substation to service the new facilities;</p> <p>(4) Any queries from SFT on the draft Report on Title which was provided on 29 November 2012 and any issues affecting the ability to develop use and maintain the project arising from title or third party rights is satisfactory dealt with prior to the issue of the ITPD.</p> <p><b>Update:</b> The Board has advised that:</p> <p>(1) the documentation with University of Edinburgh which was referred to has been completed;</p> <p>(2) vacant possession of the crèche has been obtained;</p> <p>(3) The Board is still considering the route of the cable and a report will be provided to the Project Steering Board;</p> <p>(4) The title issues are dealt with in the confirmation below.</p>
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			<p>The Board has also confirmed that the Board, on the basis of legal advice which it has received is satisfied that :</p> <p>(a) the site of the RHSC/DCN and Car Park F (including the proposed site of the electricity substation) is owned by the Scottish Ministers on an unencumbered basis and there are no leases affecting the site;</p> <p>(b) all rights required to develop the facilities, including the carrying out of flood works (on and off site) roads, utilities and other enabling or infrastructure works, are held by the Scottish Ministers or the Board;</p> <p>(c) there are no title conditions, leases or third party rights affecting the site or which would impede the development and ongoing beneficial use of the new hospital facilities within the timescale and for the purposes assumed for the project; and</p> <p>(d) the appropriate rights, reservations, conditions and exclusions have been included within the draft Project Agreement which forms in part of the ITPD documentation.</p> <p><b>Recommendation:</b> that , within a timescale to enable the current programme to be met , there will be provided to Project Steering Board a report for approval providing proposals for the route of the electricity substation cable and that such report will include confirmation that the necessary rights are in place to enable cable(s) to be laid and maintained along such route and used to supply electricity</p>
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			<p>to the new RHSC/DCN facilities on an ongoing basis.</p> <p><b>Question 48: Recommendation:</b> That these and any other key risks are closely monitored with mitigations put in place in a timely manner, following discussions by the Project Steering Board;</p> <p><b>Update:</b> The Board has confirmed that Project risks are discussed with the Project Steering Board regularly: recommendation remains relevant.</p> <p><b>8.</b> In addition, as noted above, the following issues will be considered again at the Pre ITPD KSR:</p> <p>The ITPD documentation will be reviewed as part of the Pre ITPD KSR and specifically:</p> <p><b>8.1. Question 5,</b> NHSL is currently refining the evaluation criteria to confirm that the specification, categorisation into pass/fail and the and weighting reflect the Board's priorities. The final version of the ITPD will be considered as part of the Pre ITPD KSR;</p> <p><b>8.2. Question 7:</b> Reference Design mandatory and non mandatory elements text to be finalised;</p> <p><b>8.3. Question 16:</b> The risks referred to in the dashboard presented to the November Project Steering Board and</p>
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			<p>other risks which arise will be reviewed as part of the Pre ITPD KSR;</p> <p><b>8.4. Question 19:</b> The majority of the issues on Effective Delivery will be addressed in the context of the development and finalisation of the ITPD documentation and will be assessed at the pre ITPD KSR;</p> <p><b>8.5. Question 33 :</b> The documentation for issue along with the ITPD is to be collated by the Board and this issue will be checked at the Pre ITPD KSR;</p> <p><b>8.6. Question 36 :</b> The ITPD documentation is to be further developed and final version on financing solutions should reflect the position of the market at that time;</p> <p><b>8.7. Question 40 :</b> The ITPD documentation will be reviewed in its final form, and to ensure compliance with SFT's guidance, as part of the Pre ITPD KSR;</p> <p><b>8.8. Question 41 :</b> the ITPD should reflect the position, on ensuring a level playing field, going forward;</p> <p><b>8.9. Question 65 :</b> Derogations will be dealt with prior to the pre ITPD KSR;</p> <p><b>8.10. Question 67:</b> Calibration of the payment mechanism and synchronisation with the service specification is to be included in the ITPD documentation and considered at the Pre ITPD KSR;</p> <p><b>8.11. Question 68:</b> Priorities reflected in the incentives</p>
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			<p>delivered by the service specification : to be included in the ITPD documentation and considered at the Pre ITPD KSR;</p> <p><b>8.12. Question 70:</b> Management of the financing aspects of the project : to be included in the ITPD documentation and considered at the Pre ITPD KSR;</p> <p><b>8.13. Question 71:</b> Compliance with ESA 95: to be considered at the Pre ITPD KSR.</p> <p><b>Update:</b> all of these issues have been dealt with as part of the review of ITPD documentation.</p> <p>The Funding Letter contained a number of conditions which are largely reflected in the Pre OJEU recommendations. Conditions 9.8 (on third party contributions) and 9.9 on the existing estate remain relevant and the Funding conditions will be considered again as part of future KSRs.</p>
20.	Please explain any changes that have been made to the governance and project management arrangements, resourcing and budgets since the pre-OJEU KSR.		Davis Langdon's appointment was terminated at end of November 2012, with all roles now being carried out by Mott Macdonald.
21.	Please confirm any changes that have been made to the Procuring Authority's procurement strategy (including timetable) since the pre-OJEU KSR and		The Board advises that there have been no changes.

	demonstrate that this remains/is realistic and deliverable.		
22.	Is the pre-qualification process complete and has a shortlist of bidders been identified? If not, what further processes still need to be applied in order for the bidder shortlist to be confirmed and publicised?	NHSL	The Project Steering Board approved the shortlist of three bidders on 22 February and this is to be made public on 11 March 2013.
23.	Please demonstrate that a robust and comprehensive project plan is in place and that the project team has a clear understanding of all tasks / work streams (including evaluation, clarifications, and approvals) to manage the project through the competitive dialogue, final tender and preferred bidder stages of the procurement.		<p>The Strategic development programme was approved by the Project Steering Board on 25 January 2013.</p> <p>The Board has provided a table showing the breakdown of responsibilities of each of the project team to lead on the various aspects of dialogue and confirms that this approach is to assist in ensuring that the Board will speak with a “single voice” The Board advises that there is detailed guidance (including task allocation) for the competitive dialogue and evaluation process being developed which will be completed within 3 weeks: the Board is satisfied that this will be sufficiently early to maintain the competitive dialogue programme.</p> <p><b>Recommendation:</b> that the Board completed the Q&amp;A before the first meeting with bidders and the competitive dialogue guidance by 31 March 2013 and provides a copy of each to the Project Board members and SFT as soon as completed and to allow Project Board members and SFT to have the opportunity to comment before the first meeting with bidders on 2 April 2013.</p>



24.	Please advise of any changes to the dedicated project team which was in place at the pre-OJEU KSR.		The team which was in place at the Pre OJEU KSR is still in place. In addition, the Head of Commissioning appointment is confirmed. Recruitment to Project Contracts Manager and IT Project Manager, and Little France Site Co-ordination and Contract Variations posts are underway.
25.	Is an evaluation strategy (including resourcing) in place and has this been approved by the Procuring Authority?	NHSL	Volume 1 sets out the evaluation criteria: see questions 23 and 24 re plan and resourcing. The Project Steering Board has approved the evaluation strategy.
26.	Please demonstrate that the tender evaluation methodology allows for an assessment of whole life costs, strikes an appropriate balance between price and quality in the assessment of “most economically advantageous tender” and assesses price on the basis of net present value of the unitary charge and that this methodology complies with SFT guidance on tender evaluation.		<p>The evaluation criteria set out in Volume 1 of the ITPD complies with SFT’s guidance and includes a 60:40 split for price /quality. SFT has raised with the project team a number of issues and risks in relation the inclusion of a minimum standard for each individual section and also the number of criteria into which the aspects of quality has been subdivided. The Board has confirmed that it has considered these issues and that it is satisfied with that the criteria and basis of evaluation contained in the ITPD accords with its requirements and is updating the ITPD to expand on the description of what constitutes a pass/fail. SFT has noted that while it is for the Board to formulate and finalise the evaluation criteria, weighting and basis of assessment, it emphasises the importance of a robust, focussed and effective dialogue strategy and that it is important that the Project Team ensures that the dialogue process is structured to ensure that bidders understand the basis of evaluation of the evaluation criteria and the standard of the applicable pass/fail tests.</p> <p><b>Recommendation:</b> that the Project team ensure that (1) the competitive dialogue is conducted in a robust, focussed and effective manner that maintains bidders’ interest and</p>



			encourages competitive responses and that it is structured to ensure that bidders understand the basis of evaluation of the evaluation criteria and the standard of the applicable pass/fail tests and (2) that the competitive dialogue process is a standing item on the agenda of the Project Board and that the Board is updated at each meeting as to issues and risks arising from the process.
27.	Please demonstrate how the tender evaluation methodology assesses bidders' acceptance of the standard form NPD documentation.		Volume 1, section 3.1.1. of the submission requirements makes it clear that bidders can only submit amendments to the NPD Project Agreement of the ITPD which have been agreed by the board and by SFT as permitted derogations. Any agreed amendments which affect the risk profile of the Project : Quantifiable Bidder Amendments: (section 5.7.1). The Board advises that it does not intend to incorporate a quality score for non quantifiable changes given that they will have been agreed by the Board and as acceptable derogations in order for each bid to be compliant.
28.	Please describe the basis on which any bidder down-selection will be carried out during the dialogue phase and demonstrate that adequate time is allowed for this in the procurement timetable.		There is to be no down selection during competitive dialogue : Volume 1 of the ITPD : section 5.1.1
29.	Please demonstrate that the ITPD documentation (including tender evaluation methodology) is complete and reflects SFT guidance and/or describe		ITPD documentation has been prepared by the Board working with external advisers. The Project team has advised that the Project Steering Board approved elements of the ITPD

	the process and timescales for finalising it. Please confirm whether the documentation has been reviewed by the Procuring Authority's external advisers and whether it has been approved (or the process for approval) at the appropriate level within the Procuring Authority.		documentation, such as the evaluation, that the final ITPD documentation will be signed off by the project team, and that the Project Steering Board has approved the issue of the ITPD documentation.
30.	<p>Please confirm that the ITPD documents allow sufficient scope for the following funding arrangements to be introduced to the project:</p> <ul style="list-style-type: none"> <li>• public sector debt guarantees and 100% public sector refinancing risk post-construction</li> <li>• investment of a proportion of subordinated or mezzanine finance by a public sector, or public sector nominated, entity</li> <li>• capital market funding solutions</li> <li>• government support/guarantee of procuring authority covenant.</li> </ul>		The ITPD provides for flexibility in financing solutions and for a potential post preferred bidders' funding competition: volume 1 of the ITPD: section 3.8.3.
31.	Has the Procuring Authority confirmed that all background project information, has been collated and will be made available to bidders at the start of dialogue including, for example, planning development briefs, room data sheets, staff terms	Yes	Volume 4 of the ITPD has been prepared and the listed items will be collated in the data room: see Pre ITPD issue recommendation.

	and conditions (if TUPE will apply) etc.		
32.	Please describe what steps the Procuring Authority will take to ensure a level playing field amongst shortlisted bidders during the competitive dialogue and final tender stages.		The competitive dialogue and final tender processes, as described in Volume 1, sections 4, 5 & 6, will be transparent and designed to ensure a level playing field.
33.	Please demonstrate that all consultations have been carried out and approvals (internal and external) obtained to allow the project to proceed to ITPD and that any concerns/risks raised have been addressed.		The Project Steering Board is appraised of risks and actions to address them through the risk register which was provided to the meeting on 22 February 2013. The Project team advises that elements of the ITPD including the evaluation strategy has been approved by the Project Steering Group and that the final version of the ITPD will be signed off by the project team.
34.	Please demonstrate how the project team intends to manage the interface between bidders and stakeholders (e.g. end users).		The Board advises that there is a closely managed interface with users in dialogue, limited to use of AEDET by the Board to feedback on proposals as outlined in Volume 1, section 2.20 and comment on the limited number of 1:50 room layout to be produced: which will be closely managed through the clinical directors. The design of the clinical enabling works are being progressed and the fallback of placing a lab with in the RHSC/DCN has been signed off as an acceptable clinical solution.
35.	Please provide an update on the land/site strategy (e.g. acquisition, title issues, ground conditions, surveys, enabling works) and planning matters and describe what strategy is in place to manage the impact of any outstanding matters on the project		See Question 19 regarding the confirmation received from the Board on title matters.  The Board advises that the only reserved matter under the planning in principle which remains outstanding is for the on site flood works while a separate planning application will be



	timetable and/or affordability position.		<p>required for the off site works. Both application are expected to be submitted within 8 weeks.</p> <p><b>Recommendation:</b> that the planning applications are submitted in accordance with current programme and monitored to ensure compliance with programme.</p>
36.	Please describe any mandatory variant bids that the Procuring Authority will require from bidders and its intended approach to dealing with any non-mandatory variant proposals put forward by bidders.		No variant bids will be accepted: Volume 1 of the ITPD :section 6.16

### Section 6: Commercial

*The key objective of this section is to test that project has established a clear and robust commercial position to communicate to bidders at the start of the dialogue.*

	Question	Yes/No	Comments
37.	Please confirm that a list of derogations from the standard NPD contract documentation (including service specification, payment mechanism, NPD articles of association and accompanying guidance) to be issued with the ITPD has been approved by SFT.		The derogations to the Project Agreement, including the service level specification and the payment mechanism have been approved by SFT.
38.	Please describe the approach that the Procuring Authority intends to take in negotiating and agreeing the contract (including service specification, payment mechanism and NPD articles of association) with the bidders during the procurement and ensuring bidders obtain support from sub-contractors and funders.		Volume 1 of the ITPD contains the agenda of meetings and submission requirements and makes it clear that the level of derogations is expected to be minimal.
39.	Has full consideration has been given to synchronisation of the service specification and payment mechanism and to calibration of warning notices, termination triggers, levels of deductions, unavailability thresholds etc.	Yes	The Board and its advisers have given detailed consideration to these issues and explained the rationale to SFT.
40.	Please confirm the status of the Procuring Authority's title investigations and whether a list of disclosed title conditions and reserved rights will be	NHSL	The Board has received a report on title from CLO and it has been commented upon by MacRoberts. The draft Project Agreement contains disclosed title conditions and reserved



	included with the ITPD documentation.		rights. See Question 19 regarding the confirmation received from the Board on title matters.
41.	Please demonstrate that the Procuring Authority's approach to managing the financing aspects of the project throughout the procurement complies with SFT guidance and that this is reflected in the ITPD documents. In particular please confirm that the ITPD documents reserve the right for the Procuring Authority, at the request of SG, to call for a funding competition after preferred bidder appointment?		<p>The ITPD provides for flexibility in financing solutions and for a potential post preferred bidders' funding competition: volume 1 of the ITPD: section 3.8.3.</p> <p>The Board acknowledges that the financing position is likely to develop during the period of dialogue.</p> <p>will liaise with SFT during the dialogue period</p> <p><b>Recommendation:</b> that the Board and its advisers liaise with SFT and on the approach to financing and engage SFT in discussions with the project team and its advisers, where appropriate, to better ensure the learning from experience of cross projects issues, to enable SFT both to decide whether there should be a post preferred bidders funding competition and to make recommendations as to financing matters during the dialogue period.</p>
42.	It is a condition of SG revenue funding support that the project meets the requirements for classification as a non-government asset for national accounts purposes under relevant Eurostat (ESA95) guidance. Please confirm that the contract to be issued with the ITPD transfers availability and construction risk to the private sector.		The draft project agreement to be issued as part of the ITPD is based on SFT's standard form contract with agreed derogations and transfers availability and construction risk to the private sector.

43.	Please describe any changes that have been made to the risk register and risk management plan since the last KSR, and the impact that any such changes have on the project.	NHSL	<p>The updated costed risk register was provided to the Project Steering Board on 22 February 2013.</p> <p>The risk management plan is unchanged.</p>
44.	Please describe the risks that the Procuring Authority considers to be most significant to the success of the competitive dialogue and the strategy for managing these risks.		<p>The report to the Project Steering Board lists two red items: (1) Insufficient space in RIE to support RHSC/DCN clinical models : this references the lack of space for the labs and the Board advise that one of the labs is now to be in the NPD facilities. The project team provided an update on 1 March and advises that the fallback of putting the lab into the RHSC/DCN is signed off at a clinical level and that they expect this risk to be downgraded; (2) Specification changes post Financial Close: at the meeting on 1 March, the project team advised that this is a reference to the rerunning of the beds model to take account of the need to manage increased activity due to failure to sustain local DGH children's services. The updated model will be available before the end of March 2013.</p> <p><b>Recommendation:</b> that the Board completed the bed modelling, reappraises the risk of change post financial close and advises SFT and the Project Board of the outcome by 31 March 2013.</p> <p>In relation to the competitive dialogue stage, key amber risks are (a) lack of readiness of the site leading to delay in the programme; (b) programme delay due to protracted dialogue; (c) limited availability of investment for NPD due to the financing market; and (d) specification changes pre financial close.</p>
45.	Please describe any changes since the last KSR to the mechanism in place for reviewing and updating the risk register and risk management plan.		<p>No change: key risks are reported monthly and the risk register every quarter.</p>

<p><b>Is the project ready to proceed to the next stage?</b></p> <p>(*Delete as applicable)</p>	<p><del>Yes</del>,*</p> <p><b>Yes , subject to recommendations below*</b></p> <p><del>No, due to reasons outlined below.*</del></p>
<p><b>Reasons / Recommended actions:</b></p>	<p><b>To be completed by:</b></p>
<p>Pre ITPD issue recommendation:</p> <p><b>Recommendation</b> : that before the issue of the ITPD documentation to bidders:</p> <p>(1) The provisions for the energy target(s) to be included in the documentation is agreed with Mike Baxter at Scottish Government and that any necessary consequential amendments are made to the documentation on the basis that the mechanism included in the draft ITPD which allows for the testing of value of money is retained;</p> <p>(2) The documentation is updated to reflect the remaining issues which have been discussed and agreed with SFT and that the items referred to in Volume 4 is available in the data room; and</p> <p>(3) The Project Director confirms to SFT that the foregoing conditions have been satisfied and that all parts of the ITPD documentation are clear, complete and consistent and that the Board's legal advisers have confirmed that the documentation complies with the all procurement legislation and requirements.</p>	<p>Before the issue of the ITPD documentation.</p>

<b>Question 1 : Recommendation :</b> that the Board monitors and reports to SFT the cost of this change in scope (including inflation, financing, lifecycle and other consequent costs) separately so that the level of revenue support (excluding this change) can be calculated.	Ongoing to financial close
<b>Question 2 : Recommendation:</b> that the Project Team continues to target the net to gross ratio with bidders throughout the dialogue period in accordance with the recommendation of the Project review and produces a mock up of rooms at an appropriate stage.	Ongoing through competitive dialogue
<b>Question 6 : Recommendation :</b> The Board should continue to work with Consort Healthcare to re programme the enabling works such that vacant possession of the whole NPD site, and an effective stopping up order in place, can be given to Project co at financial close and that Project co will be entitled in terms of planning and other requirements or constraints to proceed with all works on site.	By 30 April 2013
<b>Question 6 : Recommendation:</b> that the Board advises SFT of any proposed change to the energy target and the reasons therefore before a change is made.	Ongoing until issue of ITFT
<b>Question 18: Recommendation:</b> that the Board keeps SFT advised of submissions and consult with SFT in relation on the listed items to allow SFT to provide input to assist in the Board's assessment and dialogue with bidders.	Ongoing through competitive dialogue
<b>Question 19 : Recommendation:</b> The Board should monitor closely the interface issues with the RIE and Consort, including in particular	Ongoing through competitive dialogue

<p>the dependencies between the works to be carried out by Consort which are required to be completed before financial close so as to give the NPD Contractor full vacant possession of the NPD site and ensure that the stopping up order will be effective and unconditional by financial close, and provide to the Project Steering Group at each meeting an update on these risks and should ensure that the project programme includes both the NPD programme and all elements of enabling works and other issues which are required to ensure the successful delivery of the overall project.</p> <p><b>Question 19: Recommendation :</b> that the Board progresses these planning procedures to obtain planning consent within the timescales required by the overall programme so as to achieve completion of all of the works prior to financial close of the NPD programme.</p>	To comply with programme
<p><b>Question 19: Recommendation:</b> that , within a timescale to enable the current programme to be met, there will be provided to Project Steering Board a report for approval providing proposals for the route of the electricity substation cable and that such report will include confirmation that the necessary rights are in place to enable cable(s) to be laid and maintained along such route and used to supply electricity to the new RHSC/DCN facilities on an ongoing basis.</p>	To comply with programme
<p><b>Question 19 : Recommendation:</b> That these and any other key risks are closely monitored with mitigations put in place in a timely manner, following discussions by the Project Steering Board.</p>	Ongoing through competitive dialogue



<b>Question 23 : Recommendation:</b> that the Board completed the Q&A before the first meeting with bidders and the competitive dialogue guidance by 31 March 2013 and provides a copy of each to the Project Board members and SFT as soon as completed and to allow Project Board members and SFT to have the opportunity to comment before the first meeting with bidders on 2 April 2013.	31 March 2013
<b>Question 26 : Recommendation:</b> that the Project team ensure that (1) the competitive dialogue is conducted in a robust, focussed and effective manner that maintains bidders' interest and encourages competitive responses and that it is structured to ensure that bidders understand the basis of evaluation of the evaluation criteria and the standard of the applicable pass/fail tests and (2) that the competitive dialogue process is a standing item on the agenda of the Project Board and that the Board is updated at each meeting as to issues and risks arising from the process.	Ongoing through competitive dialogue
<b>Question 35 : Recommendation :</b> that the planning applications are submitted in accordance with current programme and monitored to ensure compliance with programme.	To comply with programme
<b>Question 41 : Recommendation:</b> that the Board and its advisers liaise with SFT and on the approach to financing and engage SFT in discussions with the project team and its advisers, where appropriate, to better ensure the learning from experience of cross projects issues, to enable SFT both to decide whether there should be a post preferred bidders funding competition and to make recommendations as to financing matters during the dialogue period.	Ongoing through competitive dialogue
<b>Question 44 : Recommendation:</b> that the Board competed the bed modelling, reappraises the risk of change post financial close and	By 31 March 2013

advises SFT and the Project Board of the outcome by 31 March 2013.	
<b>Signature of Primary Reviewer</b>	<b>Signature of Secondary Reviewer</b>
<b>Date:</b>	<b>Date:</b>

<b>Procuring Authority Declaration</b>	<b>I confirm that I am not aware of any information that would materially change the assessment and review of the project.</b>
<b>Name and Position:</b>	<b>Date and Signature:</b>



SCOTTISH HOSPITALS INQUIRY

**Hearing commencing 24 April 2023**

**Bundle 9 – Key Stage Reviews**