

Calderdale and Kirklees Joint Health Scrutiny Committee

17 March 2023

Background

At a workshop with Calderdale and Kirklees Joint Health Scrutiny Committee held on 22nd June 2022 the Trust presented an overview of the Reconfiguration Outline Business Case and answered questions from the Committee. In providing responses further information was requested regarding how the Trust makes financial allowance for inflation, risk and contingency as part of the business case development. The briefing note provides an overview of this process and provides details of the associated allowances.

Financial Resource Overview

In December 2018 the Department of Health and Social Care (DHSC) announced support for the Reconfiguration of Hospital Services across Calderdale Royal Hospital and Huddersfield Royal Infirmary. In making this announcement the Trust is required to develop business cases in line with the Treasury Green Book, developing a Strategic Outline Case (SOC), an Outline Business Case (OBC) and a Final Business Case (FBC).

The Trust to date has developed a SOC which was approved in January 2020 and has developed the Outline Business Case (OBC) which was approved by NHSE and DHSC in 2022 and is awaiting approval from His Majesty's Treasury (HMT).

As part of the development of these business cases the Trust, based on advice from cost advisors, makes contingency provisions within its costings. Cost advisors on behalf of the Trust will provide a cost rate for the plans as developed based on their involvement with the market and current live projects. This gives a cost in today's rates for the development.

In recognising the stage of the project, contingencies are added to this cost in determining an overall project cost. These contingencies are based on cost advisors and vary depending on several factors such as design stage of the project, current inflation rates etc. As designs are finalised and the project nears to contract these contingencies reduce to recognise the reduction in risk and uncertainties on the programme. The below provides a brief overview of the various risk and contingencies that are included within business cases:

Risk

Included within the construction costs as advised by the cost advisor is an allowance for risk. This is to recognise potential changes in the overall delivery of the construction costs.

Inflation

The aim of inflation allowance is to recognise that the costs advised will change for inflation between the date of the business case and the final contract price for the development.

Planning Contingency

The risk implementation if a project fails to meet planning permission conditions, planning permission cannot be obtained or if obtained, can only be implemented at costs greater than in the original budget.

Chair: Helen Hirst

Chief Executive: Brendan Brown



Optimism Bias

The aim of adjusting for optimism bias is to provide a more realistic assessment of the initial estimates of costs, benefits and time taken to implement a project. As the appraisal develops, more accurate costing of project or programme specific risk management should be undertaken. Accordingly, adjustments for optimism bias may be reduced as more reliable estimates of specific risks are made. Closer to implementation the optimism bias adjustment for a project can be reduced to a lower value provided mitigating evidence is robust.

The four contingencies provide for the different variables in the overall cost of a project.

Business Case Review

The approval process of the business case by NHSEI, DHSC and HMT includes review of the costings and contingencies that are provided for within the total cost of the project. Like the Trust's cost advisors, these bodies have the benefit of seeing several projects and business cases and as a consequence are able to see appropriate ranges for each type of contingency allowances. In approving our SOC and OBC each body has received the assurance required that the allowances made within our costings are appropriate and that the programme is affordable within the capital funding allocation.