

[See revised version]

Mr D Harris FA2C

(161)

SUBMISSION TO MINISTERS : REDEVELOPMENT OF BPL

Thank you for your useful comments and those of copy addressees on CBLA's proposal and my outline submission of 17 August 1984. I have no comments to add to those of Mr Bench on your draft letter to Treasury.

We discussed the urgency of taking this forward - you need Ministers' decision in order to plan financial allocations to Health Authorities, and in the shorter-term I needed to alert MS(H) to this problem before he has lunch with Matthew Hall Norcain directors on 24 September 1984. I have therefore adopted your suggestion of putting the broad issue to Ministers whilst we at official level continue our inquisition of CBLA on details.

I attach a draft submission to Ministers. I have pressed Will Armour to provide answers to our main queries about RCCS of original design. High/intermediate purity desires of NHS in Factor VIII, justification for 3 levels of RCCS in options on revised design. Alan Angilley needs the first of these in order to rework his economics appraisal which will go with the submission. I am more hesitant about enclosing the CBLA's documentation with the submission to Ministers - it may give an accurate impression of CBLA's abilities, but does not reflect the Departmental attempts to improve their presentation and cogency of arguments. It would also need extensive covering notes listing Departmental caveats.

I should be grateful for comments by close of play tomorrow, Thursday 20 September 1984, in order to get the submission into Ministers' weekend boxes.

GRO-C

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19 September 1984

cc Mr Cashman
Mr Parker
Dr Smithies
Mr O'Leary
Mr Angilley
Mr V Green, FA2A
Mr Arthur ✓

[See printed version]

SUBMISSION TO MINISTERS

REDEVELOPMENT OF BLOOD PRODUCTS LABORATORY, ELSTREE

Summary

1. This submission seeks Ministers' approval for a substantial increase (from £25.3m to £35.3m at 1984-85 prices) in the capital cost of the major redevelopment currently under way at the Blood Products Laboratory, Elstree; this proposed increase has associated savings in revenue costs of approx £ m per annum. Ministers' permission is sought for officials to put the case to Treasury.

Background

and? 2. In 1982 Ministers decided that the UK would become capable of achieving self-sufficiency in blood products, with substantial savings to the NHS, by the major redevelopment of the Blood Products Laboratory (BPL) at Elstree; a new production unit, with three-times the manufacturing capacity was needed. Ministers agreed that, because of the urgency of getting the new unit into production, the project would be a fast-track "design to build" scheme where construction of the buildings would start before design work on the plant and services had been completed. A feasibility study undertaken by contractors Matthew Hall Norcain, without the benefit of detailed design work, concluded that the plant could be built for £22.6 m at November 1981 prices; the then PS(H) (Mr Finsberg), after deleting contingencies provision, gave the Central Blood Laboratories Authority (CBLA) approval to go ahead with a budget of £21.1 m (November 1981 prices). Inflation indices would raise this budget figure to £25.3 m at June 1984 prices. This investment was

economically sound, using Treasury models, even when the projected Revenue Consequences of the Capital Scheme (RCCS) was £ 15m (November 1981 prices) (equivalent to ¹17.44^M at June 1984 prices) - a figure which did not take into account expected economics of scale etc.

economics

3. It was realised that there was a considerable risk in entering ^{into} any contract- particularly a "design to build" contract - with a fixed budget and a firm commitment to start building before either the design or its cost is firm.

If the budget cost is paramount, the design may suffer. If, on the other hand, the designers stick closely to what is required in output, then the budget cost can only be regarded as tentative until the outcome is known. Once ^{responsive/sensitive?} the design and costing phase is completed, the rest of the process is susceptible to normal cost-monitoring techniques. Fast track design and build method is quite normal in the pharmaceutical world, but unique for the NHS - the usual NHS building project does not need to be so responsive to change in high technology equipment and processes, or rapid in its implementation to obtain quick results.

Present Position

4. Construction started in May 1983 when only 5% of the design work had been completed. The building shell is now nearing completion, and detailed design work on process equipment and ^{associated} ~~assorted~~ services is 95% completed. By the beginning of May this year we learned that the budget cost would be substantially exceeded if the original intentions of the redevelopment were to be met; since then officials have been discussing with CBLA their justification for the increases and examining their revised proposals. Construction work has not been halted in the meantime but costs have been contained within 1984-85 cash limits, pending Ministers' decisions.

Revised Proposals from CBLA

5. The CBLA detailed design, for which they now seek finance, incorporates the original parameters of using the latest available technology and achieving maximum flexibility in operation; on this basis the adoption of automated equipment has enabled the CBLA to identify significant revenue savings over that originally envisaged. These design implications raise the costs of the new production unit from £25.5 m to £35.35m (at June 1984 prices). In addition the CBLA are seeking an extra £3.45m capital for essential support services (extra warehousing, and quality control buildings); the CBLA were aware at the outset that these facilities would be required and presumed to deal with them as separate schemes. On re-examining these proposals, officials consider that they should be included in the redevelopment scheme since it is clear that the new factory could not function adequately without them. The economic appraisal (see below) has therefore been carried out on this basis, with total capital cost of £38.8m.

6. Officials are still discussing some details of these extra proposals, but the CBLA's response is unlikely to affect materially the total capital costs of the revised scheme. The CBLA has estimated the RCCS for the revised scheme to be £9.9m; this is a considerable revenue saving of £ m year over the projected RCCS of £ m for the original scheme.

Economic Appraisal of Options

7. An updated economic appraisal has been carried out of the three options available at this stage:

- (a) abandon the project
- (b) redesign to the original budget, suitably inflated to £25.3m
- (c) accept the revised design solution at £38.8m

declared
The first option would be very costly, and would not implement Ministers' declared intention of UK self-sufficiency, the adverse publicity would also be unacceptable politically, and option (a) is not considered further. Option (b) appears to be impractical and unacceptable since:

- i. the revised design fees already incurred would leave insufficient capital available for redesigning and construction to the original objective, and,
- ii. a delay of at least 1 year in redesigning would dissipate the project's momentum, and incur perhaps an extra 18 months cost of commercial products being bought by the NHS.

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8. Option (c) has been subjected to the Treasury guideline economic appraisal, and has been demonstrated to be economically viable. An alternative way of comparing the relative merits of the revised scheme with that originally approved by Ministers is to calculate that the "present value" of the additional capital expenditure now proposed by CBLA is £12.8m; after appropriate discounting this could be justified by a saving in revenue costs of some £1.4m every year ~~from~~ 1986/87 to 1999/2000. ~~It is possible that~~ future advances in biotechnology may make it possible to produce blood products from non-plasma sources; in this event as regards the current redevelopment project it would be necessary to require the increased capital expenditure to justify itself in revenue terms over a shorter period. £ *that expenditure over* m revenue saving every year would be needed to justify ~~itself in~~ the period 1986-87 to 1990-91.

Availability of Finance

9. It is estimated that the revised scheme would require an additional

write in full?

£16.2m above the existing cash provision between now and completion in 1986. This would need to be found from HCHS capital, and would reduce the sum available for allocation by Ministers to health authorities.

Recommendation

X 10. ~~For~~ For the reasons given above, officials do not recommend that option (b), redesign to original budget, should be pursued. Officials recommend that option (c) be adopted since it has demonstrable economic benefits for the NHS and would maintain Ministers' current intent to achieve self-sufficiency as soon as possible. Officials consider that, with the design work nearly completed, there is little risk of further substantial escalation in the project; this would be made clear in the Department's control over CBLA on this project. Officials will be reviewing in due course the lessons to be learned from the use of this fast track building method for NHS projects.

Decision required

11. Ministers are invited to approve the revised redevelopment scheme at £38.8 m, and to agree that officials may seek Treasury sanction for the expenditure.

Should we mention high price factor & Vlll as something extra we are getting from the increased budget?