Business case approval guidance for Primary Care Trusts with existing Local Improvement Finance Trusts

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Foreword

Dear colleague

The Local Improvement Finance Trust (LIFT) initiative has proved to be an enormously successful mechanism for delivering much-needed investment in primary care. As policies such as *Our health, our care, our say* have developed, so LIFT has acted as the main conduit to translate these aspirations into reality.

And, as our aspirations have changed, so LIFT has flexed to accommodate them. This has worked because LIFT is not just about procuring single projects; it is about a long-term partnering relationship between the public and private sectors.

Managing this relationship well is absolutely critical so that patients benefit from the best combination of private sector expertise in delivery projects, harnessed to a public sector vision of what we want in terms of quality, scope and flexibility.

The skills required to get the best out of this relationship are more subtle than those employed to select a LIFT partner in competition. Equally, the behaviour we expect from a good, forward-thinking LIFTCo (the local public–private partnership created to deliver the policy) is more engaged, better integrated and more supportive than we would want from a single-project consortium.

This guidance is focused on your longer-term relationship with your LIFTCo. It is intended primarily as a guide to what is required to complete a business case for any New Project brought forward by an existing LIFTCo.

However, in setting out what is expected in a business case, we can also set out the fundamentals of a good project in terms of *what* LIFTCos and their public sector partners need to do, *when* they need to do it and *how* they can do it. This guidance is not simply a list of instructions; it is also intended to help you with practical examples and links to best practice.

This guidance has been drafted to address the extremes of complexity in larger LIFT developments. While the principles contained in this document are transferable across the broad range of LIFT schemes, it must be applied proportionately both by those preparing business cases and by those reviewing them.

In considering what is proportionate for any particular case, there is a balance to be struck between the amount of work required to achieve absolute certainty and the residual risk of variance from the targeted outcome if that work is not done.

There is always an element of prescription in guidance such as this, but above all it is designed to be helpful. The only certainty is that for the next few years primary care will remain the focus for development and the delivery of an even greater range of care.

This guidance will help you get the best out of your LIFT to meet this challenge.

Peter Coates
Director of Finance – Investment
Department of Health

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Executive summary

Placing value for money at the heart of decision-making for LIFT schemes and their approval

This guidance sets out to explain to PCTs how the LIFT approvals process works, which stakeholders need to be involved, and which decisions are crucial in terms of their impact on value for money. This approach is consistent with the document *The Seven Pillars of Value for Money* issued by the Department of Health's delivery arm, Community Health Partnerships.

Clarification of the approvals process in this way concentrates on two main areas:

- the nature of the evidence that is required to gain approval; and
- the sophistication that PCTs are expected to employ in their relationship with LIFTCos.

Approvers' requirements

Key messages in this business case approvals guidance are:

- PCTs and their approvers are encouraged to exercise a greater degree of judgement than was previously the case in determining what constitutes acceptable evidence that schemes are sufficiently mature to pass Stage 1 approval.
- The basis for approval at Stage 1 will be a costed, risk-adjusted Affordability Cap, which will form one of the Approval Criteria for schemes taken forward to Stage 2. There is a balance to be struck between the level of work required of LIFTCos and PCTs to address particular issues (for example design) and accepting instead evidence that the associated risks and issues have been fully considered and appropriately costed within the Affordability Cap.
- This does not necessarily mean that a great deal of design work needs to be done prior to Stage 1; only enough to ensure that:
  - the Participants' Requirements are established in a form that is clear, objective and effective in establishing that any project proposal submitted at Stage 2 that demonstrably meets these requirements will be suitable for delivery (i.e. that the true "value" of the project is identified and secured);
  - the Affordability Cap, within which LIFTCo will deliver the scheme, is robust and adequate for the identified project and that all risk contingencies are clearly identified and expressed in a form suitable for regular review as the project proposal progresses through to Stage 2; and
  - a clear, detailed and effective method of finally demonstrating value for money at Stage 2 (in particular, that the elemental costs of the project can be demonstrated to be "on-market") is established and agreed.

This is one of the key flexibilities that the Department wishes PCTs and their SHAs to exploit and marks an important difference between this and other, more prescriptive guidance.

PCT behaviour

In order to make the most of these new freedoms, it is important that PCTs behave as a more sophisticated client of LIFTCos.

The key difference between Stage 1 and Stage 2, from a PCT's perspective, is that prior to Stage 1 it should behave as a shareholder to appraise the quality of the project and its level of inherent risk. The PCT may therefore be exposed to a share of the development costs incurred on the scheme in order to reach Stage 1, in common with its fellow shareholders.

This share of development costs should be no greater than the public sector equity share in LIFTCo (commonly 40%) and should take into account all of the PCT's external advisory costs, as well as those incurred by its fellow shareholders. PCTs are free to negotiate a lower share or to arrange for their share of LIFTCo's costs to be deferred until the scheme reaches financial close or is cancelled, whichever is sooner.

In considering such an alternative arrangement, care should be taken to ensure that risks are wherever possible allocated to the party best able to manage or influence the outcome – i.e. LIFTCo should in all cases bear the risk of meeting defined criteria but it may not always be appropriate (or ultimately provide optimal value for money) for LIFTCo to fund, at risk, extensive investigative work to identify possible courses of action at a time when PCT plans remain entirely fluid.

After Stage 1, the PCT should behave like a client of LIFTCo and should ensure that the scheme is delivered in line with the Affordability Cap and Approval Criteria. PCT management should be fully accountable to their board and ensure that potential conflicts between the shareholder and client roles are managed appropriately and that the PCT's interests are protected.

Future developments

In future, the Department intends to reward those PCTs and LIFTCos that can demonstrate a good working relationship, appropriate competitive tension, value for money and a mature approach to risk. These PCTs and their partners will be accredited and will earn significantly higher delegated capital expenditure limits.

We are also developing a transparent approach to approvals that will allow the Department and others to make better use of advisers' derogations reports (see, for example, Section 2.4) and share Departmental intelligence on market terms and prices to ensure that PCTs (and their advisers) understand what the parameters of an acceptable scheme are.

Work is also under way to improve co-ordination between these approvals and those applying to local authorities who are procuring via LIFT, and who are receiving PFI credits from the Department of Health.

How to use this guidance

This guidance is aimed at both writers and approvers of business cases. Although the specifics of each business case will be different, the process described within this document must be followed. Where there is doubt about what should be provided, and to what degree, this should be clarified with the business case approvers at the earliest opportunity.

Part 1 provides a general introduction to this area. Part 2 is intended to be a high-level overview of key aspects of the business case such as strategic need, affordability, value for money and so forth. Where more detailed guidance is provided, this is set out in Part 3.

Part 1: Introduction and background

This part explains why business case approval processes exist and how they should be applied by PCTs to developments brought forward during the exclusivity period of the LIFT.

Purpose and background

What does this guidance cover?

1.1 This guidance sets out the policy governing how PCTs with LIFT schemes, brought forward by *existing* LIFTCos, should seek approval and what the approval bodies' expectations will be. However, the principles set out in this document regarding the development of sound projects are applicable to all types of LIFT development and to participants other than PCTs, such as local authorities and other public bodies.

1.2 The guidance explains when and why you need to produce a business case; what the business case should contain; and what supporting work is required on the part of the public and private sectors to gain approval at key stages in a scheme's development.

1.3 In compiling the guidance, the Department has taken due account of LIFT's progress in terms of delivering its original brief and its likely development path in order to satisfy the requirements of *Our health, our care, our say.*[1]

Who should read this guidance?

1.4 This guidance is relevant for:

- PCT managers directly responsible for developing LIFT schemes in partnership with their LIFTCos;
- PCT directors and board members, who need to satisfy themselves that scheme proposals are sound and that due governance processes have been followed;
- Strategic Health Authority (SHA) managers, who are responsible for ensuring that PCTs comply with proper business case processes;
- SHA directors and boards responsible for recommending business cases to the Department for approval;
- the Department's Capital Investment Branch (CIB) and Private Finance Unit (PFU);
- Community Health Partnerships (CHP);
- Strategic Partnering Board (SPB) members;
- local authorities involved in LIFT schemes, who will want to understand how the LIFT approval process works (guidance on local authorities' own approval process – for schemes using Department of Health Private Finance Initiative (PFI) credits – will be issued separately in due course); and
- LIFTCos.

1.5 It is also advisable for others involved in the procurement of LIFT schemes (e.g. PCTs' independent advisers) to be familiar with this guidance and the requirements of the business case approval process.

What are the key objectives of this guidance?

1.6 To summarise, the aims and objectives of this guidance are principally to:

- confirm what process should be followed by PCTs wishing to bring forward schemes through existing LIFTs;

1 www.dh.gov.uk/en/publicationsandstatistics/Publications/PublicationsPolicyandGuidance/DH_4127602

- clarify when approval is required, by whom and what their expectations will be;
- clarify the level of detail required to support business cases and what this means in terms of the tasks to be carried out by PCTs and LIFTCos during a scheme's development;
- ensure that the approval process, and the various activities that it drives, takes into account developments in the public–private partnership (PPP) arena, recent HM Treasury guidance and the Public Accounts Committee's (PAC's)[2] requirements;
- ensure that, where possible, existing innovation and good practice in LIFT are shared;
- ensure that the approval process is fit for purpose, given the demands likely to be placed on LIFT in the coming years; and
- inform other stakeholders and partners (e.g. local authorities) about the approval process.

Why is the Department issuing guidance now?

1.7 LIFT has been enormously successful. As of March 2009, 202 new facilities are open to patients, with another 27 under construction and many more planned. New facilities are opening all the time, which underlines just how fast primary care is developing, particularly as a result of closer working with local authorities. In addition, the Department is seeking to expand PCTs' participation through the Express LIFT initiative.

1.8 If anything, change is likely to accelerate as more capacity is transferred from the acute sector into the primary and community sectors in line with recent Department policies (e.g. *Our health, our care, our say*). This shift in emphasis will create demand for new infrastructure, new services and innovative ways of working, all of which can be facilitated by LIFT.

1.9 These developments, while very welcome, will require LIFT to adapt in order to deliver facilities and services of a scale and complexity to meet our aspirations. The exclusivity period granted in the Strategic Partnering Agreement (SPA) offers the opportunity for PCTs and their LIFTCos to develop a productive, long-term relationship to help deliver this policy agenda.

1.10 The changing scale and nature of the schemes to be delivered also have implications for the sophistication of the due diligence that must be applied by PCTs, SHAs and the Department to ensure that value for money is being delivered, risk controlled and taxpayers' interests safeguarded.

1.11 In addition, during the past four years HM Treasury has issued several key papers that relate to PPPs, of which LIFT is a part. The most recent of these, *PFI: strengthening long-term partnerships*,[3] summarises a number of significant learning points that could usefully be imported into LIFT regarding:

- contract management;
- new ways of building and managing supply chains; and
- improving the way we assess value for money.

1.12 The latter has been of particular interest, following on from the PAC report issued on 12 June 2006.[4]

1.13 While broadly supportive of LIFT, the report made a number of recommendations regarding how value for money should be tested and demonstrated, particularly for schemes brought forward in the absence of a complete market test.

2 www.publications.parliament.uk/pa/cm200506/cmselect/cmpubacc/562/56202.htm

3 www.hm-treasury.gov.uk/d/bud06_pfi_618.pdf

4 www.publications.parliament.uk/pa/cm200506/cmselect/cmpubacc/562/56202.htm

1.14 We therefore have a number of challenges in terms of:

- **the value for money that LIFT must demonstrate to the public sector.** A great deal of development work has been undertaken by the Department and its delivery arm, CHP, to assist PCTs in securing value for money by applying a combination of tools such as benchmarking, market testing, using a Public Sector Comparator and reconfiguring the LIFT supply chain. These are discussed in more detail in subsequent sections. CHP are in the process of putting in place a national framework from which PCTs will be able to appoint independent advisers to perform particular tasks during the New Project Approval process. This will include advice to improve the effectiveness of "benchmarking" where it is used as part of the process of independently demonstrating value for money;
- **embedding value for money at the heart of the New Project process from the outset.** The real "value" of any project is the part it can play in delivering improved health and well-being outcomes by helping to realise commissioning plans. CHP is currently developing further guidance and a range of support services to assist in establishing the following "seven pillars of value for money" [5] for each LIFT project. The core principles of this guidance include:

  1. Targeting Outcomes – e.g. from Joint Strategic Needs Assessment
  2. Planning Services – Commissioning Strategy – SSDP etc.
  3. Defining Estate Requirements – estate strategy – SSDP etc.
  4. Identifying Options
  5. Selecting the Right Option – up to Stage 1
  6. Reaching Agreement – up to Stage 2
  7. Post-Project Evaluation

  This guidance, entitled *Seven Pillars of Value for Money,* was published by CHP on 25 November 2008 and can be found on CHP's website at www.communityhealthpartnerships.co.uk.

- **balancing the speed with which schemes must be delivered to meet key policy targets with value for money.** CHP is undertaking a number of initiatives linked to the overarching theme of improving flexibility. These initiatives will assess the feasibility of developing simpler contractual structures for simpler schemes, as well as alternative funding models;
- **improving governance, risk management and decision-making.** It is important that PCTs ensure that their boards fully appreciate the ramifications of LIFT developments and that the PCT acts as an intelligent client and partner with its LIFTCo. We have set out in this guidance how this relationship can work; and
- **ensuring that there is an appropriate balance of cost and risk between the public and private sectors.** The best way we can mitigate risk in a project is by being clearer about what we want LIFTCos to provide and to which standards. That means more thinking for PCTs up front and more engagement with LIFTCos.

1.15 All these factors have confirmed the need to refine and codify the process that PCTs should be following when taking forward LIFT developments to make sure that it is clear what is expected of a public sector organisation when investing public monies and why it is expected.

Will approval processes change to accommodate these challenges?

1.16 This is a valid point and work is under way to ensure that those best placed to perform their approval role in the chain do so at the right point in the process, without regard to hierarchy.

1.17 In future, the Department intends to reward those PCTs and LIFTCos that can demonstrate a good working relationship, appropriate competitive tension, value for money and a mature approach to risk. These PCTs and their partners will be accredited and will earn significantly higher delegated capital expenditure limits.

1.18 We are also developing a transparent approach to approvals that will allow the Department and others to make better use of advisers' exception reports (see, for example, Section 2.4) and share Departmental intelligence on market terms and

5 See *Firm Foundations for World Class Commissioning: How to Achieve Value for Money in Health and Social Care Infrastructure* available at www.communityhealthpartnerships.co.uk

prices to ensure that PCTs (and their advisers) understand what the parameters of an acceptable scheme are.

1.19 Work is also under way to improve co-ordination between these approvals and those applying to local authorities who are procuring via LIFT, and who are receiving PFI credits from the Department.

What do I have to do in response to this guidance?

1.20 LIFT is a long-term partnership. PCTs are responsible for the delivery of healthcare in their regions and should take the lead in articulating what a health development is intended to achieve, what its functionality should be and what standards of building and services (consistent with the rest of the NHS) should apply.

1.21 LIFTCo's strength is in taking these requirements and translating them into costed design and services methodologies. The better thought through the requirements are, the more transparent and reliable LIFTCo's prices are likely to be.

1.22 This allows both sides to be sure that they have an affordable, deliverable scheme that represents value for money.

1.23 Business case approval for existing LIFTs is divided into two stages: Stage 1 and Stage 2. We expect that the work needed to demonstrate that a scheme is affordable and is likely to represent value for money will be completed in order to gain Stage 1 approval.

This does not necessarily mean that a great deal of design work needs to be done prior to Stage 1; only enough to ensure that:

- the Participants' Requirements are established in a form that is clear, objective and effective in establishing that any project proposal submitted at Stage 2 that demonstrably meets these requirements will be suitable for delivery (i.e. that the true "value" of the project is identified and secured);
- the Affordability Cap, within which LIFTCo will deliver the scheme, is robust and adequate for the identified project and that all risk contingencies are clearly identified and expressed in a form suitable for regular review as the project proposal progresses through to Stage 2; and
- a clear, detailed and effective method of finally demonstrating value for money at Stage 2 (in particular, that the elemental costs of the project can be demonstrated to be "on-market") is established and agreed.

This is one of the key flexibilities that the Department wishes PCTs and their SHAs to exploit and marks an important difference between this and other, more prescriptive guidance. It should not be seen as encouraging PCTs to take excessive or inappropriate risks; it is intended to ensure that all parties to a LIFT scheme take a judicious approach to balancing the costs of developing schemes against the significance of the financial risks involved. Because judgement is involved, it is up to PCTs to ensure that approvers (such as SHAs or the Department) are comfortable with the approach that the PCT and its LIFTCo intend to take.

1.24 In order to demonstrate this, a PCT needs to know exactly what it is procuring and what risks will be managed by LIFTCo. Further, at Stage 1, both parties will need to agree the process that will be followed to ensure that the scheme (as distinct from the procurement process) represents value for money at Stage 2.

1.25 Although the Stage 1 approval has, therefore, assumed more importance, the Stage 2 approval also remains essential, as this is when outstanding issues will be resolved and the Lease Plus Payment or Unitary Payment will be fixed, having been shown to be within the Affordability Cap and to represent value for money.

The level of work required at Stage 1 sounds like the level of work that used to be undertaken at Stage 2. Why is this change appropriate?

1.26 It is in PCT and SHA boards' interests to ensure that proposed schemes are deliverable, affordable and properly thought through, and to understand how value for money of the scheme will be demonstrated, before proceeding with a scheme.

1.27 This does not represent a change of policy but rather a requirement to follow best practice. It is important that LIFT schemes deliver best value for money and that public sector interests and finances are protected. It is difficult to see how this can be achieved if this work is left to Stage 2.

1.28 The text of this guidance contains numerous example boxes to assist users in interpreting how the guidance should be applied in particular situations.

1.29 There is a balance to be struck between requiring PCTs and LIFTCos to undertake detailed work to address particular issues (e.g. those relating to design) and accepting, instead, evidence that risks have been fully considered, costed and included in the Affordability Cap. This judgement is driven by the complexity of schemes and the quality of risk management and costing that can be evidenced. The key in every case is establishing robust and objective Approval Criteria, which will ensure that any project worthy of Stage 2 approval by application of these criteria, will in every case achieve all the targeted outcomes, be affordable and provide value for money. The amount of effort (e.g. design) required to establish appropriate Approval Criteria is likely to vary from one project to the next for a variety of reasons including, but not limited to: complexity; scale; familiarity of project type; unique or bespoke requirements; and/or applicability of established standards.

The key difference between Stage 1 and Stage 2, from a PCT's perspective, is that prior to Stage 1 it should behave as a shareholder to appraise the quality of the project and its level of inherent risk. The PCT should therefore be exposed to a share of the development costs incurred on the scheme in order to reach Stage 1, in common with its fellow shareholders. This share should be no greater than the public sector equity share in LIFTCo (commonly 40%) and should take into account all of the PCT's external advisory costs, as well as those incurred by its fellow shareholders. PCTs are free to negotiate a lower share or to arrange for their share of LIFTCo's costs to be deferred until the scheme reaches financial close or is cancelled, whichever is sooner.

In considering such an alternative arrangement, care should be taken to ensure that risks are wherever possible allocated to the party best able to manage or influence the outcome – i.e. LIFTCo should in all cases bear the risk of meeting defined criteria but it may not always be appropriate (or ultimately provide optimal value for money) for LIFTCo to fund, at risk, extensive investigative work to identify possible courses of action at a time when PCT plans remain entirely fluid.

After Stage 1, the PCT should behave like a client of LIFTCo and should ensure that the scheme is delivered in line with the Affordability Cap and Approval Criteria. PCT management should be fully accountable to their board and ensure that potential conflicts between the shareholder and client roles are managed appropriately and that the PCT's interests are protected.

Do I have to develop all the material required to support detailed proposals myself?

1.30 For the most part, providing LIFTCo with the right material prior to Stage 1 is about ensuring that LIFTCo is able to understand fully what you want in order that it is able to develop a suitably priced solution.

1.31 Most price-sensitive documentation, such as the standard contract, standard Service Level Specifications and Payment Mechanism, is based on generic Department of Health standards. There is work required to tailor these to the specifics of your scheme, but complete reinvention is not required.

1.32 There are other documents, such as the Design Brief, that are more bespoke, but even here basic building blocks are available as a starting point; for example, the Primary Care Contracting website now hosts NHS Estates' *Primary and Social Care Premises – Planning and Design Guidance.*[6]

1.33 Developments that involve other parties, such as local authorities, may require input from them about their aspects of the scheme, for information and background. These elements will not, however, be subject to direct SHA/ Department of Health approval.

Will this guidance mean more work and more cost for PCTs and their LIFTCos?

1.34 This may involve more effort being incurred in the earlier stages largely by the public sector side, but these are offset by firmer pricing, better outcomes and faster approvals, which should minimise costs and risk in the latter stages of the procurement.

1.35 This is not something unique to LIFT. All PPPs are required by HM Treasury to adopt this approach. Indeed, it is equally beneficial for publicly funded schemes.

1.36 This is one of the reasons why business case approval is divided into two stages. The first is about testing whether a PCT has a viable, affordable scheme (and, in the case of larger projects, that LIFT is the appropriate way of delivering such a scheme) before significant taxpayers' funds have been committed.

1.37 In addition, there is no reason why new schemes procured under existing LIFTs should not benefit from lessons set out in HM Treasury's *PFI: strengthening long-term partnerships*, the most important of which is that work carried out earlier in the procurement process can avoid risks arising later on.

1.38 In order to be approved, your business case will first be subject to review, and points will be raised by reviewers where necessary. You must make sufficient allowance in your project timetable to respond to these points and, if required, take remedial action. This will allow you to align each of the workstreams in your project so that the state of the project's development, and associated commercial documents, are good enough for you to make the right investment decisions, but also sufficient to gain approval. One should complement the other.

The specifications and complex Payment Mechanism look a lot like PFI. Won't LIFT lose its distinctiveness and become like PFI?

1.39 No. LIFT is a very different product compared with PFI and operates in a different market. The changes that have been made to documentation, and the shift of emphasis in the approval process, are solely driven by the nature of what we are procuring.

1.40 However, if there are lessons to be learned from the way PFI has developed, then we should make sure that LIFT benefits from them.

1.41 For example:

- if we wish to procure an endoscopy suite or provide bedded accommodation, then these facilities should comply with prevailing NHS standards;
- similarly, any services provided in LIFT health facilities should be provided to the same standards as in other parts of the NHS; and
- if we build more complex buildings or provide services from them around the clock, then if anything goes wrong we would want it to be remedied just as quickly as in other similar facilities across the NHS.

1.42 It is not the route we choose to procure health facilities that is important in determining standards, but our expectation that they should be consistent with other NHS facilities.

Won't this threaten the partnering relationship I have with my LIFTCo?

1.43 No. This should make the partnering between the PCT and LIFTCo easier in some respects because it will be clearer *what* is required, *when* and from *whom*. By adopting the requirements laid out in this document at an early stage when planning the project timetable, the overall development of the project will be smoother for all parties.

1.44 In order to obtain Stage 1 approval, the PCT's design and service requirements must be developed to the point where they can be costed into LIFTCo proposals.

6 www.primarycarecontracting.nhs.uk/planning-and-design-guidance.php

PCTs may have access to sufficient in-house expertise to manage this process themselves.

1.45 Alternatively, a PCT may commission LIFTCo to undertake elements of this work where this is deemed to be more appropriate and where the PCT would be procuring such services from external sources in any case. In these circumstances, PCTs will need to be sure of the exact scope of the services and the basis on which such services are being procured (i.e. terms and conditions).

1.46 PCTs should not procure such services from LIFTCo where they are partnering services that LIFTCo should be providing in any case (such as updating the Strategic Service Development Plan (SSDP), estate management services, etc., as set out in Schedule 17 of the SPA).[7]

1.47 In addition, PCTs must always be mindful of European Union procurement rules when procuring such services and should take advice before procuring any service outside the usual scope of partnering services.

1.48 In evaluating LIFTCo proposals, PCTs may need to retain appropriate independent advice. This *does not* mean assembling a team to shadow LIFTCo's every function, as this would be costly and wasteful and would squander the potential benefits of partnering. It *does* mean that PCTs will need to identify those areas on which their boards require independent assurance that best value for the taxpayer will be achieved. The question of what advice and services should be commissioned independently of LIFTCo is discussed in more detail in Section 3.5. We expect LIFTCos to devote a level of resources to New Projects that is commensurate with their scope and complexity. LIFTCos should not seek to reclassify partnering services provided "at risk" in the development of proposals for New Projects as "ad hoc" partnering services to be additionally and independently paid for by the Participant.

7 www.communityhealthpartnerships.co.uk/index.php?ob=1&id=74

Key contacts

Who do I need to talk to and when?

1.49 Your first port of call should be the capital lead in your host SHA. For policy issues on schemes in excess of the SHA delegated approval limit, you can talk directly to the Department's LIFT team. For advice on legal or financial matters relating to schemes above the delegated limit, you should contact the Department's PFU. Each scheme will be allocated named contacts.

1.50 Contact details are set out below:

DH LIFT Team

John Mann	0113 254 5358	john.mann@dh.gsi.gov.uk
Richard Duncombe	0113 254 5407	richard.duncombe@dh.gsi.gov.uk

DH Social Care Team/Local Authority Team

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Paul Webster	020 7633 4121	paul.webster@dh.gsi.gov.uk

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DH Estates – Land

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CHP

Tim Challis	020 7633 4113	tim.challis@dh.gsi.gov.uk

Part 2: High-level guidance on business case requirements

Section 2.1: Overview of the business case process

This section sets out how the business case approval process works and what the roles of key players are.

Putting business case approvals into context

When is a business case required and by whom?

2.1.1 Any investment, irrespective of its purpose or procurement route, must be supported by a business case, written by the PCT responsible and demonstrating the support from other stakeholders in the development (e.g. local authorities) as necessary. LIFT is not an exception.

2.1.2 It is not possible to prescribe an ideal level of detail for the business case's content, since this depends on the scale and complexity of the scheme, but this guidance will give you an idea of what is required. In particular, it clearly establishes the importance of Stage 1 in the process of securing valuable outcomes from New Projects in the light of the contractual relationship that exists between LIFTCos and the public sector.

2.1.3 The starting point is to consider what information a PCT board requires to discharge its governance responsibilities properly, and what is required by way of audit trail documentation to demonstrate that decisions have been properly taken.

2.1.4 The operation of business case processes are necessary so that we, collectively, can demonstrate to HM Treasury that we have suitable investment controls in place. Without these we cannot operate the various delegated authorities that enable us to function without excessive financial oversight.

Business case approvals and wider policy

Why is any form of business case approval necessary?

2.1.5 The Department is granted delegated expenditure powers within the NHS by HM Treasury. This means that, subject to meeting certain conditions, we can authorise the use of resources in accordance with our own priorities without having to go back to HM Treasury to approve every investment decision. The key conditions attached to our delegated powers are:

- **monetary limits** – the Department works to a delegated approval limit of £100 million capital, above which expenditure decisions must be referred to HM Treasury. The Department disaggregates this limit and delegates it down to the NHS. For example, currently, NHS expenditure decisions with a capital value less than or equal to £35 million capital can be approved by SHAs without reference to the Department; and
- **that business case approval processes apply** – this means that expenditure decisions are supported by a robust analysis, based on the HM Treasury Green Book model[8] that assesses the degree to which an investment matches strategic need, represents value for money, is affordable and commercially viable and will be subject to proper project governance.

2.1.6 Table 1 summarises the various delegated limits and approval responsibilities for the Department and the NHS. These limits are reviewed periodically[9] and you should always confirm the latest appropriate delegated limits. Guidance on how capital value should be defined is set out in paragraphs 2.1.13–2.1.14.

8 www.hm-treasury.gov.uk/data_greenbook_index.htm
9 www.dh.gov.uk/en/publicationsandstatistics/Publications/PublicationsPolicyandGuidance/DH_080864

Table 1: Delegated limits for business case approvals

Capital value of business case	Approving bodies			
	SPB	PCT	SHA board	DH
If capital value over £35m	✓	✓	✓	✓
If capital value under £35m but above a PCT's delegated limit	✓	✓	✓	
If capital value of the scheme under the PCT's delegated limit	✓	✓		

2.1.7 If at any point in a scheme's development any of the delegated limits is exceeded, the PCT should notify the relevant approving bodies. The business case will need to be approved by the relevant bodies shown in Table 1, but only those approval checkpoints **subsequent** to the point at which the scheme exceeded a delegated monetary threshold are relevant. For the avoidance of doubt, this does not mean complete re-approval, unless the scope of the scheme has changed from that previously approved.

Surely producing business cases for every investment is needlessly bureaucratic?

2.1.8 Business cases have always been required to demonstrate that an investment is necessary and appropriate.

2.1.9 Producing a business case can take a lot of work, but it should not be a separate exercise in itself, merely a reflection of work already undertaken. You should not analyse whether or not an investment is affordable and good value for money simply because you are required to produce a business case; you should do it because it is good practice to do so, and is a necessary part of the governance that directors and board members should expect to be operating as a matter of course.

2.1.10 The analysis work that you have undertaken should be equally useful to PCT governance and to the Department and the SHA. In principle, if prepared correctly, only one set of documents is needed at each stage to gain approvals from all the parties. This work will also provide an essential audit trail for the PCT by showing the decisions that have been made in going ahead with an investment and the reasons behind those decisions.

This is best practice no matter what the size, value or complexity of the procurement. However, it is likely that a business case for a scheme that is relatively simple, lower-value or similar to previous developments for which detailed costs and specifications have been developed, will be less detailed than one produced for a more complex, larger-value scheme. The work involved should be proportionate to the scheme in question.

How is delegated authority interpreted?

2.1.11 In determining the delegated limit (and therefore who needs to approve the business case) the following definition of "Total Capital Value" should be used:

"The costs of land (whether contributed by the public sector or purchased by the private sector), construction costs, equipment costs, professional fees, rolled-up interest incurred during the construction period, and financing costs such as bank arrangement fees, bank due diligence fees, banks' lawyers' fees and third-party equity costs plus irrecoverable VAT."

2.1.12 The definition of Total Capital Value is somewhat technical, but its component parts can be explained as follows:

- **costs of land** – this is based on LIFTCo's purchase cost, regardless of whether the land has been sourced from the NHS or not;
- **equipment costs** – these relate to that which is part and parcel of the fabric of the building itself; any "big ticket" items procured by LIFTCo on the PCT's behalf and other capital investment on equipment planned by the PCT from other capital sources;

- **financing costs** – these include all the fees and charges levied by LIFTCo's lenders or shareholders for the provision of funds for the project. Sometimes these are wrapped into the interest rate paid by LIFTCo on its borrowings; sometimes these are disclosed separately in LIFTCo's financial model as one-off fees. It is not unusual for fees paid to shareholders to be described variously as "success fees", "mobilisation fees" and so forth. They are all part of the price of raising private sector funding; and
- **third-party equity costs** – these include all the costs of equity passed through LIFTCo, whether provided by the public or private sectors in the first case.

2.1.13 You should also include:

- any part of the non-project specific costs apportioned to the facilities, despite being revenue expenditure;
- any capital costs that will be incurred directly by the NHS in progressing an NHS LIFT tranche. Typical examples of this include the provision of equipment and IT; and
- any other relevant costs of the scheme, such as management costs, construction insurance and independent tester fees.

2.1.14 The above definition applies to all those schemes where the PCT invests equity, regardless of whether or not it holds a head lease, but only applies to those parts of the LIFT scheme that the NHS is responsible for (i.e. those parts in respect of which the NHS is taking the head lease).

What base date should I use?

2.1.15 The base date for measuring the capital value of the scheme must be a common and consistent one across the project, being the financial year in which financial close is programmed to occur (known as the "outturn cost"). Outturn cost is calculated by indexing the base date value of the scheme to the estimated date of financial close. The Department's website contains information on the Median Index of Public Sector Building Tender Prices.[10]

What are the milestones in the process that need to be considered?

2.1.16 Because we work to a series of delegated authorities, it is possible that the approvals of organisations other than a PCT are required in order for schemes to progress. The higher the capital value of the scheme, the more likely that SHAs and potentially the Department may be involved. It is crucial that approvals are booked into relevant bodies' board meetings, with time allowed for papers to be circulated to board members. This is a key part of a scheme's timetable.

2.1.17 Six weeks should be factored into the plan if Departmental approval is required. This should be sufficient time for you to respond to due diligence queries (provided that the business case submitted is complete and prepared to the standard required at Stage 1) and for ministerial approval to be obtained, if necessary. Provided that the guidance in this document is followed and issues are closed out satisfactorily, Departmental approval at Stage 2 should take no more than four weeks.

2.1.18 Where a local authority is a Participant to a scheme, local authority cabinet approval will also be required and should be factored into the timetable.

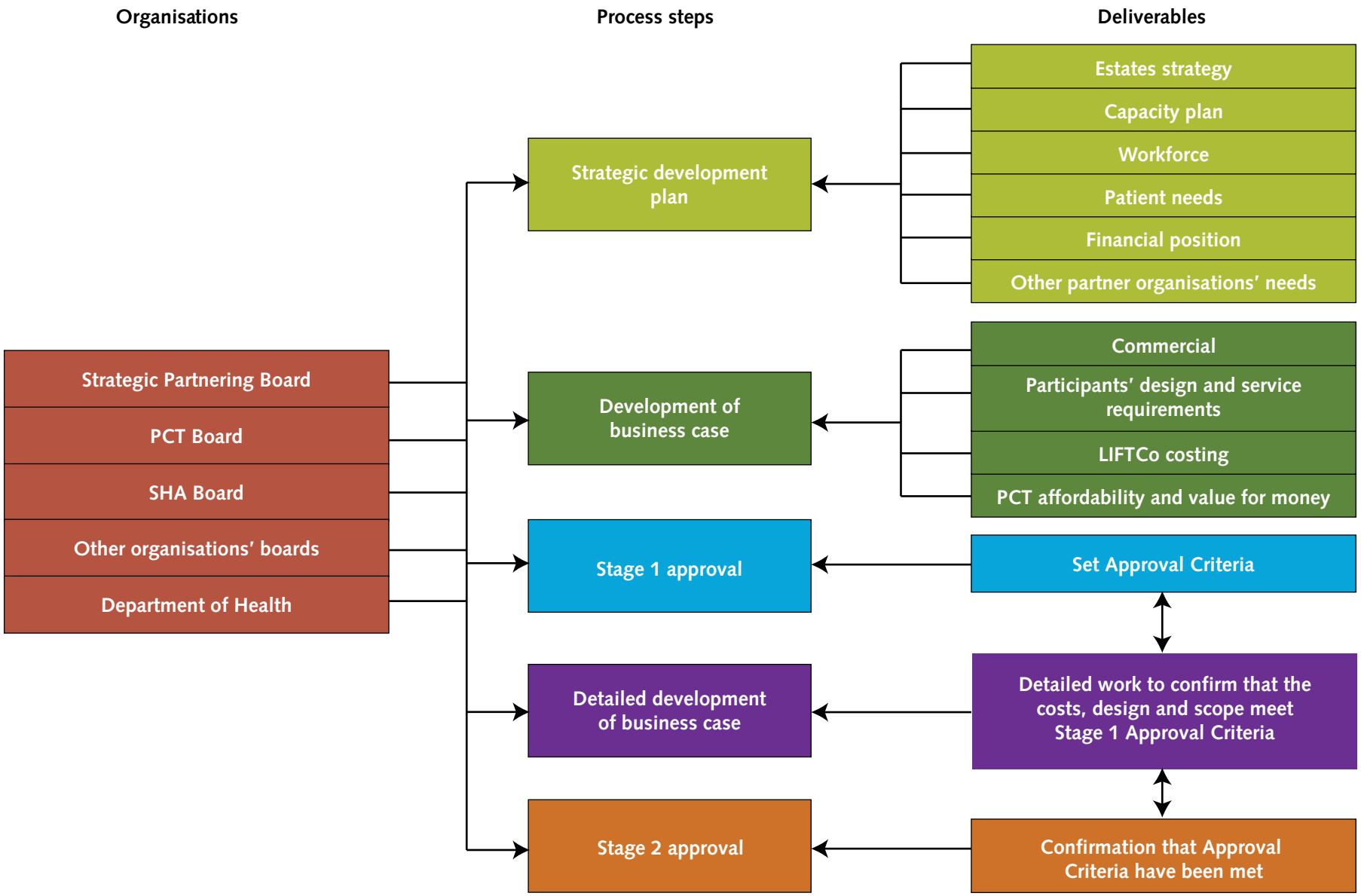
What are the key differences between the Stage 1 and Stage 2 business cases and approval processes?

2.1.19 Stage 1 is the point at which you are required to demonstrate to the relevant approving bodies that you have a scheme that is deliverable and affordable, and that meets your specific requirements and those NHS standards that are relevant for the blend of facilities and services which are likely to contribute towards the realisation of the improved health and social care outcomes that you are aiming to achieve. The Stage 1 business case will also set out the options appraisal that has been carried out, where relevant, to demonstrate that the preferred option on which the scheme is based is expected to provide the best available value-for-money estates solution.

2.1.20 The parameters of the scheme approved at Stage 1 are then framed as a series of Approval Criteria, in accordance with the SPA, which then serve as tramlines within which the fine detail of the scheme will be developed up to Stage 2.

10 www.dh.gov.uk/en/Publicationsandstatistics/Lettersandcirculars/Dearcolleagueletters/DH_076991

Figure 1: Overview of the approval process



2.1.21 Provided that the Approval Criteria set out at Stage 1 remain intact, and all other assumptions remain valid, then the Stage 2 approval process is focused on confirming that the Approval Criteria have been met. This should be a substantially shorter process.

2.1.22 The key steps are summarised in Figure 1.

How does this fit with the requirements and processes set out in the SPA?

2.1.23 The key steps in the LIFT New Project process are described below, at paragraphs 2.1.25–2.1.32. Each step, together with its associated requirements, is discussed in more detail in subsequent sections.

The SSDP

2.1.24 All investments should be traced back to the most current strategic statements of a PCT's commissioning and service requirements. These are the Strategic Service Development Plan (SSDP), Joint Services Needs Assessment and the Local Area Agreement. These should identify plans for future service delivery, the infrastructure required to deliver this plan and a "gap analysis" showing the difference between the required infrastructure and that which is currently available.

New Project Stage 1

2.1.25 The Participants in the development should work closely with LIFTCo to identify appropriate New Projects to progress in order to meet the aims of the SSDP (or equivalent document – see paragraph 2.1.26). It is a key feature of LIFT that the premises provider (i.e. LIFTCo) can be closely engaged in the process from the start in order to enable better-informed decisions in project identification and selection from the outset.

2.1.26 In this way, LIFTCo's expertise can be utilised to allow the Participants to make informed choices, ensuring that only projects offering the optimal balance between value (in terms of service delivery and ultimately positive health and social well-being outcomes) and cost (in terms of anticipated Lease Plus Payment and other costs, including service provision and environmental impact) will be progressed. This should ensure that abortive costs are kept to a minimum and continuous improvements in value for money are realised and demonstrated.

2.1.27 The full potential of LIFT to deliver improved value for money will only be realised by the application of partnering principles (see Section 3.5) from the conception of each New Project.

2.1.28 The completion of Stage 1 represents the crystallisation of this project identification process into a robust set of deliverable outcomes (the Participants' Requirements in terms of service and building outputs), which secure the value in the project and a proposed outline solution (LIFTCo's New Project Proposal), and a maximum price to be paid (the Affordability Cap). These are wrapped into a set of Approval Criteria. The Stage 1 business case reflects the outcome of this process.

2.1.29 It is important for the Participants to recognise that LIFTCo's expertise does not come without cost. While LIFTCo is expected to deliver appropriate partnering services in order to develop New Projects, PCTs are also required to expend effort in defining the outputs that LIFTCo will need to satisfy. PCTs should be prepared to pay for the work required to articulate their expectations, whether this is delivered by LIFTCo or external advisers – i.e. LIFTCo can be engaged in work specifically to assist a PCT in determining its requirements, rather than only in developing projects to meet this need (see text highlighted in blue after paragraph 1.29 above).

New Project Stage 2

2.1.30 Once Stage 1 approval has been obtained and a robust set of Approval Criteria has been established, LIFTCo should develop the project proposal to the extent necessary to establish that the Approval Criteria will be met, funding secured and financial close achieved.

2.1.31 The likelihood of a successful outcome at Stage 2 and beyond is directly dependent on the quality of the work carried out up to Stage 1. It is anticipated that the business case at this stage will be focused entirely on a demonstration that each of the Approval Criteria has been met and will largely rely on LIFTCo's New Project Final Approval Submission (as defined at Schedule 4 of the SPA) to achieve this outcome.

2.1.32 This guidance is intended to help you understand what needs to be done to obtain the right level of clarity at each stage, balanced sensibly against the cost that must be expended by the Participants.

How do I produce a good business case and avoid common pitfalls?

2.1.33 There are a number of common-sense steps that a PCT can take to help produce a good business case, as follows:

- Follow this guidance. This will make sure that you consult the right people at the right time and have a realistic view of what work is required to bring a project to a successful conclusion.
- Plan your approval slots with relevant boards and ensure that they are adhered to. Board meetings operate to a fixed timetable. If you miss one, it is almost impossible to arrange a special board meeting solely for the approval of your scheme. You should include an element of contingency time to absorb this risk.
- Identify your approvers and keep them involved in the development of your project. Not all projects are the same. The more conventional a scheme is, both in scope and in adherence to standard contractual documentation, the more recognisable it is from an approver's perspective and the easier it will be to approve. Less conventional schemes require more effort to review. The earlier that approvers are involved, the better they will understand your scheme. This will avoid unnecessary delay.
- If any elements of your scheme are unusual or complex, discuss these with your approvers before the business case is submitted and before reaching agreement with LIFTCo on how to deal with them. Sensible solutions to unusual issues will always be given a fair hearing. It is extremely risky and counter-productive to exclude approvers from the early consideration of any commercial arrangements that could be deemed "novel or contentious". This is an HM Treasury requirement. Under these conditions our normal delegated limits are suspended.
- When submitting a business case for approval, ensure that all the necessary information has been provided to the appropriate standard with supporting evidence, where required. It is inefficient to consider business cases in a piecemeal fashion. It does not save time.
- Structure the business case in a reader-friendly format, ensuring that annexes are clearly cross-referenced in the main body of the text.
- To control the development of the scheme and its business case, key milestones, targets and so forth need to be set. However, these need to be realistic and achievable. The business case should be submitted for approval when the required work has been done, not when the milestone says so.
- Make judicious use of independent advisers (e.g. legal, financial, technical) to review and verify LIFTCo's proposals and support the preparation of the business case at all appropriate points (see Sections 2.7 and 3.4). Cutting corners in this area is a false economy and will ultimately cost the PCT time and money later on.
- Make sure that the business case is internally consistent and an accurate reflection of the current state of the project, and also consistent with supporting documentation such as the financial model, the District Valuer's report, balance sheet opinions, draft contractual documentation, etc. Approval is based on the values and commercial positions articulated in the business case. If these are incorrect, then the project could be placed in breach of its approval.

How to use this guidance

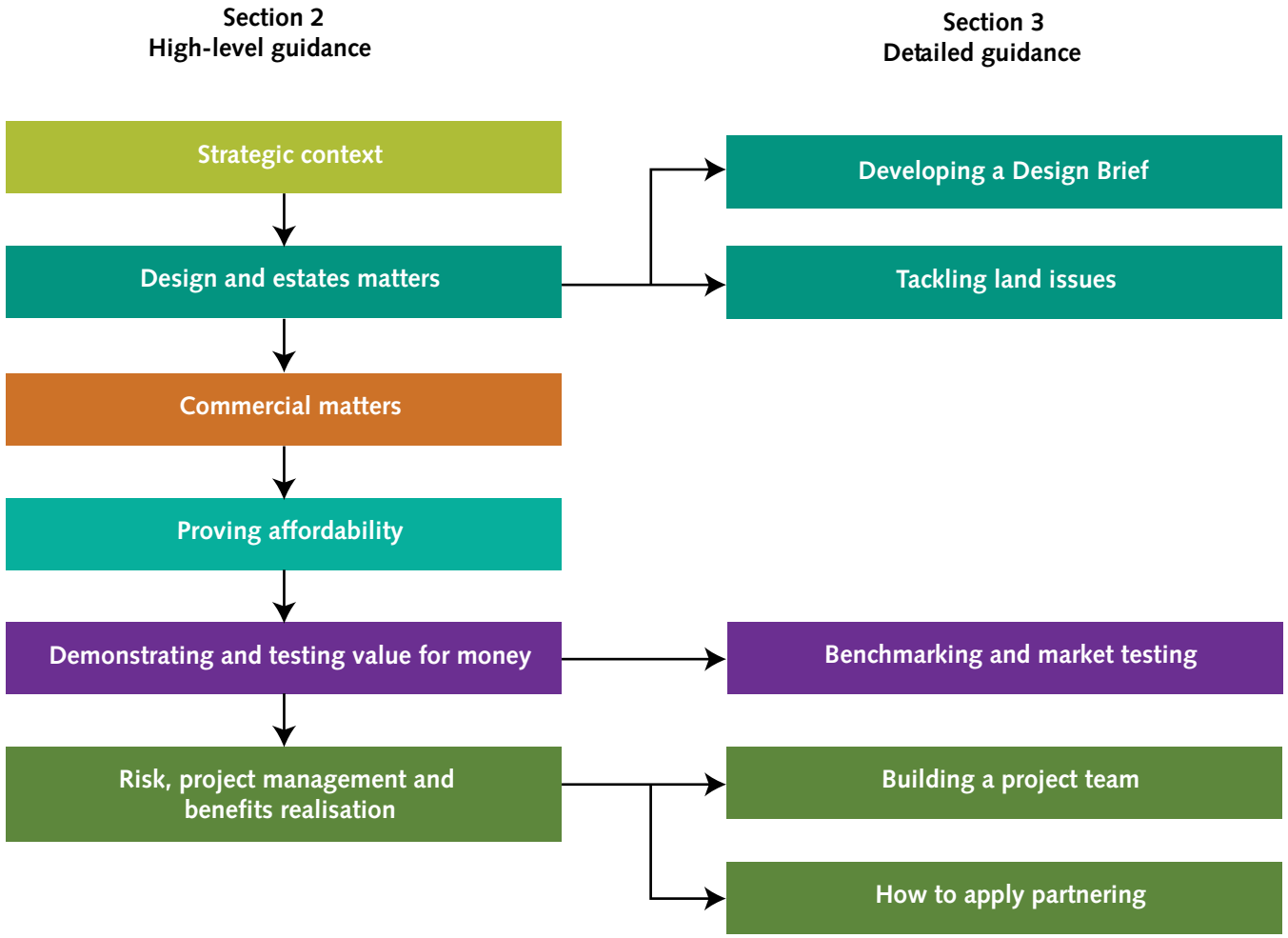
2.1.34 This guidance is aimed at both writers and approvers of business cases. Although the specifics of each business case will be different, the process described within this document must be followed. Where there is doubt about what should be provided, and to what degree, this should be clarified with the business case approvers at the earliest opportunity.

2.1.35 Section 2 is intended to be a high-level overview of key aspects of the business case such as strategic need, affordability, value for money and so forth. Where more detailed guidance is provided, this is set out at Section 3.

2.1.36 For the component steps of the business case process, see Figure 1. For more detailed information on the difference between Stage 1 and Stage 2, see the business case checklist at Appendix 2.

2.1.37 Figure 2 explains how to navigate through this guidance.

Figure 2: How to navigate through this guidance



Section 2.2: Strategic context

This section should be the first component of a business case and sets any new investment into context with respect to a PCT's longer-term plans, prevailing national policy and its local health economy.

Putting the scheme into context

What is the role of the SSDP in bringing forward schemes?

2.2.1 The SSDP outlines the service direction of health and social care in the LIFT area and identifies the public sector's estates needs in the short to medium term. In accordance with the SPA, it should be refreshed annually.

2.2.2 In established LIFT areas, the SSDP should become a vehicle for strategic service planning. LIFTCo, in conjunction with its Participants, can use the SSDP as the starting point for new developments.

2.2.3 A business case must demonstrate that a scheme is consistent with the strategic objectives of the SSDP. The most recent version of the SSDP should be annexed to the Stage 1 business case, together with details of any changes not reflected in that version.

2.2.4 For more detailed information on the purpose of the SSDP and how it should be developed, please consult the Community Health Partnerships (CHP) website.[11]

2.2.5 A good example of a completed SSDP can be found on the Department's website.[12]

How does the scheme link into the PCT's business and policy objectives?

2.2.6 The SSDP provides the ten-year context for the five-year Integrated Service Investment Plan and the three-year Local Development Plan, both of which a PCT should also produce. It also provides the context for immediate service and financial decisions taken by the PCT.

2.2.7 At Stage 1, the business case should summarise the link between each of these plans and the relevant objectives in each that the scheme is intended to deliver.

2.2.8 In the absence of an updated SSDP, the PCT should confirm that the SSDP priorities are still relevant. Where any of the PCT's planning assumptions have changed, these should be clearly set out.

2.2.9 Following on from this, the Stage 1 business case will need to demonstrate that:

- the strategic benefits of the scheme are clearly identified and agreed across the local health and social care economy as appropriate. Part of the benefits of using LIFT is to encourage strategic thinking across the economy, so this is an important area;
- the scheme (as the preferred option) has been evaluated in terms of how well it meets the aims of the SSDP;
- consequences for other services in the local health and social care economy have been fully considered through use of a strategic asset management plan such as the Strategic Health Asset Planning and Evaluation (SHAPE) toolkit;[13] and
- service benefits (including community, and third-party income, benefits – see further below) have been identified and linked to the SSDP and are consistent with national and local priorities.

2.2.10 The business case should clearly state the extent to which each of these factors is met, particularly where compromises have been made or certain factors accorded greater prominence.

2.2.11 This information will need to be reconfirmed at Stage 2.

How should interfaces with other organisations be analysed and presented?

2.2.12 The development of the SSDP will involve a great deal of consultation to ensure that participating organisations' interests are fully reflected.

11 www.communityhealthpartnerships.co.uk/index.php?ob=1&id=72

12 www.dh.gov.uk/en/procurementandproposals/publicprivatepartnership/NHSLIFT/NHSLIFTguidance/DH_4084499

13 SHAPE is a web-based application, developed by the Department to support and inform SHAs and PCTs in the strategic planning of services and physical assets across a whole health economy (http://shape.dh.gov.uk/).

2.2.13 The Stage 1 business case will need to describe the consultation that has taken place and demonstrate how the scheme reflects such interests and/or requirements, whether collaborative or complementary. For example, consultation may be required with the Local Medical Committee, Local Dental Committee, Local Pharmaceutical Committee, Public and Patient Involvement Forums, service users and local community groups.

2.2.14 The analysis of interfaces in the Stage 1 business case should also cover organisations that may not necessarily be party to the SSDP, for example:

- the impact on other NHS bodies, e.g. acute trusts or foundation trusts;
- the implications for local GP practices and their willingness to commit to occupying rooms in the new facility;
- how the development affects third-sector organisations for which there is a policy initiative;
- how the scheme interacts with the independent sector; and
- other initiatives as required.

2.2.15 This is important to enable approvers to form an understanding of the full economic impact of the scheme, not just at the PCT level but at the level of the whole health economy.

2.2.16 The Stage 1 business case should identify all potential third-party income providers. Income should only be included in the calculation of the PCT's Affordability Envelope if it is confirmed by appropriate letters of support. If such evidence is not forthcoming, then the business case should demonstrate that the scheme is still affordable without the income, or alternatively how the loss of such income can be absorbed.

What business assumptions or constraints should be considered?

2.2.17 The strategic section of the Stage 1 business case will need to set out any assumptions made, including at least in relation to the following:

- The need for the services and facility, now and in the foreseeable future, i.e. the duration of the Lease Plus Agreement (LPA) or Land Retained Agreement (LRA).
- Policies relating to the direction of travel for healthcare provision and foreseeable changes to these.
- Latest policy regarding public sector land and its use and compliance with the PCT's estates strategy.
- Economic and financial assumptions linked to demography, morbidity, funding growth and demand.
- The impact of Payment by Results, tariff and non-tariff activities, the increase in community-based services and the effect of practice-based commissioning.
- The PCT's own commissioning plans and any joint commissioning plans, e.g. for social care.

2.2.18 The Stage 2 business case will need to confirm that none of these assumptions or constraints has changed or, where there are changes, their nature, extent and impact on the scheme and business case.

Governance

What should a PCT board look for in the strategic context section of a business case?

2.2.19 A good strategic case should provide the PCT board with confirmation that the scheme proposed:

- supports the delivery of the PCT's long-term vision for care as expressed in its SSDP (or equivalent document – see paragraph 2.1.24 above), Integrated Service Investment Plan and Local Delivery Plan;
- has the support of the local health and social care economy and is consistent with its aims and vision for delivery of improved care to patients;
- identifies service benefits;
- identifies potential risks;
- clearly distinguishes between facts and assumptions; and
- maximises benefits and minimises costs.

High-level compare and contrast: levels of detail between Stage 1 and Stage 2

Key messages

Stage 1 focuses on building a picture of the strategic background to the investment business case, where it contributes to the PCT's and local health economy's strategic objectives. Stage 2 focuses on the detail of the scheme. Strategic considerations should be restricted to confirmation that Stage 1 assumptions remain relevant or, where assumptions have changed, how the scheme has responded to them in order to remain relevant.

2.2.20 Once the strategic need and high-level strategic objectives for the business case have been established, these need to be taken forward and translated into an appropriate brief for LIFTCo to deliver and against which the PCT will measure progress. The following sections explain what approvers require in the key areas of:

- design and estates matters;
- commercial matters;
- proving affordability;
- demonstrating and testing value for money; and
- risk, project management and benefits realisation.

Section 2.3: Design and estates matters

This section takes the high-level objectives set out in the strategic case and shows how key factors (such as demography, functionality and so forth) have been translated into appropriate Participants' Requirement, Design Brief and LIFTCo New Project Proposal documents.

Design and estates issues

What is different about a LIFT business case?

2.3.1 LIFT is designed to bring user, commissioner, designer, developer and funder together from the conception of each New Project. By removing the requirement for a regulated procurement competition, after the initial set-up of LIFTCo, improvements in value for money of New Projects is realised through better communication and interaction between the parties, better understanding of the requirements and constraints of the parties, and the alignment of business goals. It is how these parties act together and how their roles and responsibilities contribute to the business case that distinguishes LIFT, rather than differences in business case requirements per se.

2.3.2 Accordingly, in principle there is no difference in what the design and estates part of a Stage 1 LIFT business case must demonstrate from that expected in an outline business case for other forms of procurement, such as P21 or PFI; namely, that the case for the:

- supporting estates solution, including site selection, is demonstrated through a sound conception and appraisal of the options;
- proposed quantity and quality requirements of facilities – defined in terms of their impact, functionality and build standards – demonstrably reflect staff and patient needs, and public and community expectations of NHS buildings;
- capital cost of the facilities is robustly ascertained – including risk assessment and mitigation – and demonstrated against relevant comparable market data, and that such costs are affordable (also see Sections 2.5 and 2.6);
- deliverability of the facilities is assured through a realistic programme and effective identification, mitigation and management of risks associated with obtaining requisite planning consents; and
- proposed solution – in the form of outline building design proposals and specifications (or potentially a benchmark proposal to be bettered through design competition) – demonstrates that the quantity, quality, cost and deliverability requirements will be adequately met through the application of established standards and proven evaluation techniques.

2.3.3 Needless to say, all this must be done in the context of demonstrating value for money overall, as detailed in Section 2.6, and with appropriately composed and resourced project organisation and controls, as detailed in Section 2.7.

What needs to be considered when selecting a site for the scheme?

2.3.4 The selection of the appropriate site is vital to the success of any project and will impact fundamentally on both the available benefits and the outturn cost. As a result, it is important for the Participants to acquire the best available information on all potentially suitable sites to ensure that the correct decisions are made.

2.3.5 Site selection should therefore be conducted in parallel with the initial scoping of the project to ensure the best combination of site and project content. Further, because LIFTCo is expected to deliver and improve value for money for each New Project, it must be engaged in the site selection from the start. LIFTCo's expertise and experience will be invaluable in informing options appraisal and assessments of feasibility at the outset.

How do I set out the rationale for the selection of the site for a New Project?

2.3.6 The appropriate site selection will be made by striking the best available balance (in terms of value for money) between the optimum location for provision of the proposed services, site acquisition cost, the impact of site constraints (including planning restrictions) and physical conditions on the site's development potential and construction cost. Where an NHS (or other public sector) site is available for use and meets the clinical requirements, then this should be used in preference to a site in other ownership, unless there is a clearly demonstrable benefit to the public sector in doing otherwise (e.g. optimal service location, ease of development

or better value for money). An option appraisal should be carried out in all cases, using the benefit of LIFTCo's expertise and experience to determine which potential site is likely to offer the best solution in terms of meeting the public sector's requirements, offering certainty of delivery, and delivering the best available value for money to the public sector.

What about sustainability?

2.3.7 The sustainability of any New Project solution will be largely determined from the outset and certainly long before the project outcomes and site are defined. For example, the potential for refurbishment of an existing building rather than a new build should always be considered, and the additional environmental burden of demolition should always be factored into any cost–benefit analysis informing the decision to opt for a new build. It is expected that Participants will draw on LIFTCo's expertise (and that of its supply chain) to inform this decision at the outset.

2.3.8 The Participant should explain how the location contributes to the social, economic and ecological sustainability of the local community and set out all public involvement and stakeholder engagement in the site selection decision, including any potential public objections (especially from historical or other similar interest groups) and the level of risk that they present to the preferred option.

What does the Stage 1 business case require in relation to the selection of the site?

2.3.9 At Stage 1, the business case should demonstrate that:

- the site is capable of being developed as required or that existing buildings are suitable for the required conversion;
- utilities capacity for the project is sufficient; and
- any potentially significant planning and/or highways issues that could seriously obstruct or prevent delivery of the scheme have been identified, assessed and mitigated as appropriate in each case.

2.3.10 The business case should also demonstrate that the proposed site is the best available for the intended development, including drawings of the site development options used in the appraisal to reach this decision.

2.3.11 The Participant should demonstrate how the site fits with the Participants' strategic asset management plans through reference to:

- the SHAPE toolkit;
- the estates strategy/strategies of the Participant(s); and
- a reconfirmation of the SSDP assumptions, if relevant.

How do I demonstrate that NHS land has been dealt with appropriately?

2.3.12 The Department has published guidance on dealing with NHS land in relation to PPP transactions in *Land and Buildings in PFI Schemes (Version 2)* (the "Land Guidance").[14] This document represents the Department's policy position on all PPPs. The principles are broadly similar for LIFT.

2.3.13 The overriding principle of the Land Guidance is that the transfer of land, whether integral to a project or surplus, should only be undertaken where the decision is supported by a strategic rationale and where there are strong supporting commercial reasons to demonstrate that the transfer represents value for money.

2.3.14 Safeguarding the long-term control of public sector land must always be considered, even where a sale to LIFTCo is proposed to fund the public sector equity stake (or subordinated debt). Only land specifically intended for development by LIFTCo for the public sector tenancy under an LPA may be transferred to LIFTCo.

2.3.15 The general principles of acquisition, disposal and management of NHS land and buildings, contained in the Department's publication *Estatecode*,[15] should be followed to supplement the Land Guidance.

14 www.dh.gov.uk/en/Procurementandproposals/Publicprivatepartnership/Privatefinanceinitiative/LandandbuildingsinPFIschemes/DH_4016493

15 www.dh.gov.uk/en/Procurementandproposals/Publicprivatepartnership/Privatefinanceinitiative/InvestmentGuidanceRouteMap/DH_4133051

What if land is transferred to LIFTCo for use in connection with the proposed project?

2.3.16 Where the strategic case supports a transfer of land to LIFTCo integral to the proposed New Project (see paragraphs 2.3.13–2.3.15 above), the business case should demonstrate that the transaction represents value for money, in terms of both the transfer price for the land and also the transfer of residual value risk pursuant to the lease.

2.3.17 The Land Guidance provides that any transfer should be at no less than market value (determined by independent valuers), and it states that all reasonable steps should be taken to maximise this value prior to transfer (e.g. by obtaining enhanced planning permission).

2.3.18 This latter point requires some interpretation in a LIFT context. LIFTCo is expected to provide estates expertise to the Participants (and most importantly, the site transfer price is likely to impact directly on the Lease Plus Payment), particularly where all the land to be transferred is to be used for health and/or social care facilities. However, where this is the case, the Participant must secure an appropriate benefit from any future increase(s) in land value when the health or social care use ceases. This can be achieved by user restrictions and/or "overage" and "claw-back" provisions in the Property Sale Agreement or by alternative secure means of acquiring the appropriate benefit. The business case at Stage 1 should demonstrate how this benefit will be secured.

2.3.19 A proposal to transfer land integral to a development, and therefore use the LPA, implies that a significant element of residual value risk is transferred to LIFTCo. The commercial justification to support such a proposal needs to include an analysis of this risk. This includes consideration of:

- the value for money of residual value-related funding;
- an evaluation of the options at the end of the lease term, such as renewal or termination of the lease (pursuant to the Landlord and Tenant Act 1954), repurchase of the property and sale of the property by LIFTCo to a third party and the likelihood of each option being exercised; and
- corresponding accounting implications (e.g. balance sheet treatment).

2.3.20 The business case should also cover the timing of any transfer as well as accounting and taxation implications.

2.3.21 Prior to Stage 1, both the Participant and LIFTCo should be satisfied that the Participant holds good title to the land and is able to transfer the land to LIFTCo for use in connection with the New Project as proposed. Legal advice should be sought as appropriate (usually by LIFTCo), and the Participant should not consider certifying title for LIFTCo's benefit. Note that title (and other land risks) will ultimately rest with LIFTCo.

How should surplus land be treated?

2.3.22 The Land Guidance should be interpreted with reference to *The Register of Surplus Public Land – Inclusion of NHS Land,* published by DH Estates and Facilities in July 2007.[16] This sets a series of new conditions before land can be regarded as surplus from the perspective of the public sector.

2.3.23 Where a Participant has surplus land, it will need to ensure that the site has been included on the Register of Surplus Public Sector Land and confirm that it is not required by any other NHS or public sector organisation.

2.3.24 Please note that in terms of the Register of Surplus Public Sector Land, surplus land is defined as "vacant land or buildings or property that is no longer required for the purposes of the public body". Therefore, where the entire site is to be used for NHS healthcare, for example under a LIFT scheme, then the land is not surplus to the NHS and is not covered by the definition.

2.3.25 Where the LIFT scheme involves partial development of a larger site, leaving other areas of the site as surplus, the same requirements apply (i.e. those areas should be placed on the Register). Such areas should not be disposed of to LIFTCo for other development as part of the scheme without first complying with these requirements and ensuring that an appropriate portion of any consequent benefit (future property value increases) is secured.

2.3.26 Where there is no NHS or other public sector organisation requirement for the surplus land, it may be transferred to LIFTCo for other development as part of

16 www.dh.gov.uk/en/Policyandguidance/Organisationpolicy/Estatesandfacilitiesmanagement/DH_4119086

the scheme. The business case must demonstrate that this option provides value for money and is no worse than selling the surplus land on the open market at arm's length. As detailed above, the case supporting the transfer of surplus land needs to be justified on both strategic and commercial grounds.

2.3.27 If the Participant is at all unsure about the position in relation to proposals being taken forward, it should contact DH Estates and Facilities (see the contact list at the end of Section 1 on page 13).

Must the Participant transfer land to LIFTCo for use in the scheme?

2.3.28 No. There will be cases where no suitable public sector-owned site is available or, alternatively, the Participant (or another public sector body) owns an appropriate site for the New Project but elects not to transfer it to LIFTCo. This may be the case, for example, where the site forms part of a larger healthcare site and there is no strategic case for disposing of part of it.

2.3.29 In this situation, the site can be used although LIFTCo will not own the land on which the facility will be built through use of the LRA.

2.3.30 The Stage 1 business case will need to set out the reasons for retaining the land and confirm that the appropriate form of contract (LRA) will be used. This is covered in more detail in Section 2.4. At Stage 2, confirmation will be required that the conditions underpinning the decision made at Stage 1 have been met or are still applicable.

What factors should I take into account if I am not using NHS land?

2.3.31 As mentioned above, all land transactions should offer best value for money and comply with *Estatecode* and the Land Guidance.

2.3.32 The business case will need to demonstrate the strategic and value-for-money grounds of selecting a particular site. Where this is not NHS land, this should include a determination of how the site should be acquired or secured for the project, particularly if a public-sector purchase is proposed. Note that enabling funds (where available) may be used to purchase a site from a third party (for transfer to LIFTCo at or before financial close) but cannot be used for a direct purchase by LIFTCo, since this would not, at any point, create an asset on the public balance sheet.

2.3.33 There will also be practical considerations to bear in mind, related to timing of purchase, likely ground conditions and planning permission issues. If proposing a non-NHS site, any additional risks inherent in this approach (e.g. how LIFTCo proposes to secure the site) should be identified together with details of how they will be managed. This is covered in more detail in Section 2.5, which deals with setting the Affordability Cap and Approval Criteria.

While it is preferable to settle on the site at Stage 1, this may not necessarily be possible, depending on the state of commercial negotiations and the availability of suitable alternative sites. It is acceptable at Stage 1 for site selection of smaller, less complex facilities to be deferred, provided that the risks related to this lack of clarity are expressly understood and accepted by LIFTCo and appropriately and transparently allowed for within the Affordability Cap as a defined contingency.

What if the site has not been finally identified at Stage 1?

2.3.34 It is expected that a site will usually have been identified at Stage 1, as this underpins the strategic, affordability and value-for-money sections of the business case. However, in exceptional circumstances this may not be appropriate (e.g. where there remains a choice of suitable sites, but for good commercial or other reasons the decision on which site to proceed with cannot be finalised or made public until later).

2.3.35 In this situation, a robust analysis should be undertaken to explain how the site will be selected post-Stage 1. This analysis should include a detailed evaluation of any associated risks and costs, including mitigation strategies, and appropriate identification and agreement of a suitable ring-fenced contingency to absorb the impact of these risks that crystallise for inclusion within the Affordability Cap (see Section 2.5).

Town and country planning matters

How do I show that planning issues have been addressed properly?

2.3.36 It is not necessary for LIFTCo to obtain Outline Planning Permission at Stage 1, provided that the risks and costs associated with compliance always remain a risk of LIFTCo and are appropriately and transparently allowed for within the Affordability Cap as a defined contingency.

2.3.37 Obtaining and complying with detailed planning consent are primarily matters for LIFTCo to resolve. However, planning conditions can significantly impact on the cost of delivering a project and, if not satisfied, can prevent the project from proceeding. As such, the Participant should be engaged with LIFTCo's negotiations with the planning authority wherever appropriate, and the Participant should satisfy itself that all anticipated planning conditions are likely to be satisfied, and that the amounts allowed within the Affordability Cap for such are realistic. The Participant should consider making use of independent professional advice to verify this information as appropriate – see Sections 2.7 and 3.4.

What points are acceptable to leave unresolved until Stage 2?

2.3.38 Planning permission will be obtained after Stage 1 approval. Further guidance on the management of risks associated with obtaining planning permission (including issues around judicial review risk) is available.[17]

Design issues

What's different about LIFT?

2.3.39 LIFT encourages dialogue and the sharing of experience and expertise to enable the identification and delivery of better projects, as well as the introduction of new and improved working methods – all with the aim of providing much improved facilities for the provision of primary care and the realisation of real benefits in value for money to the public sector.

2.3.40 To maximise these benefits, LIFTCo (and, where appropriate, members of its supply chain) fully engages in the strategic service and estate planning and the identification, planning, scoping and development of each New Project from the outset.

What are the key features in the LIFT New Project design development process?

Participants' Requirements

2.3.41 The Participants' Requirements are a specification of the outputs that the proposed project must deliver to the Participant(s), in the form of a detailed Design Brief. The primary purpose of this document is to secure the value of the project at Stage 1.

The New Project Proposal

2.3.42 This includes the project's design solution proposed in outline by LIFTCo. It will be necessary for the proposal to be prepared in sufficient depth to establish that the Participants' Requirements can be met, that the proposed solution is acceptable and that the project will be deliverable, affordable and provide value for money on the basis of the specifications for facilities and services included within the Participants' Requirements.

Stage 1 approval

2.3.43 This is a formal contractual commitment to the New Project (by both LIFTCo and the Affected Participant(s)) based on the Participants' Requirements and the New Project Proposal. This allows LIFTCo the opportunity to deliver the New Project (or otherwise to be reimbursed in abortive costs in the event of public sector abandonment) provided that it is able to demonstrably meet each of the defined Approval Criteria.

2.3.44 It is vital that the Stage 1-approved project is defined in sufficient detail to ensure that all project requirements are clearly understood by both the public and private sectors. These requirements must be translated into clear, objective and measurable Approval Criteria in every case in order to ensure that any project meeting the established criteria will be appropriate for delivery, once Stage 2 Approval has been achieved.

17 www.communityhealthpartnerships.co.uk/index.php?ob=1&id=72

The Approval Criteria

2.3.45 The criteria are set in accordance with the SPA for a New Project at Stage 1 by which LIFTCo's New Project Final Approval Submission will be judged at Stage 2. Achievement of the Approval Criteria shall entitle LIFTCo to deliver the New Project, or otherwise to be reimbursed the costs that it has incurred in project development. The Approval Criteria shall be that:

- the New Project meets each of the Participants' Requirements, including standards contained in output specifications for facilities and services;
- the New Project can be delivered within the Affordability Cap (see Section 2.5);
- the New Project complies with the law and all applicable regulations; and
- LIFTCo is able to demonstrate that the New Project will provide value for money to the public sector.

Stage 2

2.3.46 LIFTCo develops its New Project Proposal into a deliverable project and demonstrates achievement of each of the Approval Criteria. It will also develop the project documentation into its final contractual form (including particularly the Landlord's Proposals).

Partnering (see Section 3.5)

2.3.47 In order to maximise the value of LIFT (particularly in terms of delivering improvements in value for money), the project development process should not be conducted in isolation. In particular, the development of the Participants' Requirements and the New Project Proposal prior to Stage 1 should take place in tandem, drawing on the expertise and experience of the parties to ensure that all viable options are explored, so that the New Project defined at Stage 1 is likely to provide the best available value for money to the public sector.

What is the basis of a good Design Brief (for inclusion in the Participants' Requirements at Stage 1)?

2.3.48 For all projects, the Participants' clinical and other requirements should be translated into a Design Brief addressing the three components of design quality, namely:

- the required functionality of the facilities;
- the impact of the facilities on people and their surroundings; and
- the build quality of the facilities.

2.3.49 Section 3.1 contains more detailed guidance on how to develop a good Design Brief using the Design Quality Briefing Tool[18] and lists many of the deliverables to be expected, such as activity estimates, workflow diagrams, spatial requirements, energy targets, etc.

Section 3.1 of this guidance is drafted on the basis of a "complex LIFT development". While the general principles are relevant to a project of any size or complexity, it is expected that they will be applied proportionately. It is recommended that a PCT agrees with LIFTCo at the outset how these principles will be applied throughout the project development process, in order to ensure that the appropriate outcomes are achieved without disproportionate effort or expense. This flexibility is subject to ensuring that approvers are comfortable with the PCT's proposed approach and due regard is paid to value for money from the taxpayers' perspective.

2.3.50 The Design Quality Briefing Tool has been developed for use with a wide range of procurement methods at a particular point in time, and hence its effective use in connection with the development of New Projects in LIFT should be subject to a number of considerations, including:

- proportionate application of the principles based on the scale and complexity of the project;

18 www.dh.gov.uk/en/Managingyourorganisation/Estatesandfacilitiesmanagement/Designandcosting/DH_4122853

- the increased importance given to sustainability issues since its publication, and the replacement of the National Environmental Assessment Tool with the Healthcare Building Research Establishment Environmental Assessment Method accredited assessment requirements;
- maximising the value of early interaction with LIFTCo;
- the development of standard specifications (subject to bespoke amendment) to maximise the benefit of repeat business; and
- using LIFTCo in lieu of independent professional advice, subject to ensuring that the Participants' interests are adequately protected, to supervise the design development process.

Impact

2.3.51 Consideration of the impact of the facility on people and on its surroundings should take account of stakeholder engagement (see Section 2.8 for more detail) – including the public, patients and staff and any other public bodies that are participating in the scheme – on how the building should fit within its community. This should cover character and innovation, internal environment, and urban and social integration.

2.3.52 The LIFT approach can bring benefits in this respect through close interaction between the Participant and the LIFTCo design team through the development of the Design Brief and the preparation of LIFTCo's response in its Outline Proposals.

2.3.53 The Stage 1 business case will need to demonstrate that requirements have been established for achieving excellence in impact matters, that they have been derived by a transparent process of constructive consultation and engagement, and that the evaluation of LIFTCo's outline design indicates satisfaction of the requirements. For major capital schemes (see paragraph 2.3.90), such satisfaction will need to be supported by evidence from the NHS Design Review Panel.

2.3.54 The Stage 2 business case will need to confirm actual satisfaction of the requirements with support from the NHS Design Review Panel, where appropriate (see paragraph 2.3.90).

Build quality

2.3.55 The "build quality" requirements relating to performance, engineering and construction should incorporate current best practice guidance wherever appropriate – such as DH's *Health Technical Memoranda*[19] and reference to the DH Estates Primary Care Contracting website.[20] Particular attention should be given to specifying sustainability requirements – such as energy and carbon targets, and use of recycled materials. This should be informed by taking advice from LIFTCo on the possibilities and lifecycle benefits of such measures.

2.3.56 Reference to best practice guidance should be specific and focused on particular Functional Areas, as this is likely to have a significant impact on functionality, flexibility and cost – the best value-for-money outcome will therefore be determined by informed discussion and agreement between the Participant and LIFTCo at the early stages of project development.

Functionality

2.3.57 The model of care, as illustrated by operational policies (to form a vital part of the Participants' Requirements) and corresponding planning principles, should be at the heart of specifying "functionality" requirements, taking into account best practice guidance – such as the Department's guidance (e.g. the Primary Care Contracting website)[21] and relevant publications, e.g. Health Building Notes.[22] Functionality will cover use, access and activity space requirements.

2.3.58 Post-completion maintenance service requirements should be specified in the Design Brief using the Standard Service Level Specifications (SLSs), subject to adjustment to reflect project-specific circumstances and value for money. In assessing the value for money of particular service standards, Participants should consider the need to ensure consistent quality standards across the NHS and deliver quality for staff and patients alike. See Section 2.4 for further details.

2.3.59 An indicative calibration of the Payment Mechanism (see Section 2.4.22 for further details) should be used to inform the design of the New Project – i.e. to

19 www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyAndGuidance/DH_4119663
20 www.primarycarecontracting.nhs.uk/planning-and-design-guidance.php
21 www.primarycarecontracting.nhs.uk/planning-and-design-guidance.php
22 www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyAndGuidance/DH_4119663

enable LIFTCo to take full account of the relative risk of service interruption between different Functional Areas within its design, thereby maximising security of service where it is valued highest.

2.3.60 LIFT is designed to deliver flexible premises to accommodate changes in particular use over the life of each project. However, it must be noted that flexibility usually comes at a cost (e.g. specifying fitness for clinical function within an administrative area or the inclusion of additional expansion space within the design). For this reason, it is important to establish and agree at an early stage precisely what degree of flexibility is required, and what is likely to represent value for money to the public sector in the longer term.

2.3.61 Expression of Functional Requirements should be in terms of outputs, allowing LIFTCo the latitude to achieve a balance between bespoke design and future flexibility as the design progresses beyond Stage 1.

What does the LIFT approach of working together mean in practice?

2.3.62 The Participant is likely to require design advice and other professional assistance as part of producing the Design Brief – e.g. a specialist room may need to be drawn out at 1:50 scale in order to precisely establish the Participants' Requirements, or master planning studies of the site may be required for the Participant to engage with the local community and make decisions on the parameters for the design of the outside of the building. Such assistance is expected to be provided by LIFTCo (or its supply chain) as a partnering service in connection with the development of a New Project.

2.3.63 Overall, and although LIFTCo is required to prepare the outline design proposal at Stage 1 (and the detailed design at Stage 2), the Participant should be an informed client in its decision-making on design and costs. At every stage of the process, it should be fully engaged in the design process and be prepared to obtain independent advice where appropriate – i.e. whenever LIFTCo's interests are not aligned with its own (see Sections 2.7, 3.4 and 3.5 for more guidance on this).

2.3.64 A measure of iteration between the Participant and LIFTCo (in developing the Participants' Requirements in conjunction with the New Project Proposal) will provide an engine for innovation and constructive dialogue. It does not dilute the requirement for the Participant to set out as clearly as possible what it requires, and the Participant should not assume that a failure to define its requirements can be rectified by reiteration at LIFTCo's expense after Stage 1.

What level of detail is required in LIFTCo's New Project Proposal for design at Stage 1?

2.3.65 The level of design work to be completed by LIFTCo prior to Stage 1 should be sufficient to determine with a reasonable degree of confidence that the Participants' Requirements can be met, to demonstrate the design quality of the project and to allow the development of a robust elemental cost plan, including the identification of appropriate contingencies for matters not yet known. This cost plan will be used to determine the Affordability Cap (see Section 2.5) and as an initial indication of value for money (see Section 2.6).

2.3.66 Although the level of detail required to achieve this result may differ depending on the size and complexity of the scheme, particularly if specialist elements are involved, the New Project Proposal will typically contain:

- a development statement;
- Schedules of Accommodation;
- 1:1250 site plan;
- 1:500 general arrangement block floor plans;
- 1:200 departmental layout plans for specialist rooms;
- a typical 1:50 room layout plan for each specialist room type;
- illustrative elevations, sections and perspectives; and
- outline building and engineering strategies and specifications.

The requirements above are indications of good practice. If LIFTCo wishes to defer or dilute these requirements, then the PCT must satisfy itself that the associated risks have been priced robustly and are included in the Affordability Cap (and hence are reflected in the Approval Criteria for the scheme). The minimum requirement for design at Stage 1 in every case must cover the following:

- Establish and define each of the Participants' Requirements so that:
  - they secure the appropriate value in the project;
  - they secure the healthcare needs driving the project to LIFTCo (and its supply chain); and
  - they can be objectively applied as Approval Criteria at Stage 2. (Note that design work will be required at Stage 1 to establish any criteria that cannot be adequately established in its absence – e.g. external appearance.)
- Establish to a reasonable degree of certainty the maximum outturn cost of the project (i.e. the Affordability Cap), so that the choice of this project as opposed to any available alternative can be justified on value-for-money grounds, and to enable LIFTCo to commit to delivery of the project within the Affordability Cap.
- Enable the identification, definition and agreement of a precise method of determining and demonstrating that the elemental prices applied to the project at Stage 2 to "fix the bargain" are "on-market" and thereby provide value for money.

The amount of building design work required to achieve Stage 1 for any particular project will be that necessary to establish sufficiently robust Approval Criteria – i.e. the amount necessary to ensure that if the Approval Criteria are met then the project will be suitable for delivery. On each occasion, the amount required for Stage 1 should be established and agreed between the PCT and LIFTCo at the outset, bearing in mind the need to establish a robust Affordability Cap using a reliable estimate of cost, the need for sufficient information to enable the selection of the most appropriate project and the need to provide and demonstrate value for money as well as the delivery of the specified outcomes. It is likely that in some circumstances this can be achieved with significantly less design than indicated in paragraph 2.3.69.

2.3.67 Wherever practicable, LIFTCo should use standard design documents developed on earlier projects (e.g. functional room layouts, technical specifications, etc.) and updated for changes in law or NHS standards, in order to reduce time and cost of project development overall, but in particular prior to Stage 1.

2.3.68 The Participants' Requirements and the New Project Proposal are complementary documents and should not duplicate information or effort. A completed design solution will not be required for approval purposes at Stage 1, although LIFTCo may in any event find the design work desirable in order to allow it to commit to achieving the Approval Criteria (e.g. deliverability including obtaining planning consent or Affordability Cap or value for money).

Do the requirements for the Participants' Requirements (Design Brief) or the New Project Proposal vary according to how big the scheme is?

2.3.69 The requirement for the Participant to state its requirements and for LIFTCo to propose an outline design solution at Stage 1 applies to all schemes, no matter what the size or complexity or the level of familiarity of the parties with projects of the particular type. The need to determine, with some certainty, the project's minimum outputs and maximum cost (as part of the formal approval process) is essential. However, the level of detail required in both the Participants' Requirements and the New Project Proposal will differ proportionally depending on the nature, complexity and scale of the project. For simpler schemes, the Participants' Requirements and the New Project Proposal will be naturally less extensive than for more complex projects.

Who is responsible for the adequacy of functionality of the New Project Proposal?

2.3.70 As a general rule, LIFTCo is responsible for the adequacy of its proposals (including providing for the Participant to carry out all its clinical functions specified in the Design Brief) at all stages to meet the Participants' Requirements. Indeed, this is a key Approval Criterion to be demonstrably met at Stage 2 and any failure in the longer term is likely to trigger payment deductions once the scheme is operational. However, the contractual protection afforded to the Participant can only be as good as the formal expression of the Participants' Requirements and, in any event, there is no substitute for ensuring at every stage

that the proposed project meets the identified need. LIFTCo is expected to provide appropriate expertise to complement the existing skills of the Participant, wherever necessary, to ensure that these functionality requirements are both met and demonstrated.

2.3.71 In order to ensure LIFTCo's assumption of responsibility for functionality, it is vital that the Participants' Requirements (Design Brief) contain adequate information to allow LIFTCo (and more particularly its designer) to ascertain the appropriate:

- adjacencies between departments;
- quantity, description and area of individual rooms and other areas;
- critical dimensions within rooms for the performance of activities;
- adjacencies between rooms within departments;
- provision, location and relationship of equipment, furniture, fittings and user terminals within rooms; and
- engineering, build specification and environmental control needed to support clinical activities and provide safe patient care that respects the dignity and privacy of patients.

2.3.72 Exceptionally, the LPA provides that LIFTCo shall be responsible for the functionality of the building except "where the intended Premises will comprise specialist elements in relation to which the Tenant alone possesses knowledge regarding the proposed operation of such elements which is necessary to assess whether the relevant elements achieve clinical functionality" (footnote 6 to clause 8.7),[23] therefore the Tenant may be required to confirm by signature on the Landlord's Proposals that clinical functionality requirements are satisfied. The LPA gives day surgical accommodation as an example of a specialist area, but this could apply equally to in-patient areas, radiology services, mental health facilities and so forth.

2.3.73 Circumstances where the Participant should signify acceptance of clinical functionality should be limited to those where it is not practical to express in objective terms, understood by an experienced designer of similar premises (within the Participants' Requirements), how the particular service is expected to operate or where the specific requirements are unique or unusual to the particular service provider.

2.3.74 Where a project includes a requirement for such specialist areas alongside other less specialised areas, then the Participant should assume responsibility for clinical functionality only in respect of the specialist areas.

2.3.75 The Design Brief should clearly identify any specialist elements in respect of which the responsibility for satisfying clinical functionality is to be assumed by the Participant.

2.3.76 The Stage 1 business case must demonstrate, in accordance with the above requirements, that the Participants' Requirements provide the necessary information and that LIFTCo's Outline Proposals are functional in so far as the level of detail provided at this stage permits such a demonstration.

To what level must the design be developed between Stage 1 and Stage 2?

2.3.77 The detailed design will be developed to allow full planning permission to be obtained, contract drafting to be completed, the price to be fixed and funding to be secured prior to Stage 2.

2.3.78 The extent of work required of LIFTCo to do this will reflect the complexity of the scheme. As a general guide, the following submissions will be required for building design and construction proposals:

- Healthcare planning proposals.
- Architectural drawings – including 1:200 layouts and 1:50 scale layouts of key rooms – and documentation.
- Building and civil engineering specifications and schedules.
- Engineering design and installation proposals.
- Engineering drawings and documents.
- Engineering specifications and schedules.
- Fire Safety Strategy and associated Fire Plans.
- Project management proposals, plans and programmes.

23 www.communityhealthpartnerships.co.uk/index.php?ob=3&id=75

- Consent proposals.
- Equipment proposals.

2.3.79 Provided that the Participants' Requirements have been developed into comprehensive Tenant's Requirements (or Trust Requirements) for incorporation into the contractual documentation and LIFTCo's design has been sufficiently developed and completed to ensure that these requirements will be satisfied, the level to which the design must be complete at Stage 2 will be largely a matter for LIFTCo (and its supply chain) to determine, on the understanding that the Participant will not be exposed to cost risk after Stage 2.

2.3.80 It should be noted that while Reviewable Design Data provides a useful mechanism for engaging the Participant in the completion of design work after Stage 2, this should be restricted mainly to particular finishes and other non-critical design areas, unless specialist elements are involved. The Participant should understand that the Reviewable Design Data mechanism will not allow requirements to be amended or refined at a later date at LIFTCo's expense, unless such refinement relates to incomplete resolution of specialist elements requirements.

2.3.81 It is vital to understand that although the Reviewable Design Data process allows the Participant to review the completion of LIFTCo's design post-contract, the ability of the Tenant/Trust to make changes is very limited – i.e. unless LIFTCo's post-contract proposals can be shown to be inconsistent with the Tenant's Requirements/Trust Requirements or the Landlord's Proposals/ProjectCo Proposals, the Tenant will be unable to insist on a change at LIFTCo's expense. For this reason, it is essential that all matters of functionality are either finalised, agreed and documented pre-contract, or the functionality requirements of any matters yet to be finalised are agreed and clearly expressed. Particular care should be taken in regard to ensuring that the appropriate functionality of all specialist elements is achieved.

2.3.82 Although LIFTCo is solely responsible for developing the detailed design and the achievement of the Approval Criteria at Stage 2, the Participant should remain fully engaged in the process.

2.3.83 LIFTCo's New Project Final Approval Submission should include a clear demonstration that its design solution fully satisfies each of the Approval Criteria established at Stage 1, and in particular that the Participants' Requirements have each been met (including but not limited to the achievement of an AEDET (Achieving Excellence Design Evaluation Toolkit) score consistent with the requirements laid out in the Design Brief). While the satisfaction of the requirements will become a contractual obligation on LIFTCo subsequent to the execution of the contract documentation, the Stage 2 business case approval is conditional on ensuring pre-contract that all the requirements are met. The Participant should consider the extent of engagement of independent professional advice, as appropriate, to establish this (see Sections 2.7, 3.4 and 3.5) and to assure the business case approval process.

2.3.84 The Stage 2 business case should include LIFTCo's demonstration of how each of the Approval Criteria, and in particular the Participants' Requirements (Design Brief), have been met by LIFTCo's New Project Final Approval Submission. Where relevant, the Stage 2 business case should also include confirmation of the review of clinical functionality by the PCT.

Can changes be implemented after Stage 1?

2.3.85 To the extent that the Approval Criteria established at Stage 1 can nonetheless be met, change is possible in certain circumstances, but the LIFT New Project development process has been designed on the basis that the early identification of firm Participants' Requirements will lead to maximum efficiency of delivery, and hence change to the Approval Criteria after Stage 1 approval is heavily discouraged. However, it is recognised that despite best endeavours, external factors sometimes make change inevitable. Where this occurs it is vital that the Participants work closely with LIFTCo to implement a robust change control procedure, including the review (and revision as appropriate) of all Approval Criteria affected by the proposed change (e.g. corresponding change to the Affordability Cap to accommodate a change to the Participants' Requirements). Depending on the scale of the proposed change (e.g. capital or revenue cost/change to service outputs, etc.), it may be necessary to revisit the Stage 1 approval given by the Participant, the SPB, the SHA or the Department respectively.

When does the NHS Design Review Panel get involved and what does it mean for my scheme?

2.3.86 Design Reviews provide an independent source of advice, guidance and support to the NHS. As such, they assist PCT boards to develop their ability to apply proper design and project governance to their schemes. Demonstration of such governance is expected in the business case.

2.3.87 The NHS Design Review Panel reviews schemes with an outturn capital development cost of £15 million and above (i.e. not including the cost of site acquisition, funding, facilities management and lifecycle) at three stages in the process and before proposals are finalised, namely:

- **post-SSDP** – at the project initiation stage to help Participants set design objectives in the Design Brief;
- **pre-Stage 1** – to review the Participants' Requirements (Design Brief) and LIFTCo's New Project Proposal; and
- **pre-Stage 2** – review of LIFTCo's completed, but not yet finalised, design solution.

2.3.88 The Design Review process should be carefully managed and co-ordinated with LIFTCo's design activities in order to maximise the effectiveness of the process while minimising the risk of significant change after Stage 1 approval.

Design governance

What should a PCT board look for in a good design case?

2.3.89 Boards should look for a well-balanced specification of the Participants' Requirements that delivers the benefits of:

- clinically efficient and effective patient care in a therapeutic environment;
- sustainable contributions to its neighbourhood;
- resilient engineering and flexible, sustainable construction; and
- value for money to the public sector.

2.3.90 The PCT board will also need to take ownership of the process whereby the PCT reviews LIFTCo's proposals with clinicians' input (where possible).

2.3.91 Practically, the case should also provide the means for knowing that the requirements are being delivered in the form of an objective evaluation framework that measures requirements against proposals.

How should the PCT board get involved?

2.3.92 The board should ensure good design of all schemes, at the outset of the project, by:

- getting the right professional advice to produce a robust Design Brief, to review proposals for compliance and to provide independent cost advice where appropriate;
- appointing committed individuals to champion design;
- investing in training; and
- when the project is complete, learning from user experience.

2.3.93 A client "Design Adviser" should be engaged to support the PCT board and its project team in delivering excellent projects. The Royal Institute of British Architects provides an accredited scheme of advisers.

2.3.94 A member of the PCT board should be appointed as "Design Champion" to promote the value of design quality in capital development and in initiatives to improve the environment for users, patients and staff. The Design Champion should ensure that procedures are in place to deliver design quality.

2.3.95 Training project teams in how to plan for the new ways of working, rather than reproducing the old ways, is vital. Workshops ranging from choosing the best site, through integrating working patterns within new premises, to evaluating design solutions, should be supported by the board.

2.3.96 LIFT is a long-term partnership where learning from individual schemes should inform future projects. Post-occupancy evaluation is the best and most reliable way to find out if buildings really work and to learn lessons for the future (see Section 2.8 for more detail).

High-level compare and contrast: levels of detail between Stage 1 and Stage 2

Key messages

The Participant should clearly communicate at Stage 1:

- its building design requirements – primarily in the form of its Design Brief; and
- that its requirements are likely to be met by the New Project Proposals submitted by LIFTCo.

At Stage 2, the emphasis is on:

- LIFTCo's satisfactory achievement of all the Approval Criteria and in particular satisfaction of the Participants' Requirements (Design Brief) in the form of a design solution, ensuring that the design is supported by the Participant; and
- the implementation of the New Project, in other words that it has the grant of full planning permission and that any conditions attached to full planning permission will be met.

2.3.97 The difference in emphasis between Stage 1 and Stage 2 of the design case reflects the obligations of the parties set out in the SPA.[24] LIFTCo's obligations post-Stage 1 are to satisfy the specified Approval Criteria as to whether (among others) "the New Project meets the Participants' Requirements as set at the point a New Project became a Stage 1 Approved Project" (SPA, Schedule 4).

2.3.98 The development of the design flows from the Participant (in partnership with LIFTCo), determining its requirements, linking need and desired outcomes with the physical facilities required. It is now necessary to consider the commercial terms, which establish the risk allocation underpinning the design, its location, the standard of services to be provided and the parties' rights and responsibilities throughout the project, as these will ultimately be set out in the contract documents.

24 www.communityhealthpartnerships.co.uk/index.php?ob=1&id=74

2.3.99 These are discussed in Section 2.4.

Section 2.4: Commercial matters

Although the specification and design of the new facilities are often the focus of a scheme, the terms on which they are delivered are just as important, as these encompass the nature of the deal and the rights and obligations of the parties.

This section sets out how commercial matters need to be addressed in the business case.

Commercial issues

2.4.1 The term "commercial matters" principally refers to the range of pricing and risk issues that arise and need to be dealt with in the legal and commercial documentation that the parties enter into. As projects undertaken by LIFTCos have become more expensive and more sophisticated, and patterns of use have extended, it has become more critical to ensure that commercial issues are settled at Stage 1.

2.4.2 Without the certainty of agreed commercial positions at Stage 1, which ultimately feed into the Affordability Cap, the risk allocation underpinning the price and other commitments is subject to so much potential movement after Stage 1 that it becomes meaningless.

2.4.3 It is therefore important to consider and deal with those issues prior to Stage 1 as described below at paragraph 2.4.9.

Legal issues

What form of contract should be used in order for a scheme to be approvable?

2.4.4 The Department has spent considerable time and effort developing a set of standard contractual documents for use in LIFT schemes. These now include the LRA[25] as well as the previously developed LPA.[26] The Department updates these standard documents from time to time in order to embody the combined learning from existing schemes and current market practice, together with changes in policy.

25 www.communityhealthpartnerships.co.uk/index.php?ob=1&id=74
26 www.communityhealthpartnerships.co.uk/index.php?ob=1&id=74

2.4.5 PCTs should always seek to follow best practice when procuring new facilities or services. Although earlier schemes procured in an established LIFT may have been developed using a previous version of the LPA or LRA, PCTs should always use the most recent version. Benefits from using the latest form include that it:

- provides greater clarification;
- meets latest NHS standards;
- reflects HM Treasury guidance and policy;
- represents current market practice;
- reflects improved commercial terms; and
- gives more flexibility in use of the LRA, where appropriate.

2.4.6 This is the case even where the lead public sector body is a local authority obtaining PFI credits from the Department. Any local authority taking part in a LIFT scheme must use the LIFTCo documentation.

Are derogations from the standard contractual documents permitted?

2.4.7 There may be project-specific reasons to derogate from the standard contractual documents or the positions set out therein. For schemes that require approval by the Department, all changes and amendments should be discussed with, and approved by, the PFU before being made, and will need to be set out in the Key Issues and Derogations Report, as discussed further at paragraphs 2.4.39–2.4.45. It is expected that the PCT's advisers will usually produce this report.

2.4.8 Where the Department is not required to approve the business case, the relevant approver (e.g. the SHA where the project is above the PCT's delegated limit) will still need to be aware of, and approve, the details of any suggested changes. PCTs should in any event only be prepared to agree to changes that are genuinely project-specific. Otherwise, PCTs lose the benefits of standardisation and will spend time and money negotiating changes to documents that may result in an inferior position for that PCT.

2.4.9 In circumstances where a derogation is considered preferable, as opposed to essential (e.g. where a considerable improvement in value for money can be realised if such an amendment is introduced), the case for change should be made

through a detailed cost–benefit analysis contrasting the impact of the change on the outcome against the resultant change in cost.

What level of commitment do I need to have from key parties to the standard contractual documents?

2.4.10 At Stage 1 approval, you should obtain a written commitment to the latest standard contractual documents and positions adopted on project-specific issues from all key parties, including LIFTCo and other stakeholders taking a direct role in a scheme (e.g. local authorities). Where LIFTCo believes that the standard contractual documents (as amended, or to be amended, for the particular scheme) do not cover any project-specific issues, then this should be highlighted before submission of the Stage 1 business case, so that it can be included in the Key Issues and Derogations Report (see paragraphs 2.4.39–2.4.45).

2.4.11 The PCT and CHP directors on the board of LIFTCo are expected to articulate the case for standardisation and usage of Department and HM Treasury updates to these.

2.4.12 There is no prescriptive form of wording, but care should be taken to ensure that caveats are not made that render the commitment given, in effect, worthless.

2.4.13 Your legal advisers should be able to assess whether or not the wording proposed is sufficiently certain. For schemes above the SHA delegated limit, PFU will want to check that sufficient commitment has been given at Stage 1.

To what extent do I have to go to in order to demonstrate that I have reached an appropriate level of certainty?

2.4.14 Not all issues can be finalised before Stage 1. However, if the PCT board is to fully understand, assess and manage the risks that it takes on at the time of Stage 1 (and throughout the development and operation of the scheme), it needs to understand exactly what those issues are and how they are likely to be dealt with. This is also important for ensuring that the price underpinning the Affordability Cap has been calculated on the basis of all issues affecting the scheme.

2.4.15 Therefore, the PCT needs to produce and agree a definitive list of the issues that remain for discussion and the parameters within which settlement can be reached on each of them. All parties should agree to be bound by that list and those parameters.

2.4.16 It is acknowledged that funders may not look at the contract documents until Stage 1 approval is secured. However, LIFTCo and its advisers (as well as the PCT's own advisers) should be able to anticipate the sorts of issues that funders are likely to raise.

2.4.17 It is possible that some project-specific issues may arise as a result of securing planning permission following Stage 1 approval. Again, where these can be anticipated, they should be.

2.4.18 In setting the Affordability Cap, appropriate contingencies will need to be included in connection with risks associated with planning and/or funders. See Section 2.5 for further guidance.

2.4.19 Approval Criteria in the SPA need to be developed in order to produce detailed measures against which the success or failure of the Stage 2 documents can be objectively measured.

Are there any permitted deviations from this?

2.4.20 If you feel there are any reasons why this practice cannot be followed for a particular scheme, you should consult the CIB or PFU as soon as possible and certainly before an alternative approach is agreed with LIFTCo. Given the number of LIFT schemes that have closed to date, it is possible that a solution to any given problem has been adopted elsewhere and we may be able to share such information with you.

The Payment Mechanism

Why is the Payment Mechanism important?

2.4.21 The Payment Mechanism serves as the focal point for the scheme. It sets out the incentives for LIFTCo to provide serviced accommodation to the required standards, and the financial sanctions that are applied if it does not.

2.4.22 The parties cannot understand fully how a scheme will operate in practice, or what level of risk the PCT is transferring to LIFTCo, without understanding how the Payment Mechanism will work. This is integral to the scheme and has to be clarified at Stage 1.

To what level should the Payment Mechanism be calibrated?

2.4.23 At Stage 1, the Payment Mechanism should be sufficiently calibrated to enable the PCT to demonstrate to its board that the service provider will be appropriately incentivised to deliver the services to the standards detailed in the SLSs, and that the Payment Mechanism is fundable (see paragraph 2.4.51 regarding fundability). The calibration work needs to be sufficient to have enabled LIFTCo to price its service provision.

2.4.24 This means that:

- the Schedule of Accommodation provided by LIFTCo should be broken down by the PCT into the spaces and rooms that comprise Functional Areas and Functional Units, as defined in LPA Schedule 10.[27] These are weighted according to their functional importance. Higher weightings translate into higher deductions where LIFTCo fails to deliver services to the required standard;
- the Minimum Deduction should be set. The pro-forma Payment Mechanism contains a fixed value for the Minimum Deduction. However, we recognise that this may not be set at an appropriate level for all LIFT schemes. As part of the calibration, this can be flexed to ensure that it applies at an appropriate frequency. See the Payment Mechanism guidance note[28] for more details;
- Facility Deduction Percentages and Service Failure Point Thresholds, which govern when particular contractual sanctions such as replacement of failing subcontractors or contract default, are triggered by cumulative poor performance and should also be set by the PCT. The underlying assumptions and modelling parameters for establishing these thresholds should be set out by the PCT as part of the brief to allow LIFTCo to understand and agree them. Setting the actual parameters should then be a straightforward task once the Schedule of Accommodation at Stage 1 and the final design at Stage 2 have been completed; and
- project-specific SLSs reflecting national standards for the services required have been agreed by the PCT.

2.4.25 The box below summarises the key messages on calibration.

This calibration tends to be a key risk area for LIFTCo, and especially for potential funders. It is vital, therefore, that the PCT gets it right first time, and sets out a clear methodology to govern how the calibration will be revisited as the final design is completed leading up to Stage 2 approval.

It must be emphasised that calibration at this stage is a rough and ready exercise, designed to indicate overall weightings for the scheme and draw LIFTCo's attention to those parts of the accommodation that are functionally most important. The purpose is to establish and secure what is valuable as part of the Approval Criteria and communicate this to LIFTCo (and its designers).

This does not require detailed layouts, only an indication of the Schedule of Accommodation and likely adjacencies or interdependencies. Unless Functional Areas and Functional Units are identified and weighted, LIFTCo is unlikely to be able to assess and price risk.

27 www.communityhealthpartnerships.co.uk/index.php?ob=1&id=74

28 www.dh.gov.uk/en/procurementandproposals/publicprivatepartnership/privatefinanceinitiative/standardcontract/DH_4016186

The "calibration" of the Payment Mechanism for Stage 1 should be established using the most precise information available but should not, in itself, require additional design work to that required to establish the remaining Approval Criteria. The important matters to be firmly established are:

- LIFTCo's overall exposure to financial risk arising from non-availability; and
- the comparative weighting of different functional parts of the premises.

The minimum requirement for Stage 1 is that the agreed "calibration" is expressed in sufficiently clear terms to enable it to be objectively applied to the final design solution at Stage 2 in order to demonstrate that the specific requirements have (or have not) been met.

2.4.26 One of the key features of LIFT is the ability to engage the private sector in the early stages of project development, with a view to improving value for money in terms of functionality and efficiency of design as well as price.

2.4.27 Indeed, it is expected that facilities management expertise will influence the development of designs from the beginning. LIFTCo should therefore be able to assist the Participants to determine the appropriate balance between risk transfer (in terms of the operation of the Payment Mechanism) and value for money in order that calibration carried out at Stage 1 will enable a value-for-money price to be obtained through market testing at Stage 2.

2.4.28 Alongside this, PCTs will need to seek independent professional advice in order to ensure that the positions set out for Stage 1 and Stage 2 approval represent value-for-money service provision.

2.4.29 In circumstances where benchmarking is proposed by LIFTCo as the ultimate determinant of value for money for facilities management services, this should be conditional on the proposed service provider being engaged (as appropriate) in the development of LIFTCo's proposals and committing to the calibration of the Payment Mechanism (based on the Outline Proposals) at Stage 1. (See Sections 2.5 and 2.6 for further information on the use of benchmarking to fix the Affordability Cap and as the ultimate determinant of value for money.)

2.4.30 It is acknowledged that some adjustment to the calibration may be required at Stage 2, but this should be limited to that which is necessary to equitably address matters arising from post-Stage 1 design development.

2.4.31 Further detailed guidance on Payment Mechanism calibration is available on the Department's website.[29]

What level of sign-up do I need from other Participants?

2.4.32 At Stage 1, all Participants involved in the scheme should confirm their support for the calibration of the Payment Mechanism. Any areas that are known to require further work once the design process has been completed should be specified and the parameters for resolving such areas set out. LIFTCo should also confirm that it accepts the Payment Mechanism and will not be seeking to make further changes to the agreed Payment Mechanism or calibration, subject to the issues outlined below.

What are acceptable areas of derogation and what points are mandatory?

2.4.33 The standard Payment Mechanism is mandatory and only project-specific amendments are permitted.

2.4.34 Where the SLSs have been appropriately amended for project-specific circumstances (see paragraph 2.4.38), the standard Payment Mechanism should produce a respective appropriate level of risk transfer.

2.4.35 For smaller schemes, the Minimum Deduction may require some adjustment in order to reach a monetary value that is appropriate to the size of the scheme, given the level of risk the PCT can transfer to the private sector.

2.4.36 The only acceptable caveat at Stage 1 is that the Functional Area and Functional Unit Weightings may change to accommodate the final design solution. This is intended to be a "tweak" following the principles and overall gearing agreed at Stage 1 rather than complete recalibration. Therefore, any proposed changes should link directly to specific design changes since Stage 1.

29 www.dh.gov.uk/en/Procurementandproposals/Publicprivatepartnership/Privatefinanceinitiative/Standardcontract/DH_4016186

Services

2.4.37 Where soft services are included in a scheme (as permitted in accordance with the original procurement), SLSs should be fully developed, based on the NHS standard form. If soft services are being included, you will also need to consider staffing implications.

Table 2: Definition of hard and soft services

Soft	Hard
Cleaning	Estates
Security	Grounds and gardens
Catering	Helpdesk
Portering	Utilities
Laundry	

How much can I amend the standard SLSs?

2.4.38 The SLSs have been developed for use across the NHS for in-house and outsourced delivery of all types. As they are for use across a broad spectrum of facilities, you should review the specifications to ensure that they are appropriate for your scheme. The SLSs can be amended to make them project specific. This should include reviewing Rectification Times and Remedial Periods as well as the detail of the parameters set out therein.

2.4.39 Further guidance on this topic is available on the CHP website,[30] together with some examples of what types of amendments have, and have not, been acceptable on other schemes, together with explanations.

30 www.communityhealthpartnerships.co.uk/index.php?ob=1&id=74

Key Issues and Derogations Report

What is a Key Issues and Derogations Report, and why should my advisers prepare one?

2.4.40 The Key Issues and Derogations Report ("Derogations Report") provides a snapshot of a scheme at any given time during its development. It identifies the parties involved in the scheme, key facts about the scheme, and how the present scheme fits into the bigger picture of the LIFT project, its history and future plans. This is information that many different people need to know and so it makes sense to set it out in one place.

2.4.41 The Derogations Report also highlights whether or not any project-specific circumstances necessitate changes to the standard documents, explains what those circumstances are and provides justification for amendments, where necessary or desirable. This will cover risks that the PCT faces in developing the scheme (and through operation) and how they will be dealt with between the parties. This is information that all approving bodies, including the PCT board, will need to know and agree to in order that their consent is informed.

2.4.42 A template Derogations Report has been provided, which can be found at the CHP website,[31] to make this task easier. It is envisaged that the Derogations Report will be updated as the scheme develops.

2.4.43 It is likely that the PCT's advisers will prepare the Derogations Report because they are best placed to provide the information required, as they advise PCTs on the key commercial terms and changes that may need to be made. They will also lead negotiations about such issues with LIFTCo. Advisers will also be familiar with reporting to clients and approving bodies in this way.

2.4.44 The Derogations Report fulfils many purposes and can save time if used effectively. These purposes include:

- to provide the PCT board, SHA and Capital Investment Branch (CIB) or PFU (as applicable in each case) with key information without the need for reviewing the documents themselves;

31 www.communityhealthpartnerships.co.uk/index.php?ob=3&id=432

- to maintain an audit trail of changes made and the project-specific justifications for these, together with confirmation of when PFU approval of such changes was given (where PFU has a role in approving the scheme or has previously approved such changes);
- to provide a guide for the operational phase of the scheme detailing the reasoning behind amendments made to standard form documents; and
- to act as a reference point for future tranches.

2.4.45 The Derogations Report should be provided at Stage 1 and will be updated throughout as the scheme develops, with a further version being submitted at Stage 2.

2.4.46 Production of the Derogations Report on behalf of the PCT at Stage 1 will ensure that commercial issues and risks are highlighted and dealt with early on in the process. This should avoid such issues being raised later on, which would threaten the project timetable and lead to PCTs compromising their positions and accepting more risk than should otherwise be the case.

Funding issues

How should funding terms be addressed in the business case?

2.4.47 Funding terms are a significant component of overall cost. Therefore, at Stages 1 and 2 the PCT will want to gain an insight into the likely impact of funding costs and these should be set out in the business case. At Stage 1 these will be indicative; at Stage 2 they will be committed.

2.4.48 Indicative terms suggest what the PCT should be able to achieve in the market and may be provided by potential funders or through an assessment by LIFTCo. They do not commit any funder to provide senior debt on those terms. Usually a funder will want to review the details of a deal before it will provide the committed terms which must be set out in the business case at Stage 2.

What information is available on the terms I should expect to achieve?

2.4.49 LIFTCo is responsible for demonstrating to the PCT's (and approvers') satisfaction that its proposed funding terms are "on-market" and therefore offer value for money. You should also consult your financial advisers, who will be able to draw from their experience and informally sound out the current market. Their experience in the PPP market is invaluable in shaping your expectations.

2.4.50 The business case at Stage 1 should set out how the indicative funding terms compare to relevant benchmarking data from appropriate sources, and should also contain commentary on how these compare with those achievable in the current market.

How should the business case address funders' issues?

2.4.51 As discussed above, funders may not necessarily get involved in a scheme until after Stage 1. Yet, when they do, they may well raise issues and expect them to be dealt with in a way that affects the structure, terms or pricing of a scheme.

2.4.52 Funder issues broadly fall into one of two categories:

- fundability, i.e. whether the risk profile of a project is such that a lender is prepared to make funds available; or
- pricing, i.e. the features of the project that drive the level of margin that the funder will charge for taking on those risks.

2.4.53 It is better to anticipate such issues earlier on in the process in order to ensure that the approved scope or price of the scheme does not change, which may affect the validity of the approval given and the deliverability of the scheme. Common funder issues include:

- **calibration of the Payment Mechanism** – meaning the link between the specified service standards and the severity of financial and contractual penalties if those standards are not met. Funders will be keen to ensure that reasonable performance is not penalised and that where poor performance occurs, there is reasonable opportunity to implement remedial action including, ultimately, replacement of the relevant subcontractor;
- **flow-down of risk from LIFTCo** – as LIFTCo has limited capacity to manage risks itself, funders will want to make sure that all risks are covered in some other way (e.g. passed down to subcontractors, covered by insurance or appropriate security or guarantees); and

- **ability to step in** – funders will wish to have appropriate opportunities to "step in" to the project in certain circumstances in order to both protect their loan and maximise their return.

2.4.54 LIFTCo should identify whether any likely funder issues exist and how they may be addressed. The PCT's own advisers should verify this information.

2.4.55 Any such issues should be detailed in the Stage 1 business case, together with an assessment of any associated risks and how these are to be managed (including any appropriate contingencies being included in the Affordability Cap). At Stage 2, the business case should confirm whether the issues have materialised and describe their impact. It should be noted that the Approval Criteria will not be amended as a result of funder due diligence.

Who is responsible for obtaining terms and ensuring that the financial model is correct?

2.4.56 LIFTCo is responsible for obtaining indicative and final terms and for ensuring that the financial model reflects these terms. It is LIFTCo's responsibility to produce a financial model that is robust and appropriately optimised.

2.4.57 The Stage 1 financial model should include an interest rate buffer of at least 50 basis points (i.e. 0.5%) in order to mitigate the risk of movements in underlying interest rates between setting the Affordability Cap and reaching financial close. The 50 basis points buffer is not intended to address any risk around the potential for funding margins, reserve requirements or fees to increase from those underpinning the LIFTCo costings and therefore the Affordability Cap. Any such risks should be addressed through a specific contingency and disclosed as such within the Affordability Cap.

2.4.58 Where exceptional circumstances mean that a buffer of more than 50 basis points needs to be included in the model, justification should be provided in the Stage 1 business case.

2.4.59 The PCT's financial advisers should review the model and confirm that the assumptions are reasonable, that the inputs are as agreed, that the output (i.e. the Lease Plus Payment) is reasonable, bearing in mind the inputs, and that the model is optimised to reduce the overall cost to Participants. Details of this review and confirmation should be included in the Stage 2 business case.

2.4.60 LIFTCo should make every effort to ensure that its financial modelling is robust. Once a full financial model has been completed, LIFTCo is responsible for its accuracy in terms of the model workings.

2.4.61 Any errors in the model workings (rather than pricing assumptions) that come to light should be considered individually, rather than netted off. If an error has caused the Affordability Cap to be set too high, this should be corrected and the Affordability Cap reduced accordingly. If an error has caused the Affordability Cap to be set too low, the Cap must remain at the same level and LIFTCo will have to continue to work within it.

2.4.62 If the error relates to a pricing assumption, provided that the corrected price remains within the Affordability Cap and can be demonstrated to be value for money, the price can be amended.

How do I confirm that the funding package provided by the private sector is value for money?

2.4.63 To inform Stage 1 approval, the PCT and LIFTCo need to agree what processes will be followed between Stage1 and Stage 2 in order to deliver best value-for-money funding.

2.4.64 LIFTCo should be able to produce an outline of the process it proposes to apply in sufficient detail to demonstrate to the public sector how the process will deliver best value for money and a viable project. This may include a funding competition, market testing, benchmarking or the demonstration of continuous improvement.

2.4.65 The PCT's financial advisers should review the proposed process and advise whether or not it is likely to deliver value for money and hence whether the PCT should agree to it. It is assumed that an open, competitive process to select the preferred funder will deliver best value for money unless it can be demonstrated otherwise. This process is not necessarily as resource-intensive as arrangements for a fully fledged funding competition, as detailed below.

2.4.66 At Stage 2 your financial advisers will also need to review the package and provide you with a Value for Money Funding Letter. This should state that, in their opinion, the package offers value for money when compared with other similar deals as well as with the rest of the PPP and project finance market. This Value for Money Funding Letter will cover all aspects of the funding, including equity. The public sector needs to be satisfied that the tramlines set at Stage 1 will result in a satisfactory conclusion at Stage 2.

Should a funding competition be run and, if so, at what stage?

2.4.67 HM Treasury guidance states that funding competitions should be used for all schemes with a capital value of £50 million or more. Few LIFT schemes are currently likely to fall within this requirement, but this may not necessarily remain the case as LIFT develops.

2.4.68 It is useful to refresh funding terms at each new scheme, and to check the status of the funding markets regularly as schemes progress. This is because the conditions that dictate funding costs (such as macroeconomic factors or the market perception of the risks inherent in particular forms of PPP) are always subject to change.

2.4.69 This does not necessarily mean that there has to be a full-blown funding competition. A less complex competition may be suitable, depending on the project. The PFU is happy to discuss and comment on the specific proposals for each scheme. The process proposed should be designed to deliver best value for money and provide transparency for the Participants.

2.4.70 Identifying a funder through a competitive process after Stage 1 means that there is a greater emphasis on the public sector to define its requirements and work with LIFTCo to optimise these. There will also be a greater need for an awareness of risks that funders will take into account. This will include the quality of the supply chain members, the security package offered by LIFTCo and the supply chain members, fundability of the project terms, and the appropriate flow-down of risks into subcontracts and insurances.

2.4.71 The PCT's financial, legal, technical and insurance advisers will be able to assist with highlighting such issues. It is worth noting that the work the Department has done on funding competitions to date has resulted in very competitive funding terms and a net benefit to the project. It remains the responsibility of LIFTCo to develop an appropriate financial structure for each project and to ultimately secure funding. This includes the development of the detailed funding competition process on principles agreed with PCTs and then management of the timely completion of the process in accordance with the agreed process.

Other commercial issues

What issues arise on subcontracts and supply contracts?

2.4.72 You need to make sure that nothing in the subcontracts or supply contracts (or funding documents) affects the risk allocation under the LPA or LRA.

2.4.73 You should confirm that this is the case, paying particular attention to:

- **caps on liability** – these should be set at an appropriate level for the size and complexity of the scheme and should not be lower than the level of professional indemnity insurance for which you are paying; and
- **completion under the LPA** – this should not necessarily be tied to practical completion under the construction contract, but should be linked to when the facilities are presented in a usable condition. Equipment may be being installed and commissioned by other LIFTCo subcontractors, which may be essential to the PCT's occupation of the premises but is not part of the construction contract.

2.4.74 These issues should be covered in the Derogations Report.

How should equipment be dealt with?

2.4.75 Equipment requirements must be fully specified at Stage 1. These will form part of the information in response to which LIFTCo prepares its Outline Proposals and costings that inform the Affordability Cap.

2.4.76 Where more complex equipment is to be included, you should demonstrate that you have taken appropriate advice about its inclusion.

2.4.77 The more complex the equipment being supplied, the more complex the provisions relating to commissioning are likely to be.

2.4.78 At Stage 1, you will need to demonstrate that the risks associated with any equipment have been fully thought through and articulated (with the costings being based on these assumptions), such as in relation to completion of the works and the operation of the Payment Mechanism.

2.4.79 At Stage 2, a commissioning programme should be agreed that clearly sets out when payment of the Lease Plus Payment will commence. Completion should not be certified until all LIFTCo equipment has been commissioned and tested and is confirmed as being in working order.

What about employment matters?

2.4.80 The business case needs to confirm that any potential Transfer of Undertakings (Protection of Employment) (TUPE) transfers have been considered. If there are any potential transfers, these need to be clearly identified and costed. Such costs need to be included within both the Affordability Envelope and the Affordability Cap (see Section 2.5). If there are any legal implications, these also need to be raised and their management and solution explained in this section.

Governance

What should a PCT board consider regarding commercial terms?

2.4.81 You should look for:

- clear and specific details to underpin the Approval Criteria. They must ensure that the scheme you want is reflected in these developmental tramlines;
- a comprehensive Derogations Report following the suggested template. This report should be reviewed to ensure that the derogations are acceptable and do not dilute the service that the PCT is likely to receive or the contractual protections that surround it;
- unequivocal commitment to clear and comprehensive legal terms. It is unacceptable and inconsistent with the spirit of partnering for LIFTCo to seek to obscure or reserve its position;
- amendments to standard contractual documents to be justified on clear, project-specific grounds;
- appropriate development of SLSs and calibration of the Payment Mechanism;
- a clear grip of issues around the fundability of proposed project terms; and
- a realistic and achievable programme to close, allowing suitable contingency time.

High-level compare and contrast: levels of detail between Stage 1 and Stage 2

Key messages

At Stage 1 we are concerned with setting key principles and parameters that can be wrapped into an Affordability Cap. Where we are unable to clarify commercial issues, these must be costed as risks within the Affordability Cap. This process is an important part of articulating what the public sector wants and whether LIFTCo is able to provide some assurance that it can be delivered. Stage 2 is concerned with substituting parameters, assumptions and risks as far as possible with firm positions.

2.4.82 Section 2.5 discusses strategic need, the Affordability Envelope and commercial documentation and compares these with available resources.

Section 2.5: Proving affordability

Through the earlier stages, the PCT should have demonstrated how the scheme fits into its healthcare strategy. This includes what infrastructure and services are needed and in which locations. The design and commercial case translates need into something tangible. This section explains whether the PCT has the necessary financial resources to deliver its vision to the standards required.

The affordability analysis

2.5.1 Demonstrating affordability is key to the success of any business case. In LIFT business cases, affordability needs to be dealt with and demonstrated in two different ways.

2.5.2 Firstly, the business case needs to demonstrate that the scheme is affordable, i.e. that the Participants have the resources and commitment to meet the Lease Plus Payment and wider project costs. This is referred to as the Affordability Envelope, which is detailed in paragraph 2.5.11.

2.5.3 Secondly, the SPA provides that an Affordability Cap will be established and agreed for each New Project at Stage 1. As the name suggests, this sets a cap on the maximum amount of the Lease Plus Payment for the scheme, below which it must stay, as it is developed and all outstanding issues are resolved, by Stage 2.

2.5.4 The Affordability Cap will form a rigid Approval Criterion, independent of the obligation on LIFTCo to demonstrate the value for money of the proposed New Project at Stage 2 – i.e. achievement of the Affordability Cap will not, in itself, constitute a demonstration that the proposed New Project constitutes value for money for the Participant(s).

2.5.5 The setting of the Affordability Cap is dealt with further in paragraphs 2.5.19–2.5.24.

How are the Affordability Envelope and the Affordability Cap linked?

2.5.6 The key factor in determining the Affordability Cap for a New Project will be the Affordability Envelope, being the amount the Participant(s) can afford to pay for the premises in terms of expenditure per annum taking full account of all relevant revenue considerations, including:

- available budget(s);
- the anticipated cost of service provision;
- wider project costs; and
- the cost of other expected developments.

2.5.7 However, establishing the appropriate level for the Affordability Cap will also involve a detailed analysis of the cost estimate provided by LIFTCo as part of the New Project Proposal for the particular New Project. This constitutes an initial assessment of value for money.

2.5.8 Stage 1 approval can only be given for a New Project when the available revenue identified and demonstrated by the Participant(s) in accordance with this section is sufficient to pay the maximum Lease Plus Payment estimated by LIFTCo within the New Project Proposal.

2.5.9 The Stage 1 business case must demonstrate that the Affordability Envelope and Affordability Cap are consistent. Any funding gap should be clearly identified and quantified, with the PCT explaining how this gap is to be met.

How do I work out what I can afford (the Affordability Envelope)?

2.5.10 The Affordability Envelope is the overall amount that the PCT has available to spend on a scheme, taking into account likely levels of income and expenditure. This is different from the Affordability Cap proposed by LIFTCo as it is wider than the actual cost of the scheme.

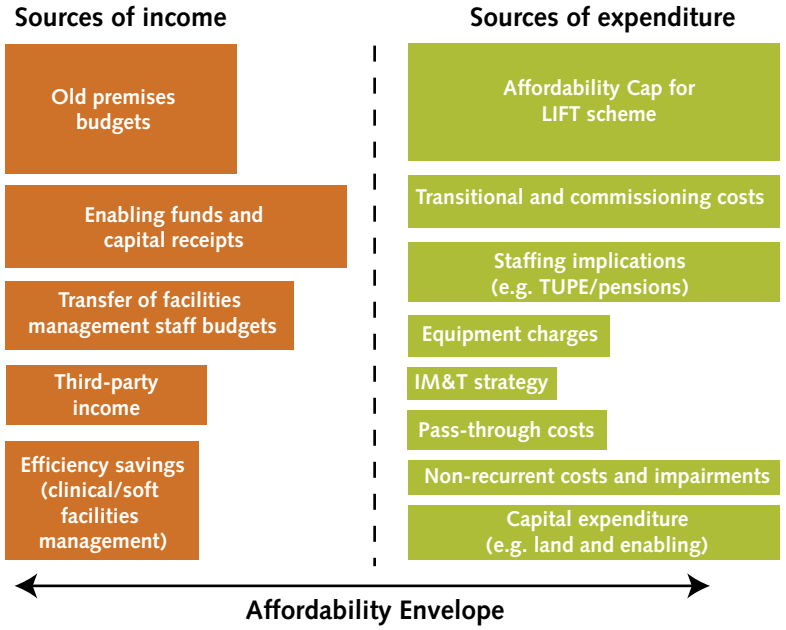
2.5.11 Setting the Affordability Envelope involves looking at scheme costs as a whole, and should include elements such as:

- building costs;
- savings from old buildings that will no longer be used;

- savings in clinical and soft facilities management expenditure due to improved working practices;
- soft facilities management costs;
- staffing implications if requirements are changing with the new scheme – the cost implications of any TUPE transfers, including the impact on pensions, should be included;
- consideration of the PCT's information management and technology (IM&T) strategy and any elements that will need to be picked up by the LIFT project, as well as any impact of costs related to the national programme for IT;
- prudent assumptions of any third-party financial commitments, e.g. from a local authority;
- pass-through costs, e.g. utilities, rates and buildings insurance;
- transfer of activity as a consequence of new buildings;
- the costs of removal and commissioning;
- non-recurrent revenue costs, e.g. project management support, GP equity, external advisers;
- VAT recoverability (and position regarding subleases);
- balance sheet treatment;
- stamp duty and tax, which may be payable by subtenants and reimbursable by the PCT;
- one-off payments, such as impairments; and
- capital payments, such as enabling funds, income from land sales, equipment, land purchase, etc.

2.5.12 These are represented diagrammatically in Figure 3.

Figure 3: Composition of the Affordability Envelope



What information should I consider and provide in the business case in relation to the PCT's financial position?

2.5.13 With reference to its past, current and future expected financial position, the PCT should be able to demonstrate its confidence in being able to afford any New Projects in terms of any capital and, more importantly, revenue costs. The financial analysis should consider the previous year position and the expected current year outturn, and then forecast outturns for the next three to five years. This forecast should cover any transitional period and run into the operational period of the scheme.

2.5.14 Where the PCT is in deficit, a recovery plan should be agreed with the SHA. The SHA should provide confirmation that the PCT has sound financial management.

2.5.15 The analysis at paragraph 2.5.11 looks at affordability largely from the perspective of the PCT. However, under the patient choice initiative, PCTs can expect to

operate in a fluid environment where flows of patients (and associated activity) will be more volatile. It is therefore important that the PCT is able to demonstrate that its assumptions on demography, activity, service development and so forth are consistent with SHA planning assumptions, and that no income-generating schemes have been double-counted with other PCTs either within the PCT's host SHA or with neighbouring PCTs in other SHAs.

How should key assumptions on which the business case is founded (e.g. demography and demand) be sensitivity tested?

2.5.16 It is a feature of any business case that a number of estimates and assumptions have to be made when developing the proposals and the Affordability Envelope. Such estimates and assumptions, despite being based on the best evidence available at the time, can turn out to be incorrect as they are overtaken by events and changes in the context by the time the new facilities are operational.

2.5.17 The extent to which the conclusions in business cases are robust to changes in key estimates and assumptions needs to be tested. This is likely to include some or all of the following:

- **sensitivity testing** – this involves varying the important assumptions in order to see what effect this has on the conclusions. For example, if population growth is 1%, 2% or 3% higher or lower than forecast, how would this impact on the nature and size of the facility required?
- **switching value or crossover point** – this is the amount by which the value of an assumption would have to change in order to change the conclusions. For example, by how much can the third-party income fall before the scheme becomes unaffordable?
- **scenario planning** – this looks at the effect of changing a number of assumptions together in the same direction. Four scenarios are used: typically, optimistic, most likely and pessimistic. Are the proposed facilities still the best match with need under each scenario, and also affordable and value for money?

2.5.18 The precise nature of these tests depends on the specific scheme in question and the factors that are critical to its success. The more robust the solution to these tests, the stronger the business case. The tests should also consider whether risks can be managed and mitigated. For example, if demand is uncertain, is the facility flexible enough to cope with a plausible range of demand assumptions? Are there any steps that can be taken to increase the likelihood that estimated third-party revenue is actually realised? Are there contingency plans if likely usage of the facilities is much lower under the pessimistic scenario?

How do I set the Affordability Cap for the New Project?

2.5.19 The Affordability Cap is a vital part of the Stage 1 process as it serves to limit the Participant(s)' commitment to a New Project to what it can afford. The Affordability Cap will be based on LIFTCo's cost estimate for the scheme and should be expressed as expenditure per annum. It is therefore essential that the figure that LIFTCo puts forward is a realistic and robust estimate of the final cost of the scheme and includes appropriate provision for each and every cost risk identified at Stage 1 by way of a contingency. This is explained in more detail at Section 2.6.

2.5.20 The particular New Project can only be given Stage 1 approval if LIFTCo is able to agree to an Affordability Cap (inclusive of appropriate contingencies for all outstanding cost risks) that falls within the Affordability Envelope (expressed as expenditure per annum).

2.5.21 The first step in agreeing the Affordability Cap is for the PCT to provide LIFTCo with details of its requirements (e.g. Design Brief, SLSs, site information, etc.), as detailed elsewhere in this guidance. Following this, LIFTCo will produce its Outline Proposals and, based on these, it will also need to provide an analysis of all project costs, including:

- the underlying cost components contributing to the rental payment (building costs, facilities management costs, etc.) associated with the new building(s). Such underlying costs should be verified by the PCT (or its specialist independent advisers);

- capital costs including equipment and lifecycle. These should be measured and benchmarked according to NHS cost data; Departmental Cost Allowance Guides and Equipment Cost Allowance Guides;[32] and the Median Index of Public Sector Building Tender Prices (MIPS) and Location Factors.[33]
- contingencies, where costs are not known or are uncertain. These should be listed individually so that, as the scheme develops, they can be replaced with actual costs;
- analysis of the cost implications of the Payment Mechanism calibration (e.g. impact of Minimum Deduction, overall gearing, Service Failure Point Thresholds, etc.); and
- other costs such as fees, funding costs, cost of land, etc.

2.5.22 LIFTCo should then use these component costs to develop a financial model that produces a prudent estimate of the maximum expected Lease Plus Payment. This will need to be verified by the PCT's financial advisers in order to confirm that the output is reasonable for the inputs, especially where a full project financial model has not been developed.

2.5.23 LIFTCo and the PCT Board should confirm at Stage 1 that they are signed up to these underlying cost components and the estimated Lease Plus Payment. This is the Affordability Cap.

2.5.24 The work done at Stage 1 should be revisited as part of the Stage 2 business case in order to confirm the value for money of the actual component costs and the resulting Lease Plus Payment.

It will not be necessary in every case to produce a sophisticated financial model in order to calculate the Affordability Cap at Stage 1. However, the use of a simpler approach will be dependent on LIFTCo having demonstrated its reliability as an estimation tool to the PCTs' satisfaction, and on the method being sufficiently transparent to allow effective verification by independent professional advisers.

32 www.dh.gov.uk/en/Procurementandproposals/Publicprivatepartnership/Privatefinanceinitiative/InvestmentGuidanceRouteMap/DH_4133056

33 www.dh.gov.uk/en/Managingyourorganisation/Estatesandfacilitiesmanagement/DH_4119864

Can the Affordability Cap be changed following Stage 1 approval?

2.5.25 No. The scope of the project should not alter materially between Stage 1 and Stage 2. Efforts should be concentrated on refining the project within the parameters set out at Stage 1. Extensions of project scope may result in the Affordability Cap being breached and may trigger re-approval. Similarly, significant reductions in the scope of the project may also require re-approval.

What form of support do I need from other Participants and the SHA?

2.5.26 The boards of all public sector organisations taking a lease in the new building must support the affordability analysis in order to demonstrate that they can and will meet their financial commitment for the scheme and the various activity and income assumptions on which it is based. For local authorities, cabinet-level support must be shown.

2.5.27 The PCT must provide evidence that the wider local health and social care economy confirms its support for the buildings, and that the buildings are affordable.

2.5.28 If service provision is being transferred from another organisation, such as an acute trust, the PCT must confirm the service model and its affordability to the PCT. The SHA must also confirm the service model's affordability to the local health economy, and that capacity can be managed within the system.

2.5.29 If GPs are taking a head lease in the scheme, they must also demonstrate their ability to afford it. If this ability is reliant on reimbursements from the PCT, the level of reimbursement must be confirmed by the PCT. If there is a funding gap, this must be identified and a clear explanation provided as to how it is to be met.

2.5.30 If GPs are taking a sublease from the PCT, the terms of this should be explained and the PCT must confirm the level of reimbursement to be provided. If there is a funding gap, this must be identified and a clear explanation provided as to how it is to be met.

2.5.31 Ideally, GPs should sign up to the proposals and confirm their commitment to the development at Stage 1. Where this is not possible, the business case will need to

provide an evaluation of the risk and how this will be mitigated, together with any cost consequences.

How should I demonstrate that the scheme is financially deliverable by LIFTCo?

2.5.32 Evidence should be provided to demonstrate how the PCT's advisers have evaluated the component parts of the LIFTCo financial model. The PCT's advisers should confirm that the underlying cost assumptions are reasonable.

2.5.33 The PCT and LIFTCo should also be able confirm their confidence that the building can be delivered within the terms of the Approval Criteria and Affordability Cap.

Other financial matters

How should VAT be treated?

2.5.34 VAT on the Lease Plus Payment, or Unitary Payment if the LRA is being used, is usually recoverable under the Contracting Out Services Regulations. You will need to contact Her Majesty's Revenue and Customs (HMRC) for confirmation that the scheme falls within these regulations and that the VAT is recoverable. Any VAT that is not deemed recoverable will need to be shown as an additional cost within the affordability analysis.

What evidence is required to support the balance sheet treatment of the scheme?

2.5.35 The accounting treatment adopted for a project will have direct consequences for the NHS resource requirements. The PCT's director of finance should form an opinion of the likely balance sheet treatment and this should be provided as part of the business case, along with other accounting advice.

2.5.36 You will need to obtain an indicative balance sheet opinion from your financial advisers. They will consider qualitative and quantitative factors and should be able to provide an opinion on the likely treatment. An opinion from your external auditors should also be sought.

2.5.37 At Stage 1 these opinions can be indicative, as it is unlikely that there will be sufficient detail to give a firm view. The opinions should then be refreshed and finalised at Stage 2.

2.5.38 The 2007 Budget announced that, from 2008/09, the accounts of central government departments and entities in the wider public sector will be produced using international financial reporting standards (IFRSs) as interpreted for the public sector in the IFRS-based Financial Reporting Manual (FReM). HM Treasury and the Department have issued guidance on this subject. While certain LIFT schemes may continue to be classed as off balance sheet under IFRSs, this cannot be taken as a foregone conclusion since many of the elements of the LPA that are most commonly tailored tend to drive the the balance sheet treatment. If in doubt, the PCT's director of finance should also obtain specialist accounting advice.

How should residual value be treated?

2.5.39 Residual value is a very important concept in LIFT schemes because it not only reduces the Lease Plus Payment otherwise payable but also provides the baseline level that informs the discount on the actual open market value that the PCT must pay, should the PCT wish to exercise its option to purchase the land on termination of the LPA.

2.5.40 If the intention is to use the LPA, this decision must be supported in the business case by a commercial and value for money analysis that should include a detailed assessment of residual value, funding terms and implications for the NHS at the end of the primary lease period, including the implications for the PCT of any buyback provisions.

2.5.41 These matters should be dealt with on overall value-for-money grounds as part of the overall analysis of the choice of site, ownership of the land and the decisions regarding the type of agreement to be used.

How should insurance be dealt with?

2.5.42 PCTs should take appropriate advice on insurance prior to Stage 1 approval in order to ensure that all project-specific issues are taken into account and that a reasonable estimate of insurance premiums to provide the mandatory LPA/LRA

insurance has been included in the Affordability Cap. LIFTCo will need to demonstrate that the proposed costs reflect the current market, with appropriate contingency included for market fluctuation up to Stage 2. The final affordability and value-for-money demonstration at Stage 2 should remove any remaining contingency.

How do I know that the costings for capital, lifecycle and facilities management are correct?

2.5.43 As part of its New Project Proposal, LIFTCo is required to benchmark the costs of previous schemes, costs derived from the last relevant market test (including, where appropriate, the competition leading to the establishment of the LIFTCo) and any other relevant local and national market data. See Section 2.6 for further details of this process.

2.5.44 PCTs need to satisfy themselves that costings provided by LIFTCo are appropriate and valid. This may mean that the PCT will need to seek independent professional advice.

How should partnering services costs and non-project-specific costs be handled?

2.5.45 The initial non-project-specific costs resulting from the establishment of the LIFTCo are recovered by LIFTCo by being spread across the first ten (or, in the case of some smaller LIFTs, six) buildings. If those buildings are not delivered within the first seven years, then the outstanding costs must be paid on the seventh anniversary of the establishment of the LIFTCo.

2.5.46 Details of the amount to be allocated to these buildings need to be provided, along with a statement of the remaining amount to be allocated to future schemes. The amount allocated must be commensurate with the value of the scheme in relation to the total number of schemes planned within the seven-year period.

2.5.47 LIFTCo should provide details of the costs informing its partnering services budget for the New Project (for developing the project up to financial close and potentially to provide business funding for the provision of future partnering services in accordance with the SPA), which should be evaluated by the PCT's advisers and signed off by the PCT board. These costs will be linked to the schedule of rates in the SPA, but should be evaluated in order to confirm that the overall cost for this scheme is reasonable and is likely to represent value for money.

2.5.48 Note that the inclusion of any amount(s) for future business funding should be consistent with the envisaged future requirement for partnering services from LIFTCo and, in particular, the expected programme for further New Projects.

What should be included in the financial model and how should it be presented?

2.5.49 The financial model should contain all the underlying assumptions, costs and revenues to LIFTCo associated with the project, including debt funder requirements and returns to equity providers. The model is likely to be a sophisticated set of spreadsheets, which should calculate the minimum income required to meet the projected costs and funder requirements for each period. The model produced to calculate the Affordability Cap at Stage 1 should be included in the Stage 1 business case.

2.5.50 The financial models should be reviewed by your financial advisers to confirm the reasonableness of the assumptions, the accuracy of the inputs and the validity of the outputs.

2.5.51 A model audit will also be performed prior to financial close on behalf of the project funders. The final model should be included in the Stage 2 business case.

Governance

What should a PCT board look for when assessing affordability?

2.5.52 The PCT board should look to confirm the broad underlying assumptions used to set the Affordability Cap. An assessment should also be made of the level of commitment from other Participants, the SHA, and GPs or other parties taking subleases.

2.5.53 There should be an explicit commitment from the PCT's director of finance that the guidance in this document has been followed when developing the PCT's Affordability Envelope.

2.5.54 The PCT should make sure that it does not lose sight of its own procurement costs, both internal and external, which will not be included in the cost proposals put forward by LIFTCo. Also, the costs of its own IT and equipment must be factored in. The PCT must clearly identify the funding sources for these, including any potential increase in costs of the same.

High-level compare and contrast: levels of detail between Stage 1 and Stage 2

Key messages

At Stage 1 we are concerned with framing the PCT's Affordability Envelope and ensuring that its robustness is probed through sensitivity and scenario testing. Within the Affordability Envelope, we need to ensure that the composition of the Affordability Cap is appropriate and the risks that cannot be closed out at Stage 1 have been quantified. At Stage 2 we are concerned with replacing assumptions and estimates with harder data.

2.5.55 Section 2.6 deals with establishing value for money.

Section 2.6: Demonstrating and testing value for money

This section shows how value for money has been considered throughout the development of the scheme, in identifying the preferred estates option, and in the procurement of that option.

Value for money

2.6.1 An investment provides best value for money if it is the optimal combination of costs, benefits and risks, and is also affordable. A low-cost initial investment is unlikely to be value for money if a slightly more expensive proposal provides considerably higher benefits and successful delivery is likely to be less risky.

2.6.2 Assessing value for money has a number of key components:

- targeting the key improved health and well-being outcomes to be realised;
- development of a service plan to enable efficient and effective delivery of the desired outcomes;
- determination of the "gap" between the estate as it is and as it needs to be, given the objectives of the service plan;
- identification and consideration of a number of viable options for closing the estate "gap";
- selection of the optimal value-for-money estates solution through option appraisal of different estates solutions; and
- achievement of the lowest costs for delivery of the preferred estates option.

This section focuses on the final two components.

2.6.3 The option appraisal of different estates solutions leading to the identification of the preferred option needs to be undertaken prior to Stage 1. The preferred option is the starting point for the estates and design, affordability and commercial issues covered in Stage 1.

2.6.4 Undertaking an option appraisal and achieving value for money are requirements for all public sector investments, regardless of value or size. They are not requirements specific only to LIFT. The way in which value for money is demonstrated is influenced by the scale and nature of the investment.

Demonstrating value for money – option appraisal

2.6.5 At the heart of option appraisal is the idea that there are always alternative ways of meeting the objectives of the proposed investment. These options need to be compared in terms of costs, benefits and risks, in order to appraise which option offers the best value for money.

2.6.6 Alternative options may relate to, for example, location, range and level of services to be provided, new construction or refurbishment of existing estate, and different types of building design.

What options do I specifically need to address?

2.6.7 The drawing up of options provides the opportunity to be imaginative and creative, and to challenge assumed constraints. A good range of options should be generated before each is appraised.

2.6.8 There should always be a "do nothing" or a "do minimum" option as a baseline against which to compare other options. A "do minimum" option is needed where the "do nothing" of maintaining the exact status quo is not feasible or acceptable, for example because of non-compliance with fire and safety regulations.

How do I eliminate options?

2.6.9 A qualitative assessment is likely to eliminate some options fairly quickly. For example, some options may be highly risky; some may be more costly than others that deliver the same benefits; some may be unlikely to be affordable; and some may verge on being infeasible.

2.6.10 The qualitative assessment reduces the "long list" of options to a "short list". The "short list" may contain three or four options, and must include a "do nothing" or "do minimum" option.

2.6.11 Each of the short-listed options needs to be formally appraised in terms of costs, benefits and risks. A formal appraisal involves the quantification and valuation of costs, benefits and risks as far as possible. The affordability of each option also needs to be appraised. The outcome of this appraisal is the identification of the preferred option.

Costs, benefits and risks

2.6.12 The value-for-money appraisal of each short-listed option needs to use economic costs, as opposed to financial costs used to assess affordability. Economic costs:

- include capital, lifecycle and operational costs over the economic life of the facilities;
- include opportunity costs, such as the value of land already owned by the NHS, and residual values;
- exclude transfer payments such as VAT and capital charges;
- are expressed in constant prices, exclusive of general inflation; and
- are discounted over the economic life of the facilities, and thus expressed as net present costs or, where the economic lives of options differ, as equivalent annual costs.[34]

2.6.13 The benefits of each option should be quantified wherever possible. A "weighting and scoring" exercise can be used to assess the relative benefits of each option.

2.6.14 The risks of each option should also be quantified wherever possible. Where it is only possible to quantify a small proportion of risks, an upwards adjustment for optimism bias provides a high-level risk adjustment.[35]

2.6.15 It is inevitable that there is a lack of full information for some aspects of the costs, benefits or risks. Thus, assumptions will need to be used. Wherever possible, the assumptions should make the best use of information from comparable projects and developments together with expert opinion, such as estates advisers.

To what extent should costs and benefits be assessed?

2.6.16 This is a matter of judgement, but the time and effort spent on appraising options should be proportionate to the importance and value of the investment.

2.6.17 A greater depth of assessment would be expected for an investment of more than £20 million compared with one of, say, less than £10 million.

How do I present and test my preferred option?

2.6.18 The optimal balance of costs, benefits and risks, in combination with the assessment of affordability, leads to the identification of the preferred estates option.

2.6.19 The Stage 1 business case needs to set out fully how the preferred option has been identified, including the alternative options considered, and the costs, benefits and risks of each short-listed option.

2.6.20 The Stage 1 business case should also demonstrate that the identification of the preferred option is robust to changes in the key assumptions used in the appraisal.

2.6.21 The option appraisal needs to be presented fully in the Stage 1 business case. The Stage 2 business case needs to confirm that the preferred option remains valid in the light of any changes in, for example, the local health economy's needs and policies.

2.6.22 Both the Stage 1 and Stage 2 business cases should ensure that the expected realisable benefits from the investment, and as delivered through the preferred option, are clearly set out and quantified wherever possible.

How should the option appraisal be produced?

2.6.23 The option appraisal should be:

- an objective assessment of the costs, benefits and risks of alternative options for meeting the objectives of the investment;
- evidence-based; and
- supported by the local health economy.

34 Discounting is a technique used to compare costs and benefits that occur in different years. It is based on the principle that people generally prefer to receive goods and services now rather than later. Costs and benefits occurring further into the future are given less value, i.e. are discounted, compared with those occurring earlier. Discounting, net present costs and equivalent annual costs are further explained in the references cited in paragraph 2.6.24.

35 See references cited in paragraph 2.6.24 for more information on the estimation and application of optimism bias.

Further information on option appraisal techniques

2.6.24 Option appraisal involves the application of fairly standard techniques used across the public sector. General guidance on option appraisal includes:

- HM Treasury's *Green Book*;[36]
- the *Capital Investment Manual*;[37]
- the Department's New Supplementary Guidance on Optimism Bias;[38] and
- the Investment Guidance RouteMap on the Department's website.[39]

Demonstrating value for money – the most economical procurement of the preferred option

Are larger schemes treated differently compared with smaller schemes and why?

2.6.25 Demonstrating that the preferred option is being procured for the least cost and lowest risk rests on benchmarking and, in some circumstances, market testing. There are additional requirements for larger schemes because fairly simple means of benchmarking, while valid for smaller schemes, are less robust where the facilities are more specialised and varied. The additional requirements for larger schemes reflect HM Treasury's guidance on demonstrating value for money of PPPs.

2.6.26 Larger schemes are defined as those with a capital value of £20 million or more. The definition of capital value for these purposes is given in paragraphs 2.1.11–2.1.14 of this guidance.[40]

36 www.hm-treasury.gov.uk/data_greenbook_index.htm
37 www.dh.gov.uk/en/Procurementandproposals/Publicprivatepartnership/Privatefinanceinitiative/InvestmentGuidanceRouteMap/DH_4133176
38 www.dh.gov.uk/en/Procurementandproposals/Publicprivatepartnership/Privatefinanceinitiative/Changestotreasurygreenbook/DH_4067488
39 www.dh.gov.uk/en/Procurementandproposals/Publicprivatepartnership/Privatefinanceinitiative/InvestmentGuidanceRouteMap
40 The definition of larger schemes for the purposes of demonstrating value for money reflects cross-government HM Treasury guidance. This differs from the threshold of £35 million above which schemes and tranches require Department approval.

2.6.27 The following paragraphs (2.6.28–2.6.35) set out the requirements for smaller schemes. This is followed at paragraphs 2.6.37–2.6.47 by an explanation of the differences for larger schemes.

What process do I follow for a smaller scheme?

2.6.28 The following explains the respective roles of LIFTCo and the PCT in demonstrating and testing value for money for the preferred estates solution at Stage 1 and Stage 2.

Stage 1

2.6.29 At Stage 1 LIFTCo should demonstrate that the estimated costs of the scheme are appropriate and reasonable on the basis of the best information available at the time of submission of the Stage 1 business case. The estimated costs should be those taken from the option that forms the preferred option. This should include:

- benchmarking – demonstration by LIFTCo that the proposed maximum Lease Plus Payment, construction costs, facilities management costs and all other significant cost elements are in line with cost data acquired from the later of the last relevant market test or the schemes priced in the original competitive selection process, taking full account of trends reflected in relevant comparable data, both locally and nationally. Any deviations from the benchmarks should be fully justified and supported by opinions from professional advisers. Where the scheme is atypical, more appropriate benchmarks should be used; and
- LIFTCo demonstrating that each contingency included within the financial model at Stage 1 is warranted, appropriately costed and reasonable. This is dealt with further in Section 3.3.

2.6.30 At Stage 1 the PCT should obtain:

- an indicative judgement by the District Valuer that the proposed maximum Lease Plus Payment is in line with those for other LIFT projects; and
- confirmation from independent professional advisers that each significant cost element included within LIFTCo's Stage 1 financial model and, in particular, the elemental construction cost plan (used to fix the Affordability Cap) is in line with all applicable benchmarks.

2.6.31 In order for LIFTCo to demonstrate at Stage 2 that its costs are fair, reasonable and appropriate, LIFTCo will need to conduct a market test of the supply chain at or before Stage 2. Benchmarking, instead of market testing, may be used to demonstrate value for money at Stage 2 when, and only when, tangible benefit to the public sector can be demonstrated from the early engagement of the supply chain in the project development process.

2.6.32 Where the use of benchmarking, rather than market testing, is proposed to demonstrate value for money at Stage 2, the detailed method of demonstration needs to be established and agreed at Stage 1 and will form part of the Approval Criteria to be satisfied at Stage 2. The method of demonstration includes:

- precisely how the prices will be benchmarked against the outcome of the last preceding market test and other available market data;
- how early engagement of the supply chain in the project development process will directly benefit the Participants; and
- in what ways costs will be reduced and/or benefits increased on the New Project compared with preceding projects.

Stage 2

2.6.33 At Stage 2, LIFTCo should provide a report highlighting all elemental cost variances from the Stage 1 financial model, and demonstrate:

- the substitution of firm costs (or "nil" where a risk is no longer relevant) for all contingencies included at Stage 1 and subsequently closed out;
- the substitution of market-tested prices for estimated prices where applicable;
- a comparison with relevant and up-to-date benchmarks for all other elements. Where benchmarking is used as the determinant of value for money at this stage, it will additionally be necessary for LIFTCo to demonstrate a reduction in cost or improvement in benefits compared with earlier projects; and
- the substitution of a current market interest rate plus a 25 basis points (0.25%) buffer in place of those in the Stage 1 financial model.

2.6.34 At Stage 2 the PCT should have:

- an independent cost report demonstrating that the construction, lifecycle and facilities management costs are in line with market norms, and that appropriate value engineering has been undertaken;
- sign-off by the District Valuer that the proposed Lease Plus Payment is in line with those for other LIFT projects, that receipts from land sales represent value for money, and that residual values in the financial model are appropriate; and
- confirmed that the Affordability Cap has not been breached.

2.6.35 The demonstration of value for money is a key Approval Criterion for all New Projects delivered through LIFT and is totally distinct from the Affordability Cap. Hence, the achievement of a Lease Plus Payment that is less than the Affordability Cap does not in itself constitute evidence that the project will deliver value for money to the public sector. In addition, where LIFTCo is unable to demonstrate value for money adequately through the benchmarking methods agreed at Stage 1, the project cannot be approved until and unless value for money is adequately demonstrated by LIFTCo using alternative means, i.e. a market test.

2.6.36 Further information on benchmarking and market testing is in Section 3.3.

What process do I follow for schemes over £20 million?

2.6.37 The process for larger schemes is the same except for two significant differences, namely:

- the District Valuer's indicative judgement at Stage 1 and sign-off at Stage 2 of the Lease Plus Payment are not required; and
- a comparison of the costs of the delivery of the estates solution through LIFT compared with public capital is required, in line with HM Treasury's guidelines.

Value for money of procurement through LIFT compared with public capital for larger schemes

2.6.38 The comparison of procurement through LIFT compared with public capital provides a more robust form of value-for-money analysis for more complex schemes.

2.6.39 At Stage 1 the comparison involves:

- undertaking HM Treasury's qualitative assessment of the merits of procuring the scheme through LIFT compared with conventional funding; and
- undertaking a quantitative assessment of the costs of procuring the scheme through LIFT compared with conventional funding.

2.6.40 The qualitative assessment involves answering a series of questions addressing viability, desirability and feasibility of procurement through LIFT. Although the qualitative questions in HM Treasury's guidance are phrased in terms of PFI, they are also relevant to all PPPs, including LIFT. The qualitative assessment should be presented in the Stage 1 business case.

2.6.41 The quantitative assessment involves estimating the economic costs of delivery of the estates solution through LIFT compared with public capital. The latter is known as a Public Sector Comparator (PSC), which should be compiled for the PCT by an Independent Cost Adviser at both Stages 1 and 2 using Department Cost Forms (OB/FB1-4).

2.6.42 The main cost under LIFT is the Lease Plus Payment. The costs for the PSC are capital, lifecycle and operational costs over the life of the contract period.

2.6.43 In addition, estimates are needed of:

- optimism bias under the PSC, for potential increases in costs between Stage 1 and Stage 2 (this is already included within the Affordability Cap under LIFT); and
- quantified risk retained by the public sector under the PSC and under the LIFT options after financial close.

2.6.44 It should be possible to estimate the PSC costs from the Schedules of Accommodation and work undertaken as part of the option appraisal exercise. It is not intended that the PSC is a completely independent design to that of LIFTCo, and it may in fact draw on any design work undertaken by LIFTCo to date. The focus of the PSC is on the cost of delivering the preferred estates solution through conventional funding.

2.6.45 The costs under both LIFT and the PSC need to be discounted to give net present costs of the two options, adjusted for quantified risks.[41]

2.6.46 The results of the quantitative assessment should be included in the Stage 1 business case, along with the assumptions and source of inputs for the assessment.

2.6.47 At Stage 2 you must confirm that the Discounted Cash Flow analysis undertaken for Stage 1 remains valid, has been updated if there have been any changes, or if the Stage 1 assessment was based on very limited information on the desired design.

Valuation of funding

2.6.48 Value for money of funding for the scheme is also part of the overall value-for-money assessment. Funding issues are addressed in paragraphs 2.4.63–2.4.66 of this guidance.

Valuation reports

What is the role of the District Valuer and when should they be consulted?

2.6.49 The Valuation Office Agency (District Valuer) is able to provide an independent report for schemes whose capital value is less than £20 million. This report will include confirmation to the PCT that the proposed level of the Lease Plus

41 HM Treasury's guidance recommends the use of HM Treasury/Partnerships UK's own Excel value-for-money model for the quantitative assessment. However, this model was designed for PFI and is not appropriate for LIFT projects given, for example, the different debt profiles for a LIFTCo compared with a PFICo. In its place, the quantitative assessment should take the form of a Discounted Cash Flow analysis, which sets out year by year the estimated whole-life costs of procurement through LIFT and the PSC in real rather than nominal terms and applies a real discount rate of 3.5% (3.0% after year 30) to give net present costs. Social care schemes applying for PFI credits are required by HM Treasury to use the HM Treasury/Partnerships UK value-for-money model.

Payment is in line with current market rates. At the PCT's request, the District Valuer may also be able to offer other professional advice on property issues relating to the preferred estates solution.

2.6.50 Irrespective of the capital value of the scheme, the District Valuer should confirm that receipts from any land sales represent value for money, and that residual values used in the financial models are appropriate.

2.6.51 The District Valuer should be consulted early in the process in order to provide their input into the various stages. This does not preclude PCTs from employing other suitably qualified private sector valuers to help them to appraise schemes. However, the District Valuer should act as the informed client adviser for the PCT and the Department.

What are acceptable limitations or caveats on the District Valuer's report?

2.6.52 The District Valuer will be relying on the information from other third-party advisers to the PCT and LIFTCo. Therefore, it is acceptable to apply caveats relating to the accuracy of this information. There may be other acceptable caveats relating to ground contamination, flood risk, building condition surveys and other similar issues.

Governance

What should a PCT board look for when assessing value for money?

2.6.53 The PCT board should satisfy itself that:

- the preferred estates solution provides value for money compared with feasible alternatives;
- the preferred solution is likely to be procured most economically, and benchmarking has shown that the costs are in line with market norms;
- for smaller schemes, the District Valuer is content with the Lease Plus Payment compared with market rates;
- for larger schemes, an appraisal has been carried out showing that procurement through LIFT is value for money compared with a PSC;
- the value-for-money assessments are evidence-based as far as possible, and key assumptions have been subject to sensitivity tests; and
- appropriate methodologies have been employed in the analysis, and all relevant guidance has been followed.

High-level compare and contrast: levels of detail between Stage 1 and Stage 2

Key messages

Value for money in LIFT hinges on the PCT's ability to demonstrate that the preferred option represents the most economically advantageous alternative. It is LIFTCo's responsibility at Stage 1 to demonstrate that the estimated cost of the scheme, combined with the specifications articulated by the PCT, represents value for money. Stage 2 is a matter of reconfirmation.

2.6.54 Section 2.7 sets out how to manage your internal team in order to deliver the project.

Section 2.7: Risk, project management and benefits realisation

The preceding sections are designed to test whether or not we intend to procure the right development, in the right place and at the right price. However, delivering a successful scheme also depends on investing in an appropriately skilled project team, composed of PCT staff and external advisers where required. The unique challenge in LIFT is to integrate this team into an effective partnership with LIFTCo.

Developing the project plan (programme)

How should the project programme be set out in the business case?

2.7.1 The Stage 1 business case should include a programme that sets out high-level milestones that show:

- structure of delivery (i.e. the number of phases and/or stages). This should run from the inception of the project all the way to construction, commissioning and the first period of operation;
- how the Affected Participants will meet their obligations in respect of the development, including approvals;
- the resources being provided to deliver the programme;
- what contingencies, in terms of both time and people, have been allowed for and why; and
- the key approval dates and which approvers are involved.

What are the key risks in relation to the scheme?

2.7.2 The Stage 1 business case should include a summary table that lists the key (i.e. top five to ten) risks associated with the procurement, construction and operation of the scheme and confirms how these are to be managed and mitigated (by whom, when, etc.). This section should be informed by outturns on previous schemes.

What are the key benefits of the scheme?

2.7.3 The Stage 1 business case should include a table that identifies:

- the key project benefits, although in general these will not be realised until the scheme is operational;
- who is responsible for delivering each benefit;
- what action needs to be taken, and when, to deliver each benefit; and
- how delivery will be measured and monitored.

What are the key constraints?

2.7.4 Examples of key constraints include:

- the availability of land;
- other financial plans on which the development may be contingent;
- access to key people and resources;
- project budgets;
- results of consultation or other conditions placed on the development;
- the number of LIFT schemes that the PCT needs to fund; and
- any time constraints (e.g. option to purchase land within a limited time).

This is by no means an exhaustive list.

What are the common issues or errors and how can they be avoided?

2.7.5 The most common issues are as follows:

- **The project team is under-resourced.** LIFT investments can be significant in value, and the procurement of facilities and services, particularly through a PPP, requires a broad understanding of legal, financial, commercial and service issues outside most officers' immediate skill set. At the outset of the project, you should, in conjunction with LIFTCo, undertake a skills audit. Where there are gaps in expertise (for example financial, legal or technical skills), you should consider buying in the requisite expertise and ensuring that the necessary training and development activities are undertaken. Failure to skill up the team early enough is a false economy.

- **There is a dilution of the skills of both the PCT and LIFTCo.** By the time you actually procure a new scheme after the competition that led to the formation of LIFTCo, it is possible that there may have been changes in personnel on both the public and private sector sides. It is critical to ensure that the maintenance of corporate memory and an appropriate level of skills are transferred to you and LIFTCo from the advisory team employed on your initial financial closes. You will probably always need advisory input, but you should develop into an informed client.
- **The focus is only on constructing the building and, as a result, overlooks the need for ongoing work to be done to ensure new service delivery.** The building is the shell from which services are to be delivered. Its value and usefulness depend on orchestrating the movement of services into it from other parts of the health economy and making due allowance for transitional costs.
- **There is insufficient engagement with other bodies involved in the scheme.** Close liaison must exist between LIFTCo, the PCT and any other bodies that form part of the scheme, e.g. local authorities. Timetables must take account of any approval processes in those bodies.
- **Future dates and milestones are aspirational and not time specific.** Many timetables are driven by imposed deadlines, rather than achievable plans – developed from the bottom up – driving the deadlines. You should be informed by the performance of previous schemes. Where you are procuring a scheme of greater complexity than its predecessors, you should look to the CHP for information on other, similar schemes.
- **Not enough contingency ("float time") is included.** Plans are never delivered as expected, but with appropriate contingency planning they should be deliverable on time. This planning includes understanding what is expected of you by LIFTCo and approvers at key decision points. Boards, in particular, should press their project teams on this point.
- **Failure to meet deadlines**, and failure to notify other parties that this is the case, prevents others from using their time more productively.
- **Unrealistic and unachievable deadlines are given** in the mistaken belief that it will motivate people to work harder. When reality bites and the project slips against plan, confidence is undermined and teams are left with a feeling of failure.
- **There is unnecessary duplication of effort** between LIFTCo and the PCT and/or failure to identify points where the PCT should obtain independent advice in order to protect its interests.
- **Failure to provide sufficient and relevant information clearly and visibly** causes approvers to believe that there is "something to hide".

2.7.6 To resolve these issues it is important that, at the start of the process, the PCT carefully thinks through:

- what it wants;
- the resources it requires to deliver this; and
- the time frame in which it needs to deliver it.

2.7.7 Below, in more detail, we consider further some key aspects of the process.

How do I assemble a project team?

2.7.8 Guidance on the development of an appropriate integrated project delivery team is included at Section 3.4 of this document.

How do I harness the skill set of LIFTCo?

2.7.9 In order to realise all the benefits available from the LIFT partnership, it is vital that LIFTCo is fully engaged in the identification and development of projects from their conception. This will allow all the available skills to be applied at the most appropriate time in order to enable the maximisation of value for money and the proper consideration of all available options.

2.7.10 It should be noted that benchmarking (where this is proposed) is not simply an alternative to a market test, but is in fact a tool designed to enable the early and close engagement of the supply chain in the initial stages of project development. Hence, benchmarking should only be utilised as the ultimate determinant of value

for money where early engagement of the supply chain is required and can demonstrably deliver better value for money to the public sector.

2.7.11 It is important to recognise the separate skills and expertise that the PCT and LIFTCo bring to the project and to ensure that these are utilised most effectively. Section 3.4 provides information on how to go about this, but the best approaches vary between LIFTs and between individual projects. The important points to consider are:

- early engagement of LIFTCo (and its supply chain) in order to ensure that the benefits of the long-term relationship are maximised (see Section 3.5);
- open sharing of knowledge;
- working as a team;
- ensuring that the benefits of partnering are realised by the public sector in measurable and demonstrable improvements in value for money;
- minimising duplication of effort; and
- ensuring that the Participants' commercial interests are protected in all circumstances where the objectives of the parties cannot be aligned (see Section 3.5).

2.7.12 In all LIFTs, there are certain services and issues where the financial interests of the PCT and those of LIFTCo and its subcontractors are closely aligned, particularly given the PCT's role on the LIFTCo board. This is where, subject to the agreement of a suitable letter of engagement and a defined, measurable scope of work, LIFTCo can be engaged to deliver additional partnering services to the PCT in order to support the delivery of the project.

2.7.13 There are other services and particular points in the project delivery process where the commercial interests of LIFTCo (and/or its supply chain) cannot be adequately aligned with those of the PCT. In such circumstances, the PCT should access its own independent advice.

2.7.14 Examples of where independent advice is useful are discussed in more detail in Section 3.4.

2.7.15 However, it is just as important to ensure that, as a PCT, you are an informed client and that you employ and use the advisers to check and challenge LIFTCo's (and/or its supply chain's) terms as required. If you are in any doubt regarding the terms of engagement sought by advisers, or the quality of their advice, please consult the PFU (see contact details at the end of Section 1).

Managing risk

Types of risk

2.7.16 Essentially, there are three main types of risk, which map to the three critical success factors for all projects: time, cost and quality. A project risk, if it occurs, will impact on one or more of those factors, i.e. the project will be delivered late, be over budget or fail to meet the quality standards defined within the specification.

2.7.17 Equally, a project may fail if its stakeholders are not adequately managed. So while the three main success factors might be met, a project could still fail if it does not meet the expectations of its stakeholders (e.g. patients and staff). Therefore, a detailed stakeholder analysis, supported by a management plan – which is actively managed – would be one way to mitigate this type of risk.

How should risk be managed?

2.7.18 In conjunction with LIFTCo, a risk register should be developed at the outset of each project indicating each significant risk identified, the magnitude of the risk (both cost and programme impact), the likelihood of occurrence, and the party (LIFTCo or the Participant) and named individual appointed to manage it.

2.7.19 The risk register should show, for each risk, what action is to be taken, and when, in order to minimise the possibility of its occurrence, and what action is to be taken to manage it should it occur.

2.7.20 In so far as the New Project process prescribed in the SPA allows, each risk should be allocated to the party best able to manage it. It is of fundamental importance to any project that the risk register be developed as early as possible and in as much detail as possible – also, that it should regularly be updated to reflect any changes.

2.7.21 The risk register should be reviewed and updated by the project team on no less than a weekly basis. Risks that are key to the delivery of the project, and their proposed management, should be included in all project directors' reports to the project board for individual consideration and action.

Typically, how should risks be reflected in a business case?

2.7.22 The risk register should indicate clearly how each identified risk has been taken into account in demonstrating affordability (by use of appropriate contingencies – see Section 2.5) and value for money (see Sections 2.6 and 3.3). These risks form an overall portfolio for inclusion in the Affordability Cap. In quantifying the risks comprising the portfolio, it is important that it is not skewed by taking an unduly optimistic or pessimistic view of each risk. Instead, a reasonably neutral estimate should be agreed against each. As risks crystallise, their outturn values will almost inevitably be higher or lower than the individual estimates, but these offsetting variances should, in aggregate, remain within the overall value of the portfolio.

2.7.23 In demonstrating value for money at Stage 2, LIFTCo should show how each risk has been closed out or managed and how each contingency allowed at Stage 1 has been adjusted to reflect actual outturn costs. Contingencies allowed at Stage 1 but no longer required should result in the final estimated Lease Plus Payment being reduced accordingly.

2.7.24 It should be noted that the risk register is not only a means of demonstrating that the risk figures in the value-for-money analysis are correct; it is also a central part of the management of the scheme. Risk management does not stop when the business case has been approved – it continues into the operational phase. If risks are not managed appropriately, the occurrence of a major risk can completely derail a project.

External review

What is Gateway?

2.7.25 The Office of Government Commerce (OGC) developed the Gateway project review process. Within the Department, there is a Health Gateway Team to manage this process.

2.7.26 The Gateway project review process is a series of short, focused, independent peer reviews at key stages of a programme or project. The reviews are designed to highlight risks and issues which, if not addressed, would threaten the successful delivery of the programme or project.

2.7.27 A review comprises a planning day and then three or four consecutive days when the review team interviews stakeholders and prepares a report. Before the review team leaves, a draft report is presented to the senior responsible owner (SRO) who is responsible for actioning the recommendations made in the report. The report is confidential to the SRO who decides who else should see it. The Health Gateway Team receives a copy of the report and uses it to extract anonymised lessons learned. They do not share the report with anyone else.

2.7.28 Further information is available at www.dh.gov.uk/gatewayreviews.

How do I reflect the results in the business case?

2.7.29 You must complete an OGC Risk Potential Assessment prior to seeking Stage 1 approval. Thereafter:

- those assessed as "high risk" (including all those requiring Department approval) should undertake a Gateway review. The first tranche of schemes from a newly established LIFTCo should be subject to a Gateway review;
- projects identified as "medium risk" will be considered for Gateway reviews where the SRO and SHA believe that a review would add value; and
- any identified as "low risk" will not require a Gateway review.

Benefits realisation

What is a benefits realisation plan?

2.7.30 A benefits realisation plan is a statement of the benefits being targeted by the scheme and the necessary steps that will be taken to achieve them. It is a vital link into post-project evaluation (PPE) (in other words, whether the project realised its stated aims, objectives and benefits) which is a standard condition of Stage 2 approval.

2.7.31 The benefits realisation plan should clearly show what will happen, and where and when the benefits will occur. It should also identify who will be responsible for delivery of each benefit and what that person needs to do, and when, in order to realise each benefit.

2.7.32 The plan for benefits needs to be integrated into, or co-ordinated with, the programme plan and should be very clear about handover and responsibilities for the operational phase (where the benefits will actually accrue).

2.7.33 The business case, particularly at Stage 2, needs to include a section setting out the arrangements for carrying out a benefits realisation evaluation, or a formal independent post-project implementation review, once the project is operational. This section will show when the evaluation is to be carried out and what criteria will be used to decide how well benefits have been realised.

How should the benefits realisation plan be reflected in the business case?

2.7.34 The benefits realisation plan should be included in the Stage 2 business case and should include:

- a schedule detailing when each benefit or group of benefits will be realised;
- identification of appropriate milestones signifying when a programme benefit review could be carried out; and
- details of any handover activities beyond the completion of and taking into use of the new facilities required to sustain the process of benefits realisation over the operational phase.

2.7.35 Further guidance on benefits realisation can be found in the *Capital Investment Manual Business Case Guide*.[42]

Governance

What should a PCT board do in order to satisfy itself that good project management arrangements exist?

2.7.36 It is a matter for each PCT board to determine what arrangements it wants to put in place in order to ensure this. There are a number of ways for a PCT board to satisfy itself that good project management arrangements exist. These include:

- active PCT board membership of the LIFT project board reporting regularly to the PCT board;
- the PCT LIFT project director reporting regularly to the PCT board;
- the PCT board "testing" some of the project risks and considering how effectively they are being mitigated;
- the PCT board testing the programme and process at each step to completion;
- the PCT board asking what strategies are in place should deadline(s) be missed, what process there is to "catch up", and what contingency is, or remains, in the programme; and
- nominating a board director to be the board's link, via the project director, to ensure board involvement with the project.

2.7.37 A considerable amount of guidance on risk, project management and benefits realisation is recommended and available through OGC (e.g. *Managing Successful Programmes*, the *Successful Delivery Toolkit*™), HM Treasury (e.g. *The Orange Book* on risk) and through the Association of Project Management (e.g. the *PRINCE2*™ *Manual*). For further information see: www.ogc.gov.uk/ programmes_and_ projects.asp

2.7.38 The "Key messages" box on the following page summarises the key learning points from this section.

42 www.dh.gov.uk/en/Procurementandproposals/Publicprivatepartnership/Privatefinanceinitiative/InvestmentGuidanceRouteMap/DH_4119896

Key messages

- Ensure that the scheme is wholly embedded in public sector/PCT strategic plans and Local Development Plans.
- You must have governance processes in place and NHS project management arrangements clearly defined, ensuring that the sponsoring public sector director fully understands LIFT.
- Work closely with your SHA (and the Department if capital value is over £35 million) from early on in the project as they are your key approval agency. A positive working relationship from the outset smoothes and speeds up the approval process. It also allows for useful inputs from the SHA (and the Department if appropriate) who have a better overview of LIFT and can suggest areas of good practice from elsewhere. Keep them advised on the progress of schemes – when to expect a business case, timescales, dates of approval meetings, the amount of time allowed to prepare the report for approval – and be clear about what information they will need to support the case.
- Plan the process. Be very clear well before the approval of each stage about what is required and the time needed. Ensure that you have planned all the inputs and time required for the individual elements of the business case. For example, sign-off by the District Valuer needs a number of inputs and takes time, as does SHA Estates sign-off. Keep all those involved in providing you with information or sign-off up to date with progress and timescales for their input.
- At an early stage, discuss the resource requirements necessary to progress a scheme across both public and private sector teams. Be realistic at the outset about time and cost targets and ensure that assumptions are realistic in view of likely resource constraints and challenges to be overcome.
- Invest time in developing the partnership with the private sector partner. There are many ways in which they can support the public sector in delivering the LIFT schemes, e.g. assisting the GP practices and the PCT in developing and/or disposing of surplus properties. Joint ownership across all stakeholders usually means that problems are dealt with more easily.
- Assess risk and agree risk transfer/management across the partnership at an early stage. All partners – landlords, tenants, etc. – should jointly manage the project with a shared and agreed project programme, risk register, etc. The programme deadlines, risks, etc. then become shared risks and sometimes it can be someone other than the risk owner who can resolve the issue.
- Where GPs are involved, work with them from an early stage. They like to know well in advance any key dates when they need to approve or sign up to things. The development of positive working relationships with the GP practices can lead to them being very positive advocates of what you are trying to achieve.
- Ensure that all project meetings are properly minuted and the minutes filed in a way that allows them to be accessed easily at a future date. This is particularly relevant in the last-minute rush of financial close. Ensure that any agreements on the detail of the deal, particularly around what is in and out of the financial model, are clearly documented. This avoids problems later in the programme.
- Ensure that you involve clinicians and staff:
  - early on in the process;
  - by using photos and visits; and
  - in one-to-one meetings rather than large groups.

Section 2.8: Other requirements

Having worked through the bulk of the business case approval process, there are some further requirements that fall outside the parameters of the evidence required by previous stages. These requirements and their context are outlined below.

Equality impact assessment

2.8.1 Race, disability and gender equality legislation places a statutory duty on public sector bodies, including NHS organisations, to promote equality. This duty covers all aspects of an organisation's activities such as policy and service delivery, as well as employment practices.

2.8.2 To assist in delivering this general duty, public authorities must have due regard to the need to:

- eliminate unlawful discrimination;
- promote equality of opportunity; and
- take various other steps (for example, in the case of race to promote good relations between different groups).

2.8.3 In addition, certain public bodies, including NHS organisations, are bound by specific duties, including publishing race, disability and gender equality schemes that set out, among other things, their arrangements for assessing and monitoring the effect of their policies and practices on equality. Since 2006, the Department has, as a matter of policy, taken a similar approach to equality in relation to age, religion or belief and sexual orientation as the law currently requires it to take in relation to race, disability and gender.

2.8.4 In practical terms, this means that it is important for all organisations to consider the impact their policy objectives and proposals will have on race, disability, gender, age, religion or belief and sexual orientation equality. This should be achieved through carrying out equality impact assessments in accordance with the arrangements set out in their equality schemes.

2.8.5 As part of the LIFT business case, a copy of all completed equality impact assessments must be provided. This should be provided at Stage 1 and be updated, as necessary, at Stage 2.

Statutory and non-statutory consultation

2.8.6 In line with normal NHS requirements, all statutory and non-statutory consultations must take place.

2.8.7 In respect of the business case at Stage 1, details of statutory and non-statutory consultations, including by the local authority scrutiny committee (if applicable), should be included.

2.8.8 At Stage 2 any updated positions must be advised.

Post-project evaluation

2.8.9 The purpose of a post-project evaluation (PPE) is to improve project appraisal, design, management and implementation through reflection and learning. PPEs are an essential element in the successful delivery of any LIFT project and help inform future projects, ensuring that continuous improvement is achieved.

2.8.10 The completion of a PPE is itself a continuous process. Although the bulk of documentation will be produced following project completion, these outputs will only be meaningful if they represent the culmination of developmental work that will have been under way since the project was originally initiated.

2.8.11 Most importantly the PPE will only render useful results if, at the outset of the project, a benefits realisation plan was established detailing a clear set of outputs against which success of the project can be judged. It is strongly recommended that the following are specified from the outset:

- clinical objectives (number of treatments etc.);
- health outputs (e.g. smoking cessation figures);
- efficiency savings; and
- staff and patient well-being improvements.

These specifications should be defined in specific, measurable, agreed, relevant and time-bound (SMART) terms.

2.8.12 In terms of the business case approval process, evidence should be provided at Stage 2 only to identify how the PPE will be conducted after financial close and/or after commencement of service delivery from the New Project.

2.8.13 The PPE and any resulting recommendations or action plan should be shared with the approvers of your business case: the SHA and/or the Department.

Part 3: Further detailed guidance

Section 3.1: Developing a Design Brief

Section 2.3 provided a high-level summary of design and estates issues. One of the most important deliverables for the PCT to produce is the Design Brief, which will articulate what it wants LIFTCo to provide. This section explains how to produce a good Design Brief.

The Design Brief

Introduction

3.1.1 The guidance contained in this section provides a detailed description of what is required to produce a robust Design Brief. It is written from the perspective of the more complex LIFT developments. This is to ensure that you have access to everything you could possibly need. It does not follow that you need to apply this guidance rigidly to every type of development, irrespective of simplicity or scale. You should apply it proportionately.

3.1.2 Much of the thinking required to produce a Design Brief needs to be undertaken once. Thereafter, changes are incremental according to updates in NHS guidance or extension of the scope and complexity of new LIFT buildings. Provided the base is sound, the underlying work can be replicated. It is vitally important, therefore, to get it right first time.

What is the basic structure of the Design Brief?

3.1.3 The information in a Design Brief should be structured using the categories set out in the Achieving Excellence Design Evaluation Toolkit (AEDET Evolution).[43] The toolkit uses ten criteria – grouped into three main categories – to evaluate individual designs. DH Estates has also developed a staff and development calibration tool, ASPECT[44] (Advice to trusts on the main components of the Design Brief for healthcare buildings) to complement AEDET. Based on AEDET's structure, ASPECT provides the Design Quality Briefing Tool,[45] a template that Participants can use to develop a project-specific Design Brief. The template contains prompts for Participants to explore particular design issues and can act as a checklist against which to organise briefing work. The value of this framework is that it not only sets out the briefing agenda but also identifies quality requirements and aspirations. It also provides a foundation for the Tenant's Requirements (or Trust Requirements).

Section 3.1 of this guidance is drafted on the basis of a "complex LIFT development". While the general principles are relevant to a project of any size or complexity, it is expected that they will be applied proportionately. It is recommended that a PCT agrees with LIFTCo at the outset how these principles will be applied throughout the project development process in order to ensure that the appropriate outcomes are achieved without disproportionate effort or expense. This flexibility is subject to ensuring that approvers are comfortable with the PCT's proposed approach and due regard is paid to value for money from the taxpayers' perspective.

43 www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyAndGuidance/DH_082089

44 www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyAndGuidance/DH_082087

45 www.dh.gov.uk/en/Managingyourorganisation/Estatesandfacilitiesmanagement/Designandcosting/DH_4122853

What should the Design Brief specify?

3.1.4 The Design Brief should specify requirements for:

- **impact** – requirements to create a sense of place and contribute positively to the lives of those who use the building and are its neighbours;
- **build quality** – requirements of technical standards for a soundly built, reliable, easy to operate, sustainable building that minimises disruption during construction; and
- **functionality** – requirements to accommodate the primary purposes and activities of people.

3.1.5 Within this structure some additional detail, as highlighted later, to that envisaged by AEDET Evolution and ASPECT is required, particularly to fully brief sustainability requirements and the technical specification of build quality. For sustainability, for example, BREEAM criteria (Building Research Establishment Environmental Assessment Method)[46] should be woven into the requirements.

Using the Design Quality Briefing Tool in LIFT

When should you use the Design Quality Briefing Tool?

3.1.6 The Design Quality Briefing Tool has been developed for use by the NHS in a wide variety of design procurement situations, many of them including a design competition as part of a competitive procurement process. It enables the full range of requirements to be expressed in the absence of any corresponding work on a design solution to the brief. In addition, the tool is designed to be used in connection with a wide range of projects in terms of capital value and complexity.

How should you use the tool?

3.1.7 While all the principles on which the tool are based are relevant to New Projects procured through LIFT, consideration should be given to ensuring that the tool is used effectively and not at the expense of maximising the value of LIFT. Particular issues to consider include:

- the proportionate application of the principles, particularly in the case of relatively low-value simple projects;
- using LIFTCo's expertise in lieu of independent professional advice (for certain services where independence is not required) to determine briefing requirements. The effective use of LIFT allows appropriate standards to be agreed for each New Project on an overall value-for-money basis by bringing procurer and provider together at or before the initial briefing stage;
- the joint development and updating of standard technical specifications for inclusion in the brief (or New Project Proposal) from experience on preceding LIFT projects – reducing the requirement for independent professional advice and increasing efficiency in delivery;
- the recognition of LIFTCo's long-term responsibility for functionality, availability, hard facilities management and lifecycle replacement, putting it in an advantageous position to advise on the output requirements in the brief based on its determination of the relative merits of various technical specification options;
- a Design Brief prepared as part of the Participants' Requirements that should provide a definite specification of requirements and should not include aspirational requirements. Aspirational requirements should be worked through and resolved with LIFTCo before the brief is set at Stage 1, and compliance with best practice guidance should be driven by value for money and all requirements for adaptability should be determined, agreed and specified;
- avoiding duplication of effort through developing LIFTCo's New Project Proposal and the Participants' Requirements (Design Brief) together. Key elements can be cross-referred. For example: where the Design Brief is objective enough to ensure that a particular Participants' Requirements will be met, its solution need not be detailed within the New Project Proposal at Stage 1; or, conversely, where the New Project Proposal demonstrably meets a particular requirement, this requirement need not be specified at length in the Design Brief; and

46 For BREEAM Healthcare: www.dh.gov.uk/en/Managingyourorganisation/Estatesandfacilitiesmanagement/Sustainabledevelopment/DH_4119587

- developing and using a range of standard briefing information to apply to all (or many) New Projects to be delivered by LIFTCo, except where particular circumstances require otherwise, e.g. standard operational policies for particular services, standard policies on patient privacy, green travel plans and consumerism.

3.1.8 Despite this, there are likely to be occasions, particularly during the initial New Projects developed by a particular LIFTCo, when it will be appropriate for the Participant to engage independent professional advice to determine the requirements to be specified in the Design Brief, to ensure that updated NHS guidance is incorporated into new developments or to review LIFTCo's proposed minimum standards.

Specifying impact requirements

What do we mean by "impact"?

3.1.9 "Impact" is the requirement to create a sense of place and for the building to contribute positively to the lives of those who use it and are its neighbours. It is expressed in terms of four briefing elements:

- **character and innovation** – how the building should feel;
- **form and materials** – how the building should appear and be organised;
- **staff and patient environment** – best practice requirements for staff and patient environments; and
- **urban and social integration** – the way in which the building relates to its surroundings.

3.1.10 As the Commission for Architecture and the Built Environment (CABE) makes clear, this is not just about aesthetics: "… great buildings can lead to better health outcomes. They can reduce use of painkilling drugs, increase cost benefits, and result in healthier patients and lower staff turnover."[47] Moreover, neither is this a desktop exercise; involving a wide range of people and reflecting their views in the brief to LIFTCo's design team is paramount to how the building will feel and appear to be organised to them, as well as how well it will relate to its surroundings.

Who has a role in determining impact?

3.1.11 LIFT provides the Participants with a valuable opportunity to ensure that impact is appropriately briefed and realised through active engagement at the outset with and between users and neighbours and LIFTCo's design team. Through this process, the Participant can agree with LIFTCo what is appropriate – with reliable information on likely costs – and evidence in the Stage 1 business case that requirements have been analysed, specified and satisfied in outline by the New Project Proposal.

3.1.12 The opportunity for LIFTCo's design team to act as advisers to Participants and stakeholders – rather than only responding to a brief and providing the outline design solution – is an effective and efficient way of assisting the Participants to deliver the documentation required. This may also involve LIFTCo in making more specialist advice available – such as town planning, urban design, transport planning and highway engineering, historic building and ecological advice – if the scheme warrants it.

How should you convey what is required?

3.1.13 Impact requirements should be conveyed through illustrations as well as words. Illustrative material may comprise photographs of other schemes, pictures taken from magazines, or simple sketches. However, where the initial design work forming part of the New Project Proposal (e.g. a small-scale building elevation) is adequate to ensure that particular impact requirements will be met, these requirements need not be specified at length within the Participants' Requirements/Design Brief. A visual analysis of the site will be required in every case, together with drawings that set out the parameters – such as the maximum building heights – for the site's development.

3.1.14 In support of particular requirements, the Participant may also wish to refer to the growing body of research material indicating that the design of the healing environment impacts on patient recovery and on staff; and that good-quality environments impact positively on patient care, and vice versa.

47 Commission for Architecture and the Built Environment. *Creating Excellent Buildings: A Guide for Clients.* October 2003.

How should stakeholder involvement be managed?

3.1.15 Stakeholder involvement – including patient and public, clinician and staff, health scrutiny committee and town planning authority involvement – is a necessity if the briefing is to determine and address the issues that will enable people to enjoy the building and its setting. Identifying stakeholders, determining when they should be involved and establishing the means by which they are enabled to be involved will be crucial to the sustainability of the project. More specifically, and in addition to the pre-Stage 1 consultation process for service planning decisions that may have been undertaken as part of the Strategic Service Development Plan (SSDP), attention should be given to the community's environmental interest in both the design of healthcare facilities themselves and their social and physical relationship to other developments, existing and planned.

3.1.16 Effective project control procedures should also be developed in collaboration with stakeholders. A team should be established and resourced to facilitate collaborative workshops and to run involvement and consultation exercises. Consultations should be informed by specialist urban design and ecological analyses of the site in relation to the surrounding built environment. The outputs from the consultation should be drawn into the Design Brief, which should set out the issues and challenges that a design solution should address and the parameters within which solutions would be acceptable. It is important to establish any statutory town planning conditions that would need to be fulfilled.

How should the brief be completed?

3.1.17 To complete the brief, the briefing teams should expand on the prompts in ASPECT, setting measurable requirements where possible. For example, under "Views", the ASPECT prompt is "There should be special attention to creating patient, staff and public areas with pleasant views". Fleshing this out with key requirements, specific to individual areas or departments, will help the design team to prioritise and resolve matters in the design. For instance, areas where patients will have to wait for more than ten minutes may be specified as requiring a view of an interesting or landscaped area.

3.1.18 Preliminary drafts of such a brief will be tested in LIFTCo's design work in producing Outline Proposals, before being finalised to ensure that a PCT's aspirations are realistic and the brief robust. In the case of the patient waiting space example given above, LIFTCo's design team may inform the briefing team that the high-density urban context of the scheme makes it impossible to achieve the waiting room view criteria, or that it can only be achieved at the expense of other, equally specified, criteria. In such a case the PCT may need to consider amending its brief.

3.1.19 For complex schemes, more detailed requirements for the staff and patient environment than those contained in AEDET should be used. Guidance on this is given in ASPECT.[48]

Specifying build quality requirements

What do we mean by "build quality"?

3.1.20 This is about specifying the requirements of technical standards for a soundly built, reliable, easy to operate, sustainable building that minimises disruption during construction. It is expressed in terms of three briefing elements:

- **performance** – technical performance over time;
- **engineering** – engineering system quality, fitness for purpose, ease of operation, efficiency and sustainability; and
- **construction** – robust, maintainable, expandable.

3.1.21 Although these elements of the briefing may be viewed as a matter for technical advisers to address, Participants should not underestimate the impact they have on patients', visitors' and staff's experience of a building or the ability to perform services. For example, poorly briefed acoustic requirements can have major consequences for patient confidentiality, and failure to require protection of electrical wiring can lead to medical equipment experiencing interference. Similarly, low-quality materials and finishes, requiring frequent redecoration or replacement, are unlikely to support the confidence in the NHS that patients and those who treat them should have.

48 www.dh.gov.uk/en/AdvanceSearchResult/index.htm?searchTerms=ASPECT

What is the basis for build standards?

3.1.22 The Participant should produce full output specifications for the building, external works and mechanical and electrical services, defining the quality that they require and the performance they expect. The detail in the briefing should be greater than that envisaged by AEDET and should includes the requirements for achieving an "excellent" score from a BREEAM assessment.

3.1.23 Official healthcare guidance, such as Health Technical Memoranda (HTMs) and Health Building Notes (HBNs), should be used and referenced in the specification along with other standards and codes of practice requirements. The blanket application of guidance such as HTMs and HBNs should be avoided, as they are not in themselves specifications. Their application should be made project specific. Moreover, differences between standards should be addressed.

3.1.24 The Participant and LIFTCo should jointly determine the appropriate standards to be achieved in each case in order to ensure that the Participants' Requirements are satisfied and that value for money is provided to the public sector.

How do we realise the learning benefits of LIFT?

3.1.25 It is expected that LIFTCo will, over time, develop standard build specifications for future New Projects based on experience from earlier projects, and this will represent a key area where value for money can be improved over time through repeat business. For example, if users have complained about not being able to control the heating adequately, a revised requirement for the new facility could be specified to address the issue. LIFTCo's ability to innovate and provide cost-effective solutions to requirements should be drawn on when considering the options. Again, reference to national standards and guidance should be specific rather than general. However, the Participant should consider independent professional review of LIFTCo's proposed technical specifications where it cannot be certain its interests are fully aligned with those of LIFTCo.

Where does sustainability fit in?

3.1.26 Sustainability requirements of build quality should be drawn from the Participants' "green policy", including such matters as:

- ecologically sustainable design, including resource efficiency;
- waste minimisation through design and during construction;
- reduction of energy while ensuring occupants' comfort;
- deployment of new ecologically friendly technologies and materials;
- a green transport plan;
- minimisation and management of waste arising from its activities;
- minimisation of water consumption;
- maintenance and restoration of the site and local ecology;
- promotion of environmental management;
- encouragement of green purchasing of processes and products; and
- raising of environmental awareness.

3.1.27 The brief should require "EnCO2de" to be followed with specific construction and operational annual energy targets, addressed and incorporated into the project agreement. At Stage 1 a construction target should be set, and at Stage 2 the process for refining this should be defined once the design has been developed. This is likely to involve consumption modelling based on the final design. The process for this should be clearly set out in the brief.

What about IM&T infrastructure?

3.1.28 Procurement of information management and technology (IM&T) requirements is usually the subject of a separate business case. However, provision is required in the Design Brief for specifying the accommodation – such as hub rooms and server rooms – and infrastructure – such as external cable ducts, cableways, cables, data outlets and engineering services – together with their environmental conditions. Elements of a Participants' IM&T strategy – such as electronic patient records (EPR) – will have implications for the design of the departments to which they relate and in their own right.

What approach should be taken to the future and emergencies?

3.1.29 The level of flexibility, adaptability and resilience required of the facilities should be addressed in the brief. Healthcare services and technology will change over the lifecycle of the building. Construction that better enables reconfiguration of space – such as the use of non-load bearing, demountable partitions – should be

required. For resilience, provisions should be considered to meet emergency situations – such as the extent to which the facility may be required to operate should normal electricity supplies be interrupted.

Specifying functionality requirements

What do we mean by "functionality"?

3.1.30 "Functionality" is about setting the requirements to accommodate the primary purposes and activities of the people using a building. It is expressed in terms of three briefing elements:

- **use** – the way the building should enable users to perform their duties and operate;
- **access** – the way people should come and go; and
- **space** – the spaces required, their locations and people's needs to move around efficiently and with dignity.

3.1.31 The functionality aspects of a Design Brief are based on the healthcare planning work undertaken by the Participant. Some aspects of this work may already have been done at the SSDP stage and in this case do not necessarily need to be repeated to progress an individual New Project.

What is important about proper healthcare planning?

3.1.32 The healthcare planning process allows Participants to reflect on current ways of working and provides an opportunity to refine, alter and improve service delivery based on what patients and the public have told them. It gives Participants an opportunity to embrace new ways of working and enables them to reconfigure the built environment in order to optimise efficiency and enhance the patient's experience. The process supports the production of an informed Design Brief that balances the relationship between the care process, medical technology and the physical environment. Guidance on the subject is published in NHS Estates' Report *SDC – Healthcare Planning: Design brief guidance*,[49] and this has been drawn on to inform this document.

When does healthcare planning produce the greatest value?

3.1.33 Good-quality healthcare planning at the earliest stages of the overall capital planning process (i.e. SSDP) invariably leads to a better quality of scheme and allows the underlying service need to be clearly identified, thereby enabling the effective consideration of alternative New Project solutions and better options appraisal at the outset.

Use

What are the service philosophy and strategy of the PCT?

3.1.34 The "model of care" is a fundamental building block of the Design Brief. It is the overarching philosophy identifying how the health economy, and organisations within it, will deliver care in the future. It will set out whole-system principles and a clinical vision for the provision of health and social care services. The model of care will reflect national and local priorities and good practice on service models and configurations, as described in the National Service Frameworks.
A description will be given of how services are to be arranged on the site in the context of the overall model of care, together with an impact assessment in terms of infrastructures, staffing issues, capacity and technology.

What are the prime Functional Requirements of the project?

3.1.35 Once the model of care has been agreed, the next key stage in producing the Design Brief is to develop operational principles and policies.

3.1.36 Operational principles describe how each service will function. They are a way of testing the impact of the overall model of care on each element of the scheme. Operational policies for clinical departments that deliver the services (such as a minor injuries unit) and clinical support departments (such as pharmacy) should also be prepared in order to convey how each department functions as part of the overall facility. These policies also describe how rooms and spaces for that service relate to one another so that the department can be planned in a functional way. Care should be taken to ensure that, where departments have an interest in another department, their policies match.

49 http://195.92.246.148/knowledge_network/documents/SDC_20050418155029.pdf

3.1.37 Operational policies for non-clinical support services should be prepared in parallel with departmental operational policies, as they often require accommodation both in their own right and as part of clinical departments. Table 3 indicates some non-clinical services that Participants may wish to consider when developing the Design Brief. Those marked with an asterisk denote services that the Participant should involve patients and the public in when developing the Design Brief.

Table 3: Services for inclusion in the Design Brief

• Staff accommodation	• Access*
• Linen and uniforms	• Security and safety
• Admission and discharge*	• Fire
• Health records	• Communications*
• Sterile services	• Car parking*
• Portering*	• Estate management
• Post room	• Voluntary services
• Social work	• Religious facilities*
• General management	• Materials handling
• Education and training	• Catering*
• Medical engineering	• Domestics
• Control of infection	• Transport*
• Occupational health	

3.1.38 Operational policies for the prevention and control of infection have a significant impact on the provision and design requirements for accommodation. Advice on the underpinning principles, and on the key considerations that would assist in achieving designed-in infection control, is given in guidance issued by DH Estates.[50]

50 Department of Health. *Infection Control in the Built Environment*, July 2003.

3.1.39 Operational policies for facilities management and similar services should be based on the Department's standard facilities management output and performance requirements.[51] This standard documentation builds on best practice and experience and will save time and costs for both the NHS and the private sector. The standard output specifications have been designed to be applicable to in-house and outsourced provision of support services, as well as to PFI and LIFT schemes. The available specifications are listed in Table 4.

Table 4: Standard facilities management service specifications available

• Accommodation management	• Cleaning
• Catering	• Day nursery crèche
• Energy and utilities management	• Sterile services
• Car parking and traffic management	• Telecommunications service
• Grounds	• Ward housekeeping
• Medical devices maintenance	• Waste
• Pest control	• Materials management
• Portering	• Help desk
• Reception service	• General services
• Security	• Estates service
• Linen	

3.1.40 Operational policies will link to a Participants' overarching controls assurance policies. The practical implications of these policies on design should be reviewed jointly by the Participant and LIFTCo, and the agreed solution should be clearly reflected in the Design Brief and/or LIFTCo's New Project Proposal. The opportunity should be taken to review and update existing policies in line with the modernisation of services.

51 www.dh.gov.uk/en/Procurementandproposals/Publicprivatepartnership/Privatefinanceinitiative/Newstandardoutputspecifications/DH_4016183

How are the importance and dignity of individuals recognised?

3.1.41 Healthcare facilities should not be viewed as efficient machines for treating illness or accidents to the exclusion of humane considerations. The Design Brief should make clear the PCT's view of how the design – the facilities it provides and how they are presented and organised – will embrace the whole person. The PCT will need to demonstrate how its views reflect what patients and the public want; that is, the outputs of public and patient involvement activity as embodied in Section 11 of the Health and Social Care Act 2001, and the duty to involve and consult as in the Department's policy and practice guidance, *Strengthening Accountability.*[52]

3.1.42 Participants in LIFT should consider developing standard minimum requirements to apply to all New Projects.

How are functional relationships, workflows, logistics and throughput incorporated?

3.1.43 In most cases, LIFTCo should take the lead in this area given the expertise it is expected to have available and the responsibility for functionality it will be required (in most cases) to assume. However, it is recommended that explanatory diagrams should be developed and agreed which:

- pull together the requirements of individual departments as expressed in their operational principles and policies;
- present them in a whole facility context;
- include specific requirements for clinical adjacencies between departments;
- note priorities, with essential and desirable relationships established; and
- include matrices and checklists of the requirements, which are useful for developing and evaluating design proposals.

3.1.44 The Participants' Design Brief should include a brief statement of how patients and the public have been involved in and consulted on the planning process, the issues raised and how they have been addressed.

Why are operational policies important?

3.1.45 It should be noted that operational policies provide the designer with the necessary information to ensure that the design takes account of the way in which the Participant intends to operate and provide each particular service. LIFT has been designed in recognition that Participants do not have the necessary skills to fully determine the adequacy of any particular design to meet a specified need and hence (with some exceptions) LIFTCo is expected to assume responsibility for the functionality of its designs. The effectiveness of LIFTCo in ensuring the functionality of the project is therefore wholly dependent on the adequacy and clarity of the operational policies forming part of the Participants' Design Brief.

How should adaptability be taken into account?

3.1.46 The likelihood of changes in service provision should be explored and communicated within the Design Brief, and the anticipated requirements for expansion and flexibility identified. The specification may be departmentally based as well as generic. An example of generic flexibility may be a structural frame that will allow future reconfiguration of internal walls. The precise requirements for adaptability should be established and agreed between the Participant and LIFTCo on value-for-money grounds before Stage 1, and the Design Brief and/or LIFTCo's New Project Proposal should reflect the agreed outcome of these deliberations by Stage 1.

3.1.47 Note that the implications of adaptability for entirely different (non-healthcare) use will be a commercial consideration in many cases as this may significantly affect the alternative use residual value (and thus the cost) of the project to the Participant.

How are security and ease of control addressed?

3.1.48 The design implications of the Participants' security and safety policy, prepared as one of the Functional Requirements of the project, should be discussed here and the essential requirements of the brief specified.

3.1.49 Although subject to regular change, it is expected that standard documentation will be available to address this issue.

52 www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyandGuidance/DH_4008005

Access

How should access requirements be briefed?

3.1.50 Non-clinical support operational policies, such as materials handling, access and car parking, referred to in the Functional Requirements of the project, should be highlighted here and supplemented as necessary with specific requirements, including those of the local authority with regard to transportation and town planning. Access is a key issue for staff, patients and visitors and due regard should be given to stakeholder involvement in determining policies.

3.1.51 The Design Quality Briefing Toolkit provides seven headings with which to organise the access requirements of the Design Brief: These are:

- access for vehicles;
- parking for visitors and staff;
- goods and waste disposal vehicle segregation;
- external way-finding and signposting;
- pedestrian access;
- access for all; and
- integration with fire planning strategy.

3.1.52 In addition to addressing the qualitative aspects of access, it is important that the quantitative aspects should form part of the brief. This should range from overall estimates of parking requirements in relation to the Participants' transport plan to the actual size of the vehicles – cars, ambulances (in some cases), goods vehicles, etc. – that will use the facility. Technical standards, such as the lux lighting levels of car parks at night, will also need to be specified, although these may be better addressed in the build standard section of the brief with appropriate cross-referencing. A supporting information section may be used for specific design guidance, such as the manoeuvring requirements of patient transport vehicles or ambulances.

Space

To what level of detail should functional content and space standards be set out?

3.1.53 The functional content of the scheme should be provisionally developed in parallel with developing operational principles. Functional content is a list of departments within the scheme and their key functional unit room requirements. At the outset, the functional content should be based initially on NHS Estates' HBNs,[53] ensuring that sizing of key clinical areas reflects the latest standards including the requirements of the consumerism agenda.[54] However, as operational policies are subsequently produced and finalised, together with schedules of activity space requirements (where appropriate), the sizing of clinically critical accommodation is likely to change to reflect project-specific needs.

3.1.54 Spatial areas will be expressed in LIFTCo's New Project Proposal as a Schedule of Accommodation for the whole scheme. However, the Participant is expected to participate actively in the development and completion of the Schedule of Accommodation before Stage 1. Note that it may be useful to consult the activity database (ADB)[55] as an initial guide to the layout of individual space. A suitably detailed Schedule of Accommodation forms one of the key documents used to test the PCT's desired calibration of the Payment Mechanism prior to Stage 1 approval.

3.1.55 LIFTCo's Schedules of Accommodation will provide a detailed, spatial description of the facilities required to provide services in the new building. They sum up the accommodation requirements of the clinical, clinical support and non-clinical operational policies – in effect, room requirements and connecting corridors. Additionally, communication space should be detailed: the corridors, lifts and stairs that connect the departments, together with plant space and any external buildings, such as medical gas stores.

3.1.56 Information about the size of rooms and circulation space within departments – as provided in HBNs, associated Schedules of Accommodation and the ADB – and the amount of communication space, plant space and any external buildings

53 www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyAndGuidance/DH_4119663
54 NHS Estates. *Healthcare Capital Investment Supplement to Quarterly Briefing*. Vol 12, No 1, 2002/03
55 NHS Estates. *Healthcare Capital Investment Supplement to Quarterly Briefing*. Vol 2, No 3, 2001/02

is conventionally used for initial option appraisal purposes. However, such information should be treated cautiously by both the Participant and LIFTCo in completing the Design Brief and New Project Proposal. The completed Schedule of Accommodation should be thoroughly reviewed by the Participant, its clinicians and users – including patients and the public – together with technical advisers as appropriate.

What is the role of guidance in HBNs and other good practice documents?

3.1.57 The Design Brief should make clear what formal guidance must be followed by LIFTCo. The brief should be specific and precise about the status of the guidance, distinguishing between any mandatory or desirable standards. Blanket statements should be avoided.

3.1.58 The applicability or otherwise of particular standards to particular spaces should be established, as far as is practicable, through informed dialogue between LIFTCo and the Participant on value-for-money grounds. It is not sufficient to state that "all applicable standards" will apply as this sort of statement lacks clarity, tends to lead to an equally unclear response in LIFTCo's proposals at a later stage and prevents the exploration of means of providing better value for money.

3.1.59 Space standards in relation to room layouts are determined by reference to the space required for activities undertaken in the room and the components that aid them, such as doors, power outlets, beds and tables. Typical layout plans and elevation views are given in the room graphic sheets that form part of the ADB's library of information. These serve only as a starting point and should be adapted to meet project-specific needs. The extent to which rooms need to be reviewed for layout at Stage 1 is a matter for judgement; size and shape of rooms for clinical areas is the primary concern.

How are standards relayed to LIFTCo?

3.1.60 For key clinical areas, investment in producing draft ADB room, design character, environmental and component data sheets, together with room graphic information, will provide a firm foundation for the Tenant's Requirements (or Trust Requirements).

Do these requirements also extend to equipment?

3.1.61 The provision of components is not specifically mentioned in the Design Quality Briefing Tool or within AEDET, though it sits most readily within the space category. Determining equipment requirements conventionally starts with examining official guidance derived from the HBNs, related ADB room data sheets, and equipment cost allowance guides.

3.1.62 For clinical areas, the equipment required to provide services in the building – such as clinical wash hand basins, curtain cubicle tracks and reception desks – should be scheduled to correspond to the schedules of activity space. The equipment should be based on generic description and conventional NHS equipment classifications.

3.1.63 Normative, typical requirements for departmental equipment – such as those contained in the ADB – are conventionally used for initial option appraisal purposes. However, for the purposes of establishing a robust Design Brief, this should be thoroughly reviewed by clinical and user groups in order to ensure that it meets project-specific needs and can be robustly costed for budget purposes. In the process, key spatial and engineering requirements of equipment can be ascertained and documented.

3.1.64 Transferring existing equipment to meet scheduled needs will require assessment, and major items may require special studies in order to assess the cost benefits of transfer.

Space utilisation

What do we need to signal to the design team?

3.1.65 Attention should be given here to the use of facilities over time and the potential to share accommodation. The Design Brief should make clear the parameters within which the design team should work. For example, two departments may each have a seminar room as part of their schedules of activity space, but in practice they could share the same room provided the design team is able to achieve a mutually accessible location.

Section 3.2: Tackling land issues

The treatment of land has become an area of debate as LIFT developments have become more ambitious. This section provides a guide to land considerations that are standard for most schemes, as well as discussing the policy issues that need to be considered for larger developments.

Site ownership

Who should own the land?

3.2.1 Whether or not the Participant should retain or own a freehold or long-term leasehold interest in the site identified for the New Project should be determined primarily on value-for-money grounds, taking into account the anticipated service delivery need for the site beyond the proposed lease term (usually 25 years) and the benefit to be gained from freehold ownership by LIFTCo, i.e. the value of an initial capital receipt, the residual value benefit of transfer in terms of reduced Lease Plus Payment, the flexibility of being able to "walk away" at the end of the lease term, and freedom from "compensation upon termination" provisions.

3.2.2 Where the retention of freehold (or long-term leasehold) interest in the site by the Participant is considered appropriate, the Land Retained Agreement should be utilised in lieu of the Lease Plus Agreement (see Section 2.3).

What checks should be made on the selected site?

3.2.3 In order to ensure that the project is deliverable and will provide value for money, and that the Affordability Cap is set at the appropriate level, the following checks should be made:

- general accessibility to the site for all users, especially in respect of public transport;
- legal title and restrictive covenants that might prevent the proposed scheme;
- whether or not the site is capable of being developed, e.g. available services, suitable ground conditions, adequate density;
- whether or not the utilities capacity of the site is sufficient without expensive upgrades;
- whether or not the scheme is capable of implementation – for example, check with the local planning authority that planning consent for the required use will be granted, and with the highway authority that access arrangements for the proposed development are adequate;
- ground contamination, via desktop studies in the first instance; and
- the level of flood risk to which the site is exposed.

3.2.4 It is expected that LIFTCo will carry out these checks at an early stage in the process (certainly well before Stage 1) in order to inform the options appraisal and initial selection of a site before any substantial costs are incurred in developing a New Project Proposal. Indeed, the key decisions affecting project outcome, including scoping Participants' Requirements, selection of an appropriate site, ensuring sustainable development and providing best available value for money, should not be finalised in the absence of a degree of confidence in relation to each of these issues.

What data should be available for PCT-owned land?

3.2.5 The Participant should produce a comprehensive package of information for any land they are transferring to LIFTCo, and should make this available as early in the process as possible in order to avoid unnecessary duplication of cost and to enable informed decisions before expense is incurred in developing an ultimately undeliverable proposal.

3.2.6 This information should include all information in the Participants' possession, including title deeds relating to tenure, details of any site restrictions such as easements, rights of light, access issues, restrictive covenants, site boundaries, site and building areas, building conditions, utilities plans, asbestos surveys etc. In addition, the information should include confirmation of provision of mains services, and confirmation that the statutory undertakers have agreed the capacity available for the proposed development.

3.2.7 However, the Participant should not warrant any of the information or expend effort in providing new information, as it is ultimately for LIFTCo to determine

the adequacy or otherwise of such data and to commission its own additional research where it is considered necessary in order to determine deliverability of the proposed New Project, to inform the Affordability Cap and/or to establish that the proposed project is likely to provide value for money to the public sector.

Site selection

What additional surveys/reports should be carried out on the chosen site?

3.2.8 There are a number of surveys and reports that should be carried out on the proposed site at an early stage. These will assist LIFTCo to determine the feasibility and likely cost of the project and thereby mitigate expenditure on ultimately undeliverable projects, inform effective options appraisal, establish with a reasonable degree of confidence that value for money can be provided, and reduce the level of contingency to be included within the Affordability Cap and ultimately the level of risk to be assumed by the constructor (and thereby allowed for within the construction price) at financial close.

3.2.9 The areas that should be considered include, but may not be limited to:

- town and country planning (including conservation areas, listed buildings, height restrictions, potential planning obligations, tree preservation orders, etc.);
- current and future flood risk;
- previous uses of the site and potential contamination;
- ground conditions, particularly bearing capacity;
- ecology surveys;
- archaeological studies;
- transport assessment;
- travel plans;
- environmental impact assessments;
- the potential scope of Section 106 and 278 agreements to be entered into as a condition to planning consent; and
- the requirements of Natural England and the Environment Agency, including water efficiency measures and pollution control measures.

3.2.10 It should be noted that LIFTCo is usually in the best position to determine the level of development risk associated with any particular project or site, the market's capacity and appetite for such risk, and the precise detail of the information required to close out these risks effectively.

3.2.11 As a result, it is ultimately for LIFTCo to determine (on value-for-money grounds) which surveys are necessary and the terms on which they should be commissioned. For example, LIFTCo may determine that a survey which cannot "guarantee" the absence of asbestos in an existing building will cost more than it will save in terms of a reduced construction cost and hence should not be commissioned.

3.2.12 All such issues should form part of a robust risk management process (see Section 2.7) and should be transparently taken into account within the Affordability Cap (see Section 2.5) and in the demonstration of value for money (see Section 2.6).

What about sustainability?

3.2.13 The selection of the site will always have a significant impact on the achievement of a sustainable development, so any options appraisal should, as a minimum, take particular account of the following issues:

- the potential for refurbishment rather than a new-build solution (including the environmental impact of disposal/demolition of existing facilities);
- a full environmental impact of the proposed development;
- transport implications (public transport routes/traffic generation/car parking, etc.);
- waste generation/disposal issues; and
- the carbon footprint.

3.2.14 It is recommended that BREEAM is used in the options appraisal to inform the selection of the appropriate site for the New Project.

Section 3.3: Benchmarking and market testing

The relationship between LIFTCo and a PCT is important in delivering value for money throughout the exclusivity period. Further guidance on value for money through benchmarking and market testing is set out below.

Value for money

To what extent is value for money determined at Stage 1?

3.3.1 At Stage 1, the value to be obtained from the project is largely secured through the establishment of appropriate Approval Criteria. As part of its New Project Proposal, LIFTCo is required to provide an estimate of the likely cost of the New Project. This may take the form of a complete draft financial model, but alternatively may take the form of a more simplified approximate means of calculating the level of Lease Plus Payment.

3.3.2 Whichever method is used, the calculation will be based on estimated costs for each substantive element, including:

- project development, including professional fees;
- site acquisition;
- construction (based on the outline design forming part of LIFTCo's New Project Proposal – see Section 2.3);
- facilities management and lifecycle replacement (based on the Payment Mechanism calibration described in Section 2.4);
- LIFTCo business overheads;
- insurance premiums;
- capital (gearing, interest rates and internal rate of return);
- anticipated rate(s) of price inflation both up to financial close and throughout the lease term; and
- the residual value at the end of the lease term.

What is LIFTCo's role in demonstrating that best value has been obtained from each element?

3.3.3 The degree of certainty with which each of these elements can be predicted at Stage 1 will vary between elements and from one project to the next but, as far as is reasonable in each case, LIFTCo is required to demonstrate that the estimates are appropriate and reasonable on the basis of the best information available at the time of submission. In particular, each element should be benchmarked against the equivalent costs allowed in the last project(s) on that particular LIFT where a market test was used to determine prices and relevant local and national market cost data, making appropriate allowance (+ or –) in each case for dissimilarity between the proposed New Project and the comparator(s).

3.3.4 It is expected that the anticipated construction cost will be determined using an elemental cost plan derived from the outline design prepared as part of the New Project Proposal. This should be clearly benchmarked against costs derived for similar elements in competition and in particular against the latest market-tested project conducted by LIFTCo, i.e. the initial projects until and unless a subsequent New Project has been market tested.

3.3.5 Note that where technical specifications can be relaxed (e.g. where no clinical use of a particular space is envisaged), a corresponding reduction in elemental cost should be indicated in the cost plan. Further, where any material derogation to standard terms or to standard specification requirements is proposed, there must be a corresponding adjustment to the price in order to ensure that there is no shift in economic balance towards LIFTCo. In other words, dilution of standards should be accompanied by price reductions (and vice versa) subject to value-for-money testing.

What is the relationship between cost estimates and the Affordability Cap?

3.3.6 In recognition that LIFTCo's estimate of likely cost is to be used to determine the appropriate Affordability Cap (see Section 2.5), it will be necessary to make appropriate provision for all identified cost risks which cannot be closed out until a later stage in the project development process (post-Stage 1). Wherever practicable, these cost risks should be itemised with a separate contingency fund identified for each so that they may be reported against as the project proceeds

and, vitally, within LIFTCo's final demonstration of value for money at Stage 2. Having said this, it is recognised that Stage 1 represents an early stage in design development and it is therefore appropriate (and established construction industry practice) that the elemental cost plan will include certain general contingencies for elements not readily identifiable from outline design, e.g. "design development".

How are funding costs addressed within the Affordability Cap?

3.3.7 In calculating the potential Lease Plus Payment it will be necessary for LIFTCo to assume an interest rate for the cost of capital. Fluctuation in this element is completely outside the control of both LIFTCo and the Participants but will have a significant impact on the cost of the project; it is therefore appropriate that best available intelligence is employed in order to fix an appropriate rate, and that a suitable "buffer" is allowed.

3.3.8 All cost elements should be based on a realistic date for financial close, taking full account of the need to complete Stage 2, obtain detailed planning consent, cover any relevant judicial review period and obtain all outstanding approvals, again with a reasonable buffer allowed for potential delay to the process.

3.3.9 Each contingency included within the Stage 1 cost estimate should be cross-referenced to an entry in the risk register (see Section 2.7) to ensure effective management and reporting of risk and cost as matters are closed out after Stage 1.

3.3.10 The Participants should obtain independent professional advice (technical and financial) to verify each substantial element of LIFTCo's cost estimate for the New Project.

In what circumstances should benchmarking or market testing be applied?

3.3.11 The Strategic Partnering Agreement (SPA) provides that LIFTCo may demonstrate the value for money of a New Project at Stage 2 by one of two means:

- by market testing the supply chain; or
- by comparison with the costs of the latest projects for which a market test was conducted (i.e. the initial projects delivered by LIFTCo until and unless a later New Project is subject to a market test), taking account of trends apparent from available relevant market data ("benchmarking").

3.3.12 It is expected that market testing, where it is employed, will usually be conducted towards the end of Stage 2 at such time as the design has been well developed and the majority of risks closed out. However, it should be noted that it is open to LIFTCo to propose any alternative method (including potentially market testing in advance of Stage 1) for the Participants' consideration. Schedule 5 of the SPA prescribes a definite process for market testing New Projects.

3.3.13 Where benchmarking is proposed as the ultimate demonstration of value for money, it should be understood that this process is not intended to act as a simple alternative to a market test, but to enable early engagement of the supply chain in the project development process and thereby to deliver benefits to the Participants in terms of lower cost (subject to adjustment for inflation) or otherwise improved value for money. Indeed, the SPA expressly provides that LIFTCo will be expected to be able to demonstrate lower cost and/or greater value for money in the delivery of New Projects where benchmarking is employed.

3.3.14 As part of its New Project Proposal, LIFTCo is required to propose how it will ultimately demonstrate value for money at Stage 2. Where benchmarking is proposed, it will be necessary for LIFTCo to explain at Stage 1:

- precisely how its proposed prices will be benchmarked against the outcome of the last preceding market test and other available market data;
- how the use of benchmarking will benefit the Participants in providing lower costs and/or better value for money, e.g. how earlier engagement of the supply chain in the project development process will directly benefit the Participants; and
- in what way(s) costs will be reduced and/or value for money improved on the particular New Project.

The precise requirements for the demonstration of value for money at Stage 2 should be agreed and carefully documented as part of the Approval Criteria on which Stage 1 Approval is given.

3.3.15 It is expected that where benchmarking is employed, the reduction in costs and/or improvement in value for money to be realised should include several of the following:

- a reduction in the Lease Plus Payment per square metre (net internal area) compared with earlier projects (after appropriate adjustment for inflation and for fluctuations in interest rates);
- a reduction in transaction costs compared with earlier projects;
- a significant reduction in unit cost of various elements of construction;
- an improvement in project delivery times (pre- and post-contract);
- a reduction in professional fees;
- a reduction in LIFTCo and supply chain overheads (note that where benchmarking is employed, the contractor is excused the cost of unsuccessful bidding and this should usually be reflected in a reduction in the provision for overheads compared with its regular business);
- an improvement in funding terms;
- an increase in AEDET scores;
- more efficient design (reduced unusable space, more efficient use of site, etc.);
- better building performance (e.g. increased natural light, improved temperature management);
- a reduced provision for lifecycle replacement through improved design and specification;
- reduced energy targets;
- higher BREEAM scores;
- optimal calibration of the Payment Mechanism (see Section 2.4) in terms of risk transfer versus cost;
- employment of facilities management expertise at the early stages of design in order to maximise availability and minimise the cost of routine and emergency maintenance;
- a reduction in unitary prices for facilities management through increased efficiency (benefits of scale);
- the incorporation of additional beneficial features;
- an improvement in functionality;
- increased utilisation; and
- increased user satisfaction.

3.3.16 It will be necessary to determine at Stage 1 how these improvements in value for money will be effectively demonstrated at Stage 2 including, but not necessarily limited to, the use of cost plan comparisons, independent expert assessment, key performance indicators (KPIs) or otherwise.

3.3.17 LIFTCo is obliged (under the SPA) to record a number of KPIs in relation to the performance of buildings in its estate. It is expected that these will be used to identify particular areas for improvement in value for money on future New Projects.

3.3.18 Note that enhanced technical specifications should only be considered in order to improve value for money to the extent that they benefit the user, and that the incorporation of such specifications should not justify any increase in cost except where expressly required by the Participants. In all other situations, a decision by LIFTCo to increase construction costs should, as a minimum, be balanced by a consequent saving, e.g. use of more robust construction materials should enable a reduction in maintenance and/or replacement costs.

3.3.19 It should be made clear that in the event that LIFTCo is unable to satisfy the Approval Criteria in respect of value for money at Stage 2 by benchmarking, it will be expected to undertake a market test in accordance with Schedule 5 of the SPA. It is therefore essential that LIFTCo is able to secure the intellectual property in any designs prepared in connection with the New Project for implementation by an alternative constructor without payment of additional fees.

How do we make the transition to Stage 2?

3.3.20 Having firmly established a number of requirements to be met in order to demonstrate value for money (and, where appropriate, improvements to be made), LIFTCo shall be required, as part of its New Project Final Approval Submission, to demonstrate effectively that each will be met by the proposed New Project. In particular LIFTCo is required to:

- substitute firm prices (or where appropriate "nil") against each element included in the Stage 1 cost estimate;
- produce a comparison between each firm cost element and the amount included in the Stage 1 cost estimate;
- demonstrate that each risk issue identified in the risk register at Stage 1 (see Section 2.7) has been effectively mitigated and an appropriate contingency amount (benchmarked or market tested where appropriate) included; and
- where benchmarking is employed as the ultimate determinant of value for money, demonstrate that costs have been reduced and/or value for money improved in each of the areas identified for such improvement at Stage 1.

3.3.21 Note that the amounts included at Stage 1 in respect of defined contingencies but not subsequently required at Stage 2 (i.e. where identified risk did not materialise or was closed out at a lower cost) should not, without further explanation and demonstration of value for money, be made available to fund underestimates of cost elsewhere. In these circumstances the value-for-money price for the New Project must, by definition, be less than the Affordability Cap by at least the sum of the defined risk contingencies allowed at Stage 1 but not subsequently required.

3.3.22 Also note that benchmarking is not generally intended to be used as a determinant of prices but solely as a comparator in order to demonstrate that the proposed prices are appropriate. It is expected that LIFTCo (and, where appropriate, its supply chain) will employ (and will be able to demonstrate that it has employed) best practice to ensure that competitive value-for-money prices are obtained for all elements of each New Project, and that improvements in value for money will be achieved through this process.

3.3.23 In the event that LIFTCo is unable to satisfy all the Approval Criteria in respect of value for money (all other Approval Criteria and in particular the Participants' Requirements having been satisfied), it may be required to complete its demonstration of value for money by alternative means, i.e. by market testing in accordance with Schedule 5 of the SPA.

How do we improve value for money after Stage 1?

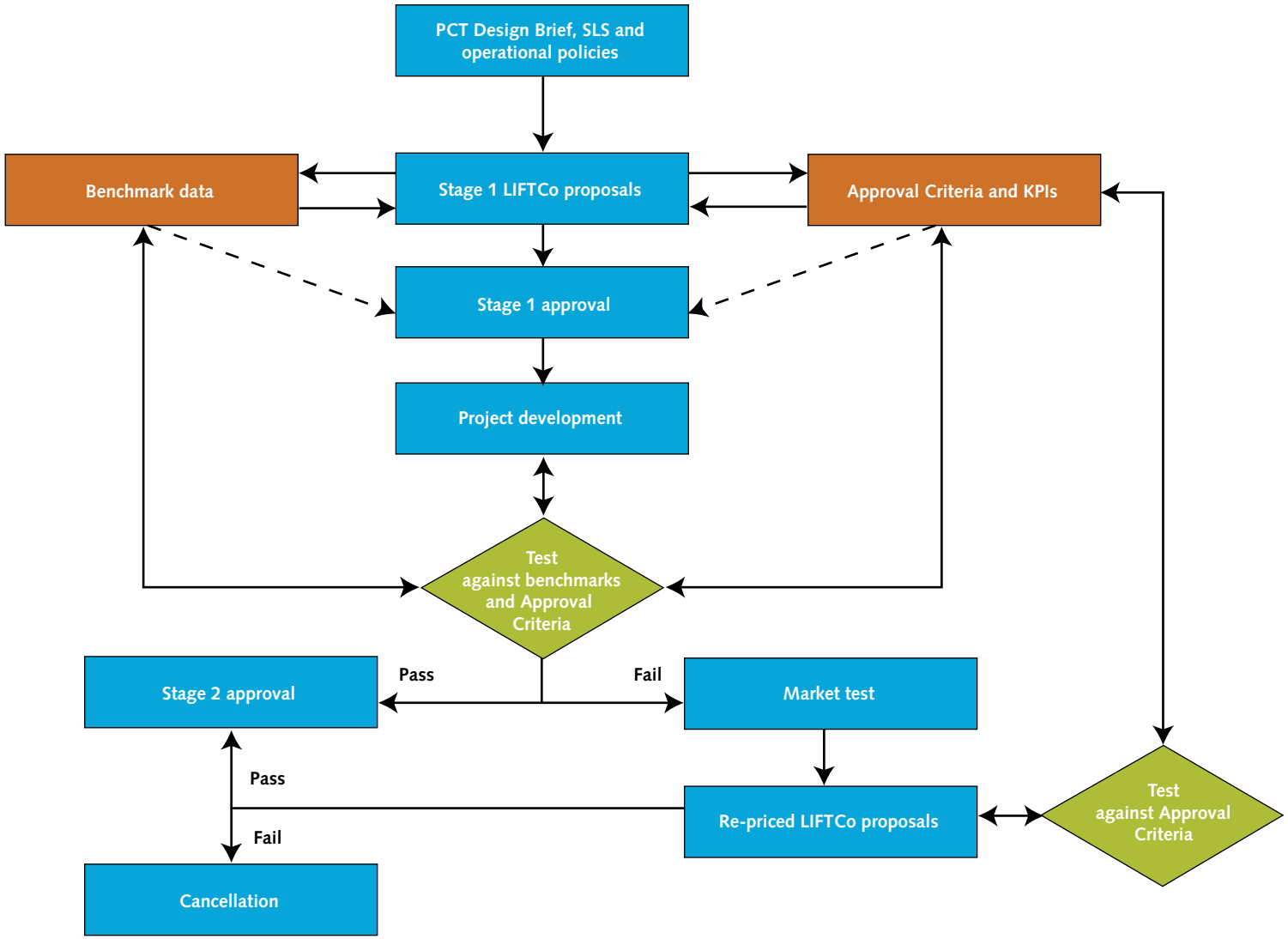
3.3.24 The Affordability Cap is set on the basis of a group of minimum standards, e.g. adoption of standard NHS guidance, Standard Service Level Specifications (SLSs) and calibration of the Payment Mechanism (see Section 2.5 for further information). After Stage 1, LIFTCo may explore options that challenge these standards in order to improve value for money. Where the benefit of amending these standards (in terms of reduction in cost) outweighs the anticipated cost to the Participants (in terms of reduced level of service), such proposals can and should be actively considered by the Participants before Stage 2.

3.3.25 However, no relaxation should be considered simply in order to achieve the specified Affordability Cap, as the satisfaction of this Approval Criterion must always be on the basis that all of the Participants' Requirements established at Stage 1 are also achieved.

3.3.26 In summary, relaxation of the Participants' Requirements established at Stage 1 can only be permitted where it can be demonstrated that the benefit to the public sector (in terms of cost reduction) outweighs the cost, and where it can be demonstrated that the Affordability Cap could be achieved in the absence of any such relaxation.

3.3.27 Figure 4 sets out how the value-for-money process should work.

Figure 4: Summary of the value-for-money process



Section 3.4: Building a project team

Many of the benefits associated with LIFT rest on getting the best out of the relationship between the pubic sector and LIFTCo. This requires the public sector to act as an informed and intelligent client – which includes taking responsibility for running its project properly. This is not an area for false economies, as this section demonstrates.

Why is project management important?

3.4.1 Successful projects are founded on clear leadership from the outset. It is expected that, while LIFTCo will provide this leadership from Stage 1 through to successful delivery of the building, the Participants will need to lead the process from conception to the development of the brief, and from Stage 1 onwards there will remain a substantial need for public sector leadership to co-ordinate further input into the project, to respond to LIFTCo's requirements for information, to obtain timely approvals and to ensure that the project is brought into full use as soon as it becomes available.

3.4.2 LIFT has been designed to bring the full benefit of public–private partnership to the development of the primary care estate. To enable this to happen, the first step in planning a New Project should be to identify all the skills required to bring the project to a successful conclusion and to compare these with the resources available within the public sector, LIFTCo and its supply chain. From this point, as far as is practicable, tasks should be clearly allocated to those best able to perform them based on resource availability and existing skills and experience. Where necessary skills are not currently available, these must be added to the team by the most appropriate party in each case.

3.4.3 Optimal performance can be achieved where the skills of the public sector are employed to complement those of LIFTCo and its supply chain rather than to man-mark or duplicate them. In order to minimise duplication of effort while maintaining effective governance, care should be taken to identify each point in the process where the interests of LIFTCo cannot be completely aligned with those of the public sector, and to ensure that the public sector's interests are adequately protected at these points. Otherwise, single-point responsibility should be encouraged.

3.4.4 The best projects tend to be delivered by an integrated team (representing all the interested parties – provider as well as commissioner) committed to the successful delivery of the project, not from different teams that mirror each other.

What is the role of the public sector?

3.4.5 The role of the public sector element of the project team can vary depending on the particular project and the range of skills and experience on which LIFTCo can draw. It is not the intention of this guidance to standardise or specify the way the project team should be set up in any particular case. However, there are a number of key functions that will always need to be performed by the public sector and will require a dedicated public sector resource to lead and manage (e.g. a project director or project manager). Effectively, responsibility for these tasks constitutes the role of Participants' Representative as defined in the SPA and will include, but may not be limited to:

- **LIFT Champion** – to raise the profile of LIFT within the PCT by appointing a PCT board member to be responsible for the successful promotion of LIFT within the organisation;
- **Clinical Champion** – to raise the awareness of clinicians (particularly GPs) of the LIFT initiative and what it can offer;
- **Design Champion** – a PCT board member will need to ensure that the principles of good design are reflected at every stage in order to deliver high-quality, patient-focused, sustainable buildings with modern working conditions that make a positive contribution to their communities and provide value for money. Support and training for the role is available from DH Estates (see contact details at the end of Section 1) to help the Design Champion fulfil this role;

- **PCT finance department** – it will be necessary for the PCT's internal finance department to provide the input to establish an appropriate Affordability Cap (see Section 2.5), to analyse the cost effectiveness and efficiency of proposed service re-provision, to consider the value for money offered by particular proposals, and to provide other relevant financial information for inclusion within the business case; and
- **project management** – there should be consistency in the manner in which project management functions are undertaken. There should be a concerted effort at all times to ensure that all tasks which could be successfully and economically undertaken by LIFTCo are complemented and not circumvented by the PCT project management team, particularly where LIFTCo will need to perform the same (or very similar) task for its own purposes.

3.4.6 In most cases the responsibilities that should be retained by the public sector include:

- developing the Design Brief and compiling the Participants' Requirements in advance of Stage 1;
- working with clinical staff and other relevant PCT staff to develop detailed and comprehensive operational policies – sufficient to inform LIFTCo's designers and to enable objective review of proposed designs;
- acting as a conduit between LIFTCo, the PCT's advisers and users, and other parties, e.g. SHA, CHP, CIB/PFU;
- assisting LIFTCo, as required, with the user meetings and monitoring/ managing user expectations;
- developing, managing, organising and implementing any decant plans for staff in existing buildings that will be affected by the New Project;
- developing, controlling and implementing the PCT's commissioning programme to ensure that the building is fully equipped and furnished as soon after practical completion as possible;
- implementing an effective communication strategy, particularly in relation to liaising with patients, Patient Advice and Liaison Services and the Overview Scrutiny Committee;
- developing operational policies for the use of the new facility, e.g. establishing new working practices with shared facilities such as reception desks and room booking procedures;
- addressing all other matters in connection with the New Project that will not fall within the scope of the Lease Plus Agreement (or Land Retained Agreement), e.g. ICT, procurement of specialist equipment, procurement of independent sector service providers;
- identifying service providers to operate from the New Project, including the procurement of independent sector providers where applicable, negotiation of terms of engagement and occupation, and the completion of underleases;
- managing the involvement of any non-NHS bodies (e.g. local authorities) that are also investing in a particular scheme; and
- compilation of the business case.

3.4.7 This does not preclude LIFTCo from contributing to the processes where its skills can be procured.

When does the public sector need independent professional advice?

3.4.8 In certain key stages there will be a need for external professional advice. The independence of this advice is key in enabling the PCT board to discharge its responsibilities to safeguard the value for money of taxpayers' funds. Where the interests of LIFTCo and the Participants are aligned there will usually be no need for costly duplication.

3.4.9 Examples of where independent advice would be useful include the following.

Pre-Stage 1

- Developing the Participants' Requirements. Healthcare planning advice may be procured from LIFTCo but there may be instances where independent advice is preferable. For example, LIFTCo should be expected to challenge proposed requirements (Participants' Requirements and SLSs) for functionality, flexibility and compliance with NHS standards, and recommendations for the purpose of improving affordability and/or value for money. It is essential that the Participant is adequately advised in order that it understands the full impact of proposed relaxations and/or derogations. Further, an independent review may be desirable to ensure that the Participants' Requirements are sufficiently objective to enable the adequacy of LIFTCo's proposals to be ascertained.

Stage 1

- Notwithstanding LIFTCo's obligation to satisfy the Participants' Requirements, a review of its New Project Proposal at Stage 1 to ensure that it meets the Participants' Requirements may be appropriate.
- Independent financial and technical advice will be required to review LIFTCo's Stage 1 cost estimates in order to establish value for money (see Section 2.6) and to assist in establishing an appropriate Affordability Cap (see Section 2.5).
- Independent legal advice with regard to any proposed changes (project specific or otherwise) to the standard LIFT contractual documentation and any other legal issues.
- Other specialist advice may be appropriate to review LIFTCo's proposals in respect of planning consents, land ownership and transfer, and third-party incomes.
- Property valuation.
- Each of these advisers will have a significant part to play in establishing robust Approval Criteria to be met at Stage 2.

Between Stage 1 and Stage 2

- Independent advice will usually be required in circumstances where the Participant wishes to amend the Participants' Requirements in any way (e.g. an amendment to the proposed service provision) or LIFTCo proposes such an amendment in order to increase value for money or affordability.
- Independent legal and financial advice will also usually be required to deal with legal and financial issues that arise as the procurement progresses.

Stage 2

- Independent advice will be required to establish whether or not LIFTCo's New Project Final Submission meets all of the Approval Criteria – in particular to review LIFTCo's demonstration of value for money (see Section 2.6).
- Independent advice will be required to finalise contract documentation and to advise the Participants in relation to any property transfers forming part of the proposal.

3.4.10 It is not the intention of this guidance that a PCT should duplicate LIFTCo's advisory team, or that significant resources should be expended in dialogue between sparring teams of advisers. The PCT should keep duplication to a minimum, consistent with that required to discharge its duties regarding value for money and the proper use of public funds. Accepting these limitations, the PCT may assess the extent to which advisers can be shared with LIFTCo. If in doubt, the PCT should consult the Department's PFU (see contact details at the end of Section 1).

Section 3.5: How to apply partnering

In 1997, HM Treasury defined partnering as "a managerial approach used by two or more organisations to achieve specific business objectives by maximising the effectiveness of each Participants' resources."[56] This definition belies a subtle relationship that requires careful management if it is to deliver the right benefits to the parties.

3.5.1 Partnering is based on:

- shared mutual objectives and compatible benefits;
- agreed problem-solving methods;
- shared risks according to who can best manage them;
- an active search for continuous measurable improvements; and
- managing the client/supplier relationship proactively.

3.5.2 In addition, it is generally understood that successful partnering requires:

- a commitment to teamwork;
- open communication;
- free access to information;
- delegation of authority to "working level staff";
- decisions by consensus;
- a fast and non-confrontational process for resolving disagreements; and
- a joint responsibility for maintaining the relationship.

3.5.3 While the SPA establishes a framework for LIFTCo and the public sector Participants to work together it cannot, in itself, ensure a successful outcome. In order to realise the benefits of partnering, active consideration should always be given to the following areas:

- integration of the public and private sectors into teams with joint responsibility for delivering particular New Projects;
- open communication of the objectives and constraints of the parties from the outset in order to develop better understanding and thereby to ensure effort is only expended in pursuit of mutual benefit – e.g. if LIFTCo fully understands a PCT's ambition and limitations, it can be more focused in developing proposals that are mutually beneficial and can greatly reduce wasted effort;
- recognition and appreciation of the needs of each party – in particular the public sector must recognise the private sector's need to make a profit that is proportionate to the level of risk, and the private sector must recognise the public sector's need for transparency in commercial dealings, evidence of wise use of public funds and demonstration of tangible benefits (see Section 2.6);
- providing the opportunity for exchange of ideas and active contribution to each other's business – the vast majority of the cost of any project is determined by decisions made at or near its conception, hence the biggest value-for-money gains can be realised by the engagement of all available skills before the important decisions are irrevocable;
- allocation of tasks to the party best able to perform them and allocation of risk to the party best able to influence the outcome;
- commitment to the measurement of performance of the partnership and to the objective demonstration of continuous improvement in value for money over time – this will be the true measure of success;
- maximising the benefit of removing the need for competitive tendering while retaining control where it is needed; and
- recognising that partnering is not an excuse for poor discipline and does not require the parties to be sheltered from bad news. On the contrary, it requires robust management of the issues, clear allocation of responsibilities, an openness in sharing problems and a willingness to confront difficult issues actively and jointly as soon as they become apparent.

3.5.4 In summary, the parties must set out to increase their understanding of each other, to share in each other's successes (and inevitably their difficulties) and to focus on the mutual goal of delivering good-quality New Projects that are entirely

56 Procurement Guideline 57: *Strategic Partnering in Government*. 1997. http://archive.treasury.gov.uk/pub/html/docs/cup/cup57.pdf

functional, available for use, profitably delivered and maintained, that provide tangible and demonstrable benefits in service delivery, value for money and ultimately improved health and well-being outcomes for the community, and that demonstrate continuous improvement over time.

Appendix 1: Further guidance

This appendix provides details of some useful sources of additional guidance.

1. Department of Health – *Our health, our care, our say.*
www.dh.gov.uk/en/Healthcare/Ourhealthourcareoursay/index.htm
2. Public Accounts Committee – 47th Report
www.publications.parliament.uk/pa/cm200506/cmselect/cmpubacc/562/56202.htm
3. HM Treasury – *PFI: strengthening long-term partnerships*
www.hm-treasury.gov.uk/pfi_strengthening_long-term_partnerships.htm
4. DH Estates Primary Care – *Primary and Social Care Premises – Planning and Design Guidance*
www.primarycarecontracting.nhs.uk/planning-and-design-guidance.php
5. Community Health Partnerships – LIFT Strategic Partnering Agreement
www.communityhealthpartnerships.co.uk/index.php?ob=1&id=74
6. HM Treasury – *Green Book*
www.hm-treasury.gov.uk/data_greenbook_index.htm
7. Department of Health – *Delegated limits for capital investment*
www.dh.gov.uk/en/publicationsandstatistics/Publications/PublicationsPolicyandGuidance/DH_080864
8. Information on the purpose of a Strategic Service Development Plan
www.communityhealthpartnerships.co.uk/index.php?ob=3&id=102
9. Example of a completed Strategic Service Development Plan
www.dh.gov.uk/en/Procurementandproposals/Publicprivatepartnership/NHSLIFT/NHSLIFTguidance/DH_4084499
10. Strategic Health Asset Planning and Evaluation (SHAPE) toolkit
http://shape.dh.gov.uk/
11. *Land and Buildings in PFI Schemes (Version 2)* ("the Land Guidance")
www.dh.gov.uk/en/Procurementandproposals/Publicprivatepartnership/Privatefinanceinitiative/LandandbuildingsinPFIschemes/DH_4016493
12. *The Register of Surplus Public Sector Land – Inclusion of NHS Land*
www.dh.gov.uk/en/Managingyourorganisation/Estatesandfacilitiesmanagement/DH_4119086
13. DH Estates Design Quality Briefing Tool to complement AEDET
www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyAndGuidance/DH_4122634
14. Guidance on management of risks associated with obtaining full planning permission contained in the Judicial Review Risk Guidance Paper
www.communityhealthpartnerships.co.uk/index.php?ob=1&id=72
15. Department of Health – Health Building Notes
www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyAndGuidance/DH_4119663
16. Department of Health – Health Technical Memoranda
www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyAndGuidance/DH_4119663
17. LIFT Lease Plus Agreement
www.communityhealthpartnerships.co.uk/index.php?ob=1&id=74
18. LIFT Land Retained Agreement
www.communityhealthpartnerships.co.uk/index.php?ob=1&id=74

19. Department of Health – PFI Standard Form Payment Mechanism guidance note
www.dh.gov.uk/en/Procurementandproposals/Publicprivatepartnership/Privatefinanceinitiative/Standardcontract/DH_4016186

20. Service Level Specification LIFT Application Note
www.communityhealthpartnerships.co.uk/index.php?ob=1&id=74

21. LIFT Key Issues and Derogations Report Template
www.communityhealthpartnerships.co.uk/index.php?ob=1&id=72

22. LIFT Benchmarking Database
www.communityhealthpartnerships.co.uk/index.php?ob=1&id=72

23. Department of Health – Cost Allowance Guide and Equipment Cost Allowance Guide, NHS Estates (2002/03) Healthcare Capital Investment V2.1 – Supplement to *Quarterly Briefing* Volume 12 No. 1
www.dh.gov.uk/en/Procurementandproposals/Publicprivatepartnership/Privatefinanceinitiative/InvestmentGuidanceRouteMap/DH_4133056

24. Median Index of Public Sector Building Tender Prices (MIPS)
www.dh.gov.uk/en/Publicationsandstatistics/Lettersandcirculars/Dearcolleagueletters/DH_076991

25. Department of Health – *Capital Investment Manual*
www.dh.gov.uk/en/Procurementandproposals/Publicprivatepartnership/Privatefinanceinitiative/InvestmentGuidanceRouteMap/DH_4133176

26. Department of Health – New supplementary guidance on optimism bias
www.dh.gov.uk/en/Procurementandproposals/Publicprivatepartnership/Privatefinanceinitiative/Changestotreasurygreenbook/DH_4067488

27. Department of Health – The investment life-cycle: Procurement
www.dh.gov.uk/en/Procurementandproposals/Publicprivatepartnership/Privatefinanceinitiative/InvestmentGuidanceRouteMap/DH_4133165

28. Information on the Department of Health Gateway Project Review Process
www.dh.gov.uk/gatewayreviews

29. Office of Government Commerce – Programmes and Projects
www.ogc.gov.uk/programmes_and_projects.asp

30. HM Treasury – Governance and risk management
www.hm-treasury.gov.uk/psr_governancerisk_index.htm

31. Department of Health – Achieving Excellence Design Evaluation Toolkit (AEDET Evolution)
www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyAndGuidance/DH_082089

32. NHS Estates (July 2003) – *SDC Healthcare Planning: Design brief guidance*
http://195.92.246.148/knowledge_network/documents/publications/Reports/Healthcare%20planning.pdf

33. Department of Health – Standard output requirements
www.dh.gov.uk/en/Procurementandproposals/Publicprivatepartnership/Privatefinanceinitiative/newstandardoutputspecifications/DH_4016183

34. Department of Health –*Strengthening Accountability. Involving Patients and the Public*
www.dh.gov.uk/en/PublicationsandStatistics/Publications/PublicationsPolicyAndGuidance/DH_4008005

35. NHS Estates (2001/02) Activity Database Healthcare Capital Investment – supplement to *Quarterly Briefing* Volume 2 No. 3

36. Department of Health – NHS Environmental Assessment Tool
www.dh.gov.uk/en/Managingyourorganisation/Estatesandfacilitiesmanagement/Sustainabledevelopment/DH_4119587

37. Commission for Architecture and the Built Environment (2003) *Creating Excellent Buildings: A Guide for Clients*
www.cabe.org.uk/default.aspx?contentitemid=450

38. HM Treasury (1992) *Strategic Partnering in Government* – Procurement Guideline 57
http://archive.treasury.gov.uk/pub/html/docs/cup/cup57.pdf

Appendix 2: Business case approval checklist

The purpose of this checklist is to serve as an aide-memoire for PCTs when producing a business case. It should not be read in isolation from the main body of the guidance, which sets out the requirements of a business case in full. PCTs and approvers should read and understand the purpose of each section of the guidance to ensure that a business case includes that which is necessary to achieve the stated purpose. As has been stated at various points in the guidance, it is important that the requirements of the guidance are applied proportionately to the business case in question. The level of information and detail required to support a particular section of a business case will depend on the particular circumstances of the scheme in question (e.g. its complexity, size and value). It is important that PCTs and their approvers discuss what is required before submission of the business case.

Strategic context

Requirement	Stage 1	Stage 2	Cross-reference to the guidance
Strategic planning	SSDP provided with any revisions detailed. Demonstrate consistency with the SSDP. Demonstrate link between the SSPD, the Integrated Service Investment Plan and the Local Development Plan and relevant objectives in each of these that the scheme is intended to deliver.	Confirmation that there are no changes. If there are, their impact on the scheme will need to be justified and explained.	2.2.6–2.2.8
Key assumptions of the business case	Demonstration of the extent to which: • the strategic benefits of the scheme are clearly identified and agreed across the local health and social care economy as appropriate; • the scheme will meet the aims of the SSDP; • the consequences for other services in the local health and social care economy have been fully considered through the use of a strategic asset management plan such as SHAPE; and • the service benefits (including community and third-party benefits) have been identified and linked to the SSDP, and are consistent with national and local priorities.	Confirmation that there are no changes. If there are, their impact on the scheme will need to be justified and explained.	2.2.9

Requirement	Stage 1	Stage 2	Cross-reference to the guidance
Consultation	Description of the consultation process and how the scheme reflects the consultees' interests.	Confirmation that as schemes are developed stakeholder engagement and support continues.	2.2.12–2.2.13
Analysis of interfaces with wider local health and social care economy	Demonstration that the analysis justifying the scheme has a wider remit than just the parties involved in the SSDP and includes: • impact on other NHS bodies such as acute or foundation trusts; • implications for local GP practices and their willingness to commit to occupying rooms; • impact on third-sector organisations for which there is a policy initiative; • interactions with the independent sector; and • interactions with other initiatives as required.	Confirmation that there are no changes. If there are, their impact on the scheme will need to be justified and explained.	2.2.14
Third-party income	Identification of potential third-party income streams.	Confirmation of third-party income.	2.2.16
Business assumptions and constraints	Details of the assumptions that underpin the business case with respect to: • need for the services and facility now and across the period of the LPA or LRA; • policies relating to the direction of travel for healthcare provision and foreseeable changes to these; • latest policy regarding public sector land and its use, and compliance with the PCT estates strategy; • economic and financial assumptions linked to demography, morbidity, funding growth and demand; • the impact of Payment by Results tariff, non-tariff activities, increase in community-based services and the effect of practice-based commissioning; and • the PCT's own commissioning plans and any joint commissioning plans, e.g. for social care.	Confirmation that there are no changes. If there are, their impact on the scheme will need to be justified and explained.	2.2.17

Design and estates matters

Requirement	Stage 1	Stage 2	Cross-reference to the guidance
General	Preferred estates solution demonstrated through appraisal of options. Staff and patient needs and public and community expectations of NHS buildings reflected. Capital costs of facilities robustly ascertained and demonstrated to be comparable to relevant market data and affordable. Demonstration of the deliverability of facilities. Demonstration that proposed solution will adequately meet quantity, quality, cost and deliverability requirements.	Confirmation that requirements continue to be met.	2.3.2
Site selection (value for money)	Confirmation that site selection demonstrates value for money through an option appraisal, and is sustainable and developable.	Demonstration that site selection value-for-money, sustainability and developability assumptions have been tested and outcomes confirmed.	2.3.4–2.3.6
Site selection (rationale)	Demonstration of the rationale for the PCT's site selection through reference to how: • the site is capable of being developed as required, or existing buildings are suitable for the required conversion; • the utilities capacity is sufficient; • any significant planning and highways issues that could affect the scheme being delivered have been identified, assessed and mitigated; • the site fits with the PCT's strategic asset management plans; and • the proposed site is the best available for the intended development, including drawings of the site development options used in the appraisal to reach this decision.	Confirmation that there are no changes. If there are, their impact on the scheme will need to be justified and explained.	2.3.9–2.3.11

Requirement	Stage 1	Stage 2	Cross-reference to the guidance
Treatment of NHS land	Confirmation that land acquisition, disposal and management are dealt with in accordance with the principles of *Land and Buildings in PFI Schemes (Version 2)*, *Estatecode* and *The Register of Surplus Public Sector Land – Inclusion of NHS Land*, as appropriate.	Demonstration that the deal complies with official guidance.	2.3.12–2.3.15
Land transferred to LIFTCo	Demonstration that the transaction represents value for money, both in terms of transfer price and transfer of residual value risk, considering: • value for money of residual value related funding; • an evaluation of the options at the end of the lease term and the likelihood of each option being exercised; • corresponding accounting implications (e.g. balance sheet treatment); • timing of transfer; • taxation implications; and • consideration of title of land and any restrictions that may affect use of the land for the proposed development.	Confirmation that there are no changes. If there are, their impact on the scheme will need to be justified and explained.	2.3.16–2.3.21
Treatment of surplus land	Confirmation that any surplus land is dealt with in accordance with *The Register of Surplus Public Sector Land – Inclusion of NHS Land*.	Demonstration that the deal complies with official guidance.	2.3.22–2.3.27
If LRA to be used	Explanation of the reasons for the decision to retain the land and confirmation that LRA is to be used.	Confirmation that there are no changes. If there are, their impact on the scheme will need to be justified and explained.	2.3.30

Requirement	Stage 1	Stage 2	Cross-reference to the guidance
Treatment of non-NHS land	Demonstration, if non-NHS land is being used, of: • the strategic and value-for-money grounds for selecting the site; • an assessment of how the site should be acquired or secured (e.g. whether by the PCT or by LIFTCo) including the use of enabling funds, where relevant; • an assessment of any additional risks inherent in the use of a non-NHS site and of how they will be managed; • confirmation that only land required for the scheme is being acquired, except where the only option is to acquire a larger site; and • confirmation that all land transactions comply with *Land and Buildings in PFI Schemes (Version 2)* and *Estatecode*.	Confirmation that there are no changes. If there are, their impact on the scheme will need to be justified and explained.	2.3.31–2.3.33
If no site identified at Stage 1	Explanation of why no site has been selected, and a robust analysis to explain how the site will be selected following Stage 1. This must include a detailed evaluation of any associated risks and costs, including mitigating strategies and identification of a ring-fenced contingency fund within the Affordability Cap.	Not applicable.	2.3.34–2.3.35
Development consents	Confirmation: • that LIFTCo has provided details of the risks associated with planning issues; • of how these risks will be managed and mitigated; and • of any financial consequences to resolve them, including appropriate contingencies assumed in setting the Affordability Cap.	Confirmation that planning consent has been obtained.	2.3.36–2.3.38
Design requirements	Demonstration that: • the PCT has translated its clinical and other requirements into a Design Brief; • this addresses the three main components of design quality: functionality, impact on people/surroundings and build quality; and • the Design Brief has been frozen at Stage 1.	Not applicable.	2.3.48

Requirement	Stage 1	Stage 2	Cross-reference to the guidance
Design proposals	Provision of sufficient design work to be able to: • determine that the Participants' Requirements can be met; • demonstrate the design quality of the project; and • allow the development of a robust elemental cost plan, including appropriate contingencies for unknown matters.	Confirmation that LIFTCo has produced detailed proposals that meet the Approval Criteria.	2.3.65
Design detail	Inclusion of relevant and appropriate detail, such as: • development statement; • Schedule of Accommodation; • 1:1250 site layout plan; • 1:500 general arrangement block floor plans; • 1:200 departmental layout plans for specialist elements; • typical 1:50 room layout plans for specialist rooms; • illustrative elevations, sections and perspectives; and • outline building and engineering strategies and specifications.	Demonstration that the detailed design work has been done so as to allow full planning permission to be obtained and a price to be fixed. This should include: • building design and construction proposals including: – healthcare planning proposals; – architectural drawings – including 1:200 layouts and 1:50 layouts of key rooms – and documentation; – building and civil engineering specifications and schedules; – engineering design and installation proposals; – engineering drawings and documents; – engineering specifications and schedules; and	2.3.66 and 2.3.78

Requirement	Stage 1	Stage 2	Cross-reference to the guidance
		• Fire Safety Strategy and associated Fire Plans, including: – project management proposals, plans and programmes; – consent proposals; and – equipment proposals. Demonstration of how each of the Approval Criteria, in particular the Participants' Requirements, have been met.	
Clinical functionality	Demonstration of how responsibility for clinical functionality is appropriately apportioned.	Confirmation of the review of clinical functionality by the PCT, where relevant.	2.3.84
Design Review	Confirmation that, where appropriate, the NHS Design Review Panel has been involved and its recommendations addressed.	Where appropriate, confirmation that LIFTCo's design solution has been reviewed by the NHS Design Review Panel and recommendations have been addressed.	2.3.86–2.3.87

Commercial matters

Requirement	Stage 1	Stage 2	Cross-reference to the guidance
Written commitment	Written commitment to latest standard contractual documents and positions adopted on project-specific issues from LIFTCo and all key parties.	Documents to be signed reflect position agreed at Stage 1. Any additional amendments justified with value for money demonstrated.	2.4.10
Project-specific issues	Provision of a definitive list of the issues that remain for discussion and the parameters within which settlement can be reached on each of them. Agreement from all parties to be bound by that list and those parameters.	All drafting to reflect previously agreed positions. Confirmation of no change.	2.4.14–2.4.15
Payment Mechanism	Provision of the Payment Mechanism sufficiently calibrated to enable the PCT to demonstrate that: • the Service Provider will be appropriately incentivised to deliver the services; • the Payment Mechanism is fundable; and • LIFTCo has been able to price its service provision, including: – Functional Areas and Functional Units defined and weighted; – Minimum Deduction set; – assumptions and modelling parameters for establishing the Facility Deduction Percentage and Service Failure Point Thresholds provided; and – project-specific SLSs provided. Confirmation from the Participants and LIFTCo of acceptance of the above.	Confirmation that any amendments to calibration flowing from the final design solution have been made, and that the project-specific Payment Mechanism has been signed off.	2.4.21–2.4.36
Key Issues and Derogations Report	Provision of the Key Issues and Derogations Report following the template.	Updating of the Key Issues and Derogations Report.	2.4.40–2.4.46
Funding terms	Provide a comparison of indicative terms with relevant benchmarking data and commentary on how they compare with those achievable in the current market.	Modelling of committed terms completed. Confirmation by value-for-money funding letter of financial adviser's opinion that the funding package offers value for money.	2.4.49–2.4.50

Requirement	Stage 1	Stage 2	Cross-reference to the guidance
Fundability	Assessment by LIFTCo and the PCT's advisers of any risks in relation to the fundability of the scheme and how these are to be managed.	Provision of update on how identified risks have evolved and on the final impact on the scheme.	2.4.54–2.4.55
Interest rate buffer	Confirmation that a buffer is included. Where the buffer is greater than 50 basis points, a rationale is to be provided.	Confirmation of the remaining buffer.	2.4.58
Funder selection	Confirmation of nature of competitive process to select funder.	Selection of funder through appropriate competitive process.	2.4.67–2.4.71
Subcontracts and supply contracts	Confirmation that supply chain assembly will be carried out to suit standard form documentation subject only to the derogations identified in the Key Issues and Derogations Report (see paragraph 2.4.40).	Confirmation that nothing in the subcontracts or supply contracts (or funding documents) affects the allocation of risk under the LPA or LRA, including in relation to: • caps on liability; and • completion under the LPA/LRA.	2.4.72
Equipment	Demonstration that the risks associated with any equipment have been fully thought through.	Provision of completion and commissioning programme showing that completion will not be certified until all LIFTCo equipment has been commissioned and tested.	2.4.75–2.4.79
Employment matters	Confirmation of number of TUPE transfers, if any, and demonstration that costs relating to these have been included in the Affordability Envelope and Affordability Cap.	Demonstration that TUPE matters have been fully considered and dealt with appropriately within the existing Affordability Envelope and Cap.	2.4.80

Proving affordability

Requirement	Stage 1	Stage 2	Cross-reference to the guidance
Affordability analysis	Demonstration that: • the scheme is affordable (i.e. explanation of how the Affordability Envelope has been set); • the Affordability Cap has been set; • the Affordability Envelope and Affordability Cap are consistent; and • any funding gap is clearly identified and quantified, with an explanation of how it is to be met. Confirmation from LIFTCo and the PCT board(s) that they are signed up to the Affordability Cap – in terms of both the underlying cost components and the estimated LPP.	Confirmation that there are no changes. If there are, their impact on the scheme will need to be justified and explained. Breach of the Affordability Cap may trigger Stage 1 re-approval.	2.5.1–2.5.9
Local support	Confirmation by the boards of all public sector organisations taking a lease that they support the affordability analysis, to demonstrate that they can and will meet their financial commitment to the scheme. Confirmation that the PCT has factored in its underpinning activity and income assumptions. Demonstration that the wider local health and social care economy supports the scheme and its affordability analysis. If service provision is being transferred from another organisation, confirmation by the PCT of the service model and its affordability. Confirmation by the SHA of the affordability to the local health economy and that capacity can be managed. Demonstration by GPs, when taking a head lease, of its affordability; and, if it is reliant on PCT reimbursements, confirmation of these by the PCT. If there is a funding gap, this must be explained.	Confirmation that there are no changes. If there are, their impact on the scheme will need to be justified and explained.	2.5.26–2.5.31

Requirement	Stage 1	Stage 2	Cross-reference to the guidance
	When GPs are taking a sublease, confirmation by the PCT of the level of reimbursement available to GPs. If there is a funding gap, this must be explained. Where possible, evidence of commitment to the scheme from GPs. Confirmation by the PCT of how it will manage the risk if GPs do not commit to the scheme at Stage 2.		
PCT financial position	Demonstration by the PCT of its past, current and projected financial position to show how it can afford the scheme in terms of its capital and revenue costs. Consideration in the financial analysis of the previous year's position, the expected current year outturn and forecast outturns for the next three to five years. In addition, demonstration by the analysis that the PCT's assumptions on demography, activity and service development are consistent with the SHA's planning assumptions. As part of this exercise it is important to confirm that no income-generating schemes have been double-counted across the health economy. Where the PCT is in deficit a recovery plan should be agreed with the SHA.	Confirmation that there are no changes. If there are, their impact on the scheme will need to be justified and explained.	2.5.32–2.5.33
VAT	Assumption made as to the level of irrecoverable VAT that has been included in the affordability analysis.	Confirmation of VAT treatment from HMRC and update of impact on affordability.	2.5.34
Accounting treatment	Indicative opinion from the PCT director of finance, PCT financial advisers (based on qualitative and quantitative factors) and PCT external auditors.	Final opinion from PCT director of finance, PCT financial advisers and PCT external auditors.	2.5.35–2.5.38
Residual value	Commercial and value-for-money analysis to demonstrate decision to use the LPA or LRA. For the LPA this should include a detailed assessment of residual value, including funding terms, implications for the NHS at the end of the lease period, and buy-back provisions.	Updating of the residual value to reflect the firming up of actual costs and values; it should not normally be expected to vary significantly from the projected values seen in Stage 1.	2.5.39–2.5.41

Requirement	Stage 1	Stage 2	Cross-reference to the guidance
Insurance	Demonstration by the PCT that it has taken appropriate insurance advice to ensure that all project-specific risks are taken into account. A reasonable estimate of insurance premiums to provide the mandatory LPA/LRA insurance that is included in the Affordability Cap. Demonstration by LIFTCo that proposed costs reflect the current market with appropriate contingency included for market fluctuation up to Stage 2.	Confirmation by the final affordability and value-for-money demonstration at Stage 2 that any remaining contingency has been removed.	2.5.42
Capital, lifecycle and facilities management costs	Demonstration of how the PCT has satisfied itself that LIFTCo's costings are appropriate and valid.	Confirmation that there are no changes. If there are, their impact on the scheme will need to be justified and explained.	2.5.43–2.5.44
Non-project-specific costs	Details of the non-project-specific costs allocated to the scheme, along with a statement of the amount remaining to be allocated to future schemes.	Confirmation that there are no changes. If there are, their impact on the scheme will need to be justified and explained.	2.5.45–2.5.48
Partnering service costs	Demonstration that LIFTCo has provided details of its partnering services budget for the scheme. Evidence that the PCT's advisers have evaluated and agreed it and that it has been signed off by the PCT board.	Confirmation that there are no changes. If there are, their impact on the scheme will need to be justified and explained.	2.5.47–2.5.48
Financial model	Inclusion in the business case of the financial model used to calculate the Affordability Cap at Stage 1. Evaluation by the PCT's advisers of the component parts of the LIFTCo financial model, and confirmation that the underlying cost assumptions are reasonable, the inputs accurate and the outputs valid. Confirmation by the PCT and LIFTCo that they are confident the scheme can be delivered within the terms of the Approval Criteria and the Affordability Cap.	Confirmation that financial advisers are content with the final inputs to the model. Confirmation that a model audit has been carried out by funders. Submission of final model as part of business case.	2.5.49–2.5.51

Proving value for money

Requirement	Stage 1	Stage 2	Cross-reference to the guidance
Option appraisal	Demonstration: • of how the preferred estates option has been identified, including the alternative options considered, and the costs, benefits and risks of each shortlisted option; • that the identification of the preferred option is resilient to changes in the key assumptions used in the appraisal; and • that the expected realisable benefits from the investment, as delivered through the preferred option, are clearly set out and quantified wherever possible.	Confirmation that the preferred estates option identified at Stage 1 remains valid and that the expected realisable benefits from the investment, as delivered through the preferred option, are clearly set out and quantified wherever possible.	2.6.18–2.6.22
Demonstrating value for money for smaller schemes	Demonstration that: • estimated costs of the scheme are appropriate and reasonable; • the proposed maximum LPP, construction costs, FM costs and all other significant cost elements are in line with cost data acquired from the last relevant market test or schemes priced in the original competitive selection process, taking account of trends in relevant comparable data. Deviations should be justified and supported by opinions from advisers; • the contingency included within the financial model is warranted, appropriately costed and reasonable; • the PCT has obtained an indicative judgement by the District Valuer that the proposed maximum LPP is in line with those for other LIFT projects; and the PCT has engaged independent professional advisers to confirm each significant cost element of LIFTCo's Stage 1 financial model; and • in particular, the elemental construction cost plan (used to fix the Affordability Cap) is in line with all applicable benchmarks. Confirmation of the detailed methodology to be used to demonstrate value for money at Stage 2.	Provision of a report from LIFTCo highlighting all elemental cost variances from the Stage 1 model and demonstrating: • substitution of firm costs (or nil) for all Stage 1 contingencies; • substitution of market-tested prices for estimated prices where applicable; • a comparison with relevant benchmarks for all other elements; and • the substitution of a current market interest rate plus 25 basis points buffer for those in the Stage 1 financial model.	2.6.28–2.6.34

Requirement	Stage 1	Stage 2	Cross-reference to the guidance
		Provision of an independent cost report demonstrating that construction, lifecycle and facilities management costs are in line with market norms, and that appropriate value engineering has been undertaken. The PCT has sign-off from the District Valuer that the proposed LPP is in line with those for other LIFT projects, receipts from land sales represent value for money, and residual values in the financial model are appropriate. Confirmation by the PCT that the Affordability Cap has not been breached.	

Requirement	Stage 1	Stage 2	Cross-reference to the guidance
For £20m+ schemes: Discounted Cash Flow comparison of delivery through LIFT and conventional funding	Requirements as above, except that the PCT does not need to demonstrate indicative sign-off from the District Valuer. In addition, provision of a PSC in line with HM Treasury guidelines; and demonstration of: • undertaking of HM Treasury's qualitative assessment of the merits of procuring the scheme through LIFT compared with conventional funding (this should include the assumptions and source inputs for the assessment); • undertaking of a quantitative assessment of the costs of procuring the scheme through LIFT as compared with conventional funding; • estimates of the optimum bias under the PSC; and • estimates of the quantified risk retained by the public sector under the PSC and under the LIFT options after financial close.	Confirmation that the Discounted Cash Flow analysis undertaken for Stage 1 remains valid. If there are any changes, the analysis will need to be updated so that it is still valid.	2.6.37–2.6.48

Risk, project management and benefits realisation

Requirement	Stage 1	Stage 2	Cross-reference to the guidance
Project plan	Demonstration that the project programme includes a set of high-level milestones that show: • structure of delivery from inception to operation; • how Affected Participants will meet their obligations to support the development of the scheme; • the resources available to deliver the programme; • what contingencies, in terms of both time and people, have been allowed for and why; and • key approval dates and which approvers are involved.	Confirmation that there are no changes. If there are, their impact on the scheme will need to be justified and explained.	2.7.1
Key risks	Provision of a summary table that lists the key risks associated with the procurement, construction and operation of the scheme and confirming how these are to be managed and mitigated.	Confirmation that there are no changes. If there are, their impact on the scheme will need to be justified and explained.	2.7.2
Key benefits	Provision of a table that identifies: • the key project benefits; • who is responsible for delivering each benefit; • what action needs to be taken, and when, to deliver each benefit; and • how delivery will be measured and monitored.	Confirmation that there are no changes. If there are, their impact on the scheme will need to be justified and explained.	2.7.3

Requirement	Stage 1	Stage 2	Cross-reference to the guidance
Managing risk	Demonstration that a risk register has been developed by the PCT in conjunction with LIFTCo. This should be established at the outset of the scheme and should indicate: • each significant risk; • its magnitude (cost and programme impact); • the likelihood of its occurrence; and • responsibility (named individual) for managing it. The risk register should be regularly reviewed and updated to reflect any changes.	Confirmation that there are no changes. If there are, their impact on the scheme will need to be justified and explained.	2.7.18–2.7.20
Gateway review	Demonstration that the scheme has completed an OGC risk potential assessment tool. Projects assessed as high risk, those requiring Department of Health approval, and the first tranche of schemes from a newly established LIFTCo should be subject to a Gateway review. Projects identified as medium risk will be considered for Gateway reviews where the SRO and SHA believe that a review would add value. Projects identified as low risk will not require a Gateway review.	If a Gateway review was required at Stage 1, evidence that the PCT has actioned the recommendations.	2.7.25–2.7.29

Requirement	Stage 1	Stage 2	Cross-reference to the guidance
Benefits realisation	Include a table that identfies: • the key project benefits; • who is responsible for delivering each benefit; • what action needs to be taken, and when, to deliver each benefit; and • how delivery will be measured and monitored.	Demonstration that the scheme has completed a benefits realisation plan. This should include: • a schedule detailing when each benefit, or group of benefits, will be realised; • identification of appropriate milestones at which a programme review should be carried out; and • details of any handover activities beyond the implementation of a deliverable or output, to sustain the process of benefits realisation after the new facilities have been delivered.	2.7.30–2.7.33

Other requirements

Requirement	Stage 1	Stage 2	Cross-reference to the guidance
Equality impact assessment	Provision of a copy of the completed equality impact assessment.	Confirmation that there are no changes. If there are, their impact on the scheme will need to be justified and explained.	2.8.5
Statutory and non-statutory consultation	Inclusion of details of statutory and non-statutory consultations, including by the local authority scrutiny committee (if applicable).	Confirmation that there are no changes. If there are, their impact on the scheme will need to be justified and explained.	2.8.7–2.8.8
Post-project evaluation	Not applicable.	Explanation of how post-project evaluation is to be undertaken.	2.8.10–2.8.12

Appendix 3: Glossary

AEDET	Achieving Excellence Design Evaluation Toolkit. A toolkit to evaluate a design by posing a series of clear, non-technical statements, encompassing the key areas of impact, build quality and functionality.
AEDET Evolution	Represents a significant development of the original AEDET tool.
Affected Participant	Any of the parties to the SPA other than LIFTCo which is affected by an SPB decision, if that decision: • requires it to incur expenditure; • requires it to incur an actual or contingent liability; or • has an adverse impact on the manner in which it discharges a statutory function.
Affordability Cap	The amount fixed at Stage 1 as being the maximum that a PCT and other Participants can pay for the facilities and services required.
Affordability Envelope	The overall amount that a PCT has available to spend on a scheme, taking into account likely levels of income and expenditure. This is different to the Affordability Cap proposed by LIFTCo as it is higher than the actual cost of the scheme.
CABE	Commission for Architecture and the Built Environment.
CHP	Community Health Partnerships Limited, a wholly owned subsidiary of the Department of Health, formerly known as Partnerships for Health.
CIB	The Capital and Investment Branch of the Department of Health. This has responsibility for approving capital investments in health facilities, including LIFT schemes.
Design Brief	The PCT's Design Brief is given to LIFTCo to produce an outline cost plan prior to Stage 1 approval. See Section 3.1 for details.
EnCO2de	Health Technical Memorandum 07-02: *EnCO2de – making energy work in healthcare*, last updated in 2006. EnCO2de is the primary guidance on energy efficiency in healthcare facilities. It is a one-stop-shop for all issues relating to the procurement and management of energy in the NHS. It deals with policy issues, governance arrangements, capital and revenue spending decision-making, commissioning and design requirements. EnCO2de references the mandatory energy targets for new build and refurbishing projects that apply to NHS bodies.
Full planning permission	Permission to develop land based on proposals made in detail, usually including the design of the building, its siting and massing, its means of access and landscaping.
Hard services	Those services that need a significant capital investment by the provider of the services, such as building and plant maintenance etc.
HMRC	Her Majesty's Revenue and Customs.
IM&T	Information management and technology.
LPA	Lease Plus Agreement – the standard form of lease under which a public sector entity leases property from LIFTCo, where LIFTCo owns the freehold of the site on which the property is located.

LPP	Lease Plus Payment – the rent that a public sector party pays to LIFTCo for the lease of the premises developed by and the services provided by LIFTCo.
LRA	Land Retained Agreement – the standard form of agreement under which a public sector entity occupies land from LIFTCo where the public sector organisation continues to own the freehold of the land in question.
OGC	The Office of Government Commerce.
OPP	Outline Planning Permission – permission to develop land based on proposals made in outline (usually covering the principle of the development, with the proposed site boundaries marked in red on an Ordnance Survey plan) with matters of detail reserved for subsequent submission and determination.
Payment by Results	A transparent, rules-based system for paying trusts. It rewards efficiency, supports patient choice and diversity and encourages activity for sustainable waiting time reductions. Payment is linked to activity and adjusted for case mix. Importantly, this system ensures a fair and consistent basis for hospital funding.
PCT	Primary Care Trust.
PDO	Project Delivery Organisation – acts as the agent for its client by taking packages of work and assembling a supply chain to deliver a specified project.
PFI	Private Finance Initiative.
PFU	The Private Finance Unit within the CIB of the Department of Health.
PPP	Public–private partnership.
Public Accounts Committee	A committee appointed by the House of Commons to examine "the accounts showing the appropriation of the sums granted by Parliament to meet the public expenditure, and [since 1934] of such other accounts laid before Parliament as the Committee may think fit" (Standing Order No. 148).
PSC	Public Sector Comparator – an important guide to judgement on the overall value for money for a scheme with a capital value of more than £20 million.
Practice-based commissioning	A process of engaging GP practices and other primary care professionals in the commissioning of services.
Residual value	The value attributed, as at the date of an LPA, to the site at the time when the LPA is due to expire.
Service Failure Points (SFPs)	Under the provisions of the Payment Mechanism, these are points which are allocated in the event of a failure by LIFTCo or its contractors to provide services as required by and in accordance with the contract. For example, if soft services including cleaning are being provided, failure to keep the premises clean will result in Service Failure Points being allocated. The accrual of Service Failure Points may lead to increased monitoring and step-in by the Tenant.
SHA	Strategic Health Authority.
SHAPE	Strategic Health Asset Planning and Evaluation – a web-enabled strategic asset planning toolkit developed by the Department of Health Estates and Facilities Division.

SLSs	Service Level Specifications – the output-based requirements of the service levels to be provided by LIFTCo or its supply chain with respect to those services to be provided during the period when a PCT is in occupation of the premises. They can include, for example, internal and external maintenance, power and utilities, IM&T and telecoms, as well as laundry, security, cleaning, catering, snow clearing and litter picking, depending on each scheme and what services the public sector has decided to procure from LIFTCo for those premises.
Soft services	Services that require no significant capital outlay by their provider. (This is not a formal definition, but rather a useful rule of thumb.) Such services could include cleaning, portering, litter picking, laundry and catering.
SPA	Strategic Partnering Agreement – an agreement between public sector and private sector parties and LIFTCo through which the respective parties develop long-term rights and duties.
SPB	Strategic Partnering Board – a body set up by the parties to an SPA and other co-opted parties, which meets regularly to consider (among other matters) how the SPA is operating. The SPB acts as approver for the SSDP.
SRO	Senior responsible owner – the person at a trust responsible for actioning the recommendations of the Health Gateway Assessment Report.
SSDP	Strategic Service Development Plan – the plan drawn up by the Participants in an SPA, to be updated annually. It sets out the health vision for the geographical area of LIFTCo.
TUPE	Transfer of Undertakings (Protection of Employment) legislation.

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