

Meeting:	Grampian NHS Board Meeting
Meeting date:	2 June 2022
Item Number:	10
Title:	Baird and ANCHOR Project Update
Responsible Executive/Non-Executive:	Paul Allen – Senior Responsible Officer (Baird Family Hospital and ANCHOR Centre Project)
Report Author:	Julie Anderson – Deputy Project Director/Finance Manager

1 Purpose

This is presented to the Board to:

- **Note** updated project forecast and associated funding arrangements
- **Approve** to vary the construction contract value, within approved funding limits, for the Baird Family Hospital and ANCHOR Centre project, following finalisations of arrangements to provide contractor relief in relation to abnormal market conditions.

This aligns to the following NHS Scotland quality ambitions:

- Safe
- Effective
- Person Centred

2 Report summary

2.1 Situation

The construction programme for the Baird Family Hospital and The ANCHOR Centre commenced in January 2021 and continues to make good progress. This paper confirms updates to project forecast and funding arrangements following realisation of risks associated with the challenges related to COVID, market conditions, availability of materials and labour supply.

The project team continue to work collaboratively with the contractor, Scottish Government, Health Facilities Scotland (HFS) and independent advisors to confirm and validate the impact of abnormal market conditions on the project delivery and are nearing conclusion of a commercial arrangement with the contractor to provide relief.

2.2 Background

Both of the new facilities and the associated service redesign are consistent with our strategic themes, delivering the following high level benefits:

- Improvements in patient experience and environment (person centred)
- Improved access, quality and efficiency of service delivery (effective)
- Reduction in the level of backlog risks (safe)
- Supports the key strategic commitment in relation to delivering the Maternity Services Strategy approved by this Board in 2010

The Baird Family Hospital will be a new purpose built hospital, which will provide maternity, gynaecology, breast screening and breast surgery services. It will also include a neonatal unit, centre for reproductive medicine, an operating theatre suite, community maternity unit and research and teaching facilities.

The ANCHOR Centre will be the next significant phase in the development of services for haematology and oncology patients, creating much needed purpose built day and out-patient treatment and support accommodation space.

Following approval of the Full Business Case (FBC) by the NHS Grampian Board and the Scottish Government Capital Investment Group (CIG) in September 2020, the construction contract for the Baird and ANCHOR Project was entered into in October 2020. Market conditions within the construction industry since the award of the contract have created programme and costs pressure beyond those anticipated at that time.

2.3 Assessment

2.3.1 Project Cost

2.3.1.1 Capital Investment

Following a comprehensive review of the impact of recent abnormal market conditions experienced by the project, the forecast out-turn cost has been revised upwards to £244.8 million, from the previously approved £233.2 million, set out in the table below.

	Approved	Forecast
	£millions	£millions
Construction Related Costs	216.2	227.8
Furniture and Equipment	17.0	17.0
Total Investment	233.2	244.8
Sources of Funding		
SG Additional Capital Funding	233.2	244.8
Total Sources of Funding	233.2	244.8

This revised capital investment requirement of £244.8 million is funded in full through an agreed ring fenced capital allocation from the Scottish Government, meaning that other NHSG Infrastructure projects will not be impacted by the projected increase in costs of the project.

The main factors driving this projected increase in costs are explained below:-

- Abnormal Market Conditions

In common with the wider construction sector the contractor has reported challenges in relation to material shortages, price increases and labour shortages. The reasons include, for example, demand, global regulation, geo political issues, BREXIT and the impact of COVID pandemic. The extent of these abnormal market conditions and the impact on the construction supply chain were not all foreseeable when the Stage 4 construction contract was agreed in October 2020.

As part of a collaborative process to understand the impact of these issues on programme and cost, the Principal Supply Chain Partner (PSCP) has openly provided detailed information to NHS Grampian and our advisors in relation to the

effect that these pressures have had on the procurement of the works packages that constitute the construction activity under the contract. This information has been independently validated by the Board's cost advisors for the project and has informed further dialogue with Health Facilities Scotland, Central Legal Office and Scottish Government on the possibility of additional support being made available to the main contractor and their supporting supply chain, within the existing contractual framework, to help address these abnormal market events.

A suitable contractual mechanism is in the process of being agreed that will set out arrangements to amend the construction contract and provide a conditional offer to provide contractor relief. The impact on project forecast of these arrangements is anticipated to be £7.2m. Of this, £3.8m relates to additional costs claimed by the contractor and their supply chain partners during the construction programme to date and a further £3.4m is the estimated additional cost to be incurred on the remaining programme. A process is in place to ensure that all claims for additional relief under this mechanism are subject to robust verification of the supporting evidence presented.

It should be noted that actual payments to the PSCP under the contract are based on actual costs incurred and the contract includes a clause which incentivises (gain share) for the delivery below the contract value.

- Project Risk Contingency

The original project forecast includes risk provisions (£5.2 million) to address risks as they arise, following approval recent contract variation, including changes design changes and their programme impact this risk provision is largely committed and an uplift of £4.4m including VAT has been estimated in consultation with our advisors as required to address potential further design changes as construction drawings are developed and/or risks in the remaining period of the project as the arise.

2.3.1.2 Revenue costs

The planned recurring revenue costs in the first full year of operation (2024/25) remain an estimated £9.7million as approved in the Full Business Case and has been incorporated into the Board's financial planning for that period.

2.3.2 Programme

The programme for bringing the facilities into operation continues to be as previously reported.

Construction Milestone	Revised dates
Bring into Operation - ANCHOR	August 2023
Bring into Operation - Baird	March 2024
AMH Demolition	Aug 2024

2.4 Risk Assessment and management

Risk management procedures are an integral feature of the project with a comprehensive risk register maintained monthly by all parties, weekly risk reductions meetings and regular reporting of key risks to the Project Board.

Market conditions, impacted by geopolitical issues, within the construction industry continues to be classed as red risk to programme and costs due to ongoing material shortages and lead times and inflation. Whilst the arrangement proposed in this report seek to address known market pressures, current market uncertainty and the impact of UK sanctions on Russia are not yet fully reflected.

Design review and assurance activities to ensure technical compliance and functional suitability can materially impact on programme and cost at this stage of the project. A robust change control arrangement is in place to ensure only essential changes are instructed.

2.5 Equality and Diversity, including health inequalities

The project undertook a Health Inequalities Impact Checklist in February 2018 as part of the Outline Business Case. This piece of work was commended by the Public Health Team.

This work demonstrated that these new facilities will provide opportunities to

engage more with vulnerable or disadvantaged groups than is the case in existing facilities e.g. single room accommodation, increased space for families to be together, Transitional Care in the Baird which will help support vulnerable families, teenager and young adult provision in The ANCHOR Centre etc.

2.6 Other impacts

No other relevant impacts to note at this stage.

2.7 Communication, involvement, engagement and consultation

The project has a very active communication work stream which has been in place since 2015 when engagement with patients and staff commenced. The project team has dedicated input from a Consultation and Engagement Advisor. This is in addition to communication being a significant feature in the work undertaken by senior project team personnel.

2.8 Route to the Meeting

Project performance is reported regularly at the monthly Project Board and Asset Management Group meetings. A report from the Project Director and Senior Responsible Officer is provided at each Performance Governance Committee. The content of this report is consistent with the most recent Project Director Reports.

3 Recommendations

The Board is asked to

- **Note** the revised project forecast of £244.8 million, to be funded in full through a capital allocation for the Project from the Scottish Government
- **Approve** - to delegate authority to the Chair of the Board and Chief Executive to finalise contractual arrangements in relation to addressing abnormal market conditions, including authority in particular to (1) vary the contract value in relation to this arrangement, subject to the final value inclusive of VAT not exceeding £5 million on the work packages procured to date and (2) vary the contract value further in relation to future work packages to complete the project, subject to both arrangements specified under (1) and (2) not exceeding £7.2m inclusive of VAT.

- **Future reporting** – a further report be brought back to the August 2022 Board meeting; and quarterly thereafter through the life of the project.