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Capital Guidance Note

Over the last twelve months, there has been a noticeable increase in the instances whereby there have been material shifts in costings between Strategic Outline Case (SOC) / Outline Business Case (OBC) and Full Business Case (FBC). With this increasing trend against a constrained NHS capital programme, it has become essential to establish revised guidance. The following note sets out a revised procedure for dealing with increasing costs between the various stages of capital project proposals.

Whilst we are aiming to issue a revised Infrastructure Investment Guidance (IIG) document in due course (the last version was published in 2018), in the meantime we believe there is a need to issue this interim notice. This document has been drafted to provide clarity around the approach to be adopted by the Welsh Government where there are significant increases in cost and or scope.

Types of Business Case

The IIG sets out the different types of business case so for ease of reference these cases are summarised below.

Programme Business Case

Where appropriate, Programmes should be developed along with indicative budget figures, set out within a Programme Business Case (PBC) to:

- set the direction of travel of a programme of work;
- outline the likely funding envelope for the programme;
- outline the interdependencies with other capital (and revenue) projects and workstreams;
- identify the projects within the programme, which will require business cases to be developed, and their critical path;
- set out the programme delivery and governance arrangements.

A PBC provides an initial stage strategic context for progression of a programme from which subsequent cases for developed components can be presented (OBC/FBC/BJC). The specific route through these various cases needs to be

confirmed with Welsh Government Capital, Estates and Facilities officials and will usually take place through a formal scoping meeting.

Strategic Outline Case (SOC)

The SOC needs to focus on setting out the strategic context of the proposal, presenting a robust case for change and outline options around a preferred way forward demonstrating strategic fit with Welsh Government objectives. This case will present a long list of options and provide an analysis of cost and benefits to reflect the early thinking around a preferred way forward.

Cost uncertainty at SOC stage is addressed through the optimism bias percentage uplift.

The SOC should deliver a scope of development with clear parameters that are refined at OBC and FBC. The SOC should not be a statement of strategic intent that then evolves after fee support has been secured.

SOC cost forms will be provided by organisations that include costs for a range of options including the preferred option, the do-minimum and do-maximum. The options will include contingency sums as well as optimism bias figures that reflect this early stage of design development (RIBA 0). This should enable the organisation to provide comprehensive budgets, which can be adjusted for inflation through the future business case stages. At this stage, the works' costs will be based on the cost/m² of floor area which would generally be based on adjusted benchmark costs from similar schemes, with advice and support from the NHS organisation's Cost Advisor and NHS Shared Services.

The preferred option should fully reflect the scope and area required to deliver the proposals and the schedule of areas should not materially change as the design develops.

Outline Business Case

The OBC revisits earlier SOC assumptions, confirms a "preferred option" which demonstrably optimises value for money and sets out the proposed procurement route and delivery plans. The OBC preferred option will be based on an outline design solution consistent with RIBA Stage 2, which will be developed by the organisations Construction Contractor (Supply Chain Partner, SCP) who is appointed after the SOC has been endorsed. An early-stage cost plan will be produced by the organisations Cost Advisor, which will be developed in conjunction with the SCP. The project costs should not deviate significantly from the costs reported at SOC stage (updated for inflation) as the project scope and gross floor area should align with the SOC preferred option. The key change will be to the optimism bias, which reduces as the level of cost confidence increases. The contingency sums included in the SOC would reduce at this stage to circa 10% to reflect the greater level of design certainty.

Full Business Case

The FBC is the procurement stage which should recommend “the most economically advantageous offer,” document the contractual arrangements and confirm the arrangements for successful delivery including post evaluation arrangements. The FBC costs should reflect the SCP’s firm ‘not to exceed price’ for the works and reflect a fully market assessed competitive price (minimum 80% tendered prices). The total project costs should still align with the updated OBC costs as long as the project scope has remained consistent. A project contingency would be included in the FBC costs based on a costed project risk register that at this stage reflects the financial risks associated with delivering the project.

Increases in Cost and Scope

As noted above, the route through the various business cases is to be discussed with Welsh Government officials and there is an expectation that we will not see significant increases in costs or scope as we move from one stage to the next, particularly after scoping meetings and the SOC and PBC have been endorsed.

For clarity, all stages will have costings based on BCIS cost indices, i.e. movements linked to inflation can be monitored on a consistent basis as the project moves through business case iterations. Inflationary aspects would not be factored into a calculation of movement of costs between stages.

Implications

Significant cost and scope increases between the various stages of the approvals process are now causing difficulties around obtaining approvals given the financial challenges presented with an ageing estate.

- our budget forecasting and monitoring models will be invalid. This could result in our forecast outturn position being committed beyond our own available resource margins or potentially crowd out other proposals which are in development, and which could be seen as a higher priority.
- Where significant changes to scope and or financial quantum sought occur, this, in effect invalidates any previous scrutiny undertaken.
- Ministerial advice may need to be re-submitted which brings a degree of risk into proceeding with proposals, particularly where budgets are restricted, as noted above.
- Changes may well invalidate the conclusions reached under the prioritisation procedures which will shortly be implemented.

Revised Procedure

With immediate effect we will be implementing a process to capture cases where significant increases in scope or cost have occurred since scoping meetings or the SOC or PBC was endorsed. Such cases will need to be referred to the Welsh Government Capital and Estates Team. The team will then consult with NHS Shared Services to assess what further assessment should be undertaken. Depending upon the extent of the changes this further action could take the form of

a further scoping meeting or consideration by the Infrastructure Investment Board or a sub-group of the Board. In a worst-case scenario, the original intent may no longer be tenable and alternative solutions will have to be considered by the NHS organisation.

Referrals will be based on changes to cost and scope:

- For cost where we see an increase of +10% has occurred (which is not explained by cost inflation).
- For scope where the original preferred option has changed significantly, such as a 25% increase in the footprint, or the inclusion of additional clinical and non-clinical services that results in sizeable increases in the infrastructure requirement(s) and that indicates the solution presented at SOC stage had not been evaluated robustly consistent with the organisations Clinical and Estate Strategies, engagement with key clinical stakeholders, or the 2022 Green Book and extant guidance on the 5 Case Business Case, or where completely alternative solutions to an issue are being proposed that are inconsistent with the approvals obtained at SOC or PBC stage.

Following the scoping meetings and when the PBC or SOC documents are endorsed a formal letter will be issued which will emphasise this new requirement.

NHS organisations will need to advise the Welsh Government as soon as these tolerances are exceeded to minimise further expenditure on fees and further potentially abortive work. It is expected that NHS organisations SROs will be responsible for notifying the Welsh Government Capital, Estates and Facilities officials immediately the tolerances are breached, i.e. exception reporting is expected outside routine reporting mechanisms. When an NHS organisation informs the Welsh Government of a tolerance breach it must provide a reconciliation of the increase in costs and areas in comparison with previously approved business case figures.

I trust the advice is clear and am happy to discuss at a future Capital Review Meeting.

Yours sincerely

A handwritten signature in blue ink that reads "I. K. Gunney". The signature is written in a cursive style with a large, looping flourish at the end.

Ian Gunney

Under the authority of the Minister for Health and Social Services, one of the Welsh Ministers.