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1. Mr C France

and if you are content

2. Ms S Bateman

CBLA: REDEVELOPMENT OF THE BLOOD PRODUCTS LABORATORY

Summary

1. This submission reports events since MS(H)'s meeting with CBLA earlier this year and explains why approval is sought to an unavoidable increase in capital expenditure.

Background

2. MS(H) met the Deputy Chairman of CBLA (Mr Jerwood) in February and set a cash limit for the main building of £35.3m. The CBLA were told to examine other ways of meeting warehousing and quality control facilities. (They had sought another £3m.) CBLA were left in no doubt that they were expected to get the cost of the project under firm financial control.

Subsequent Action - CBLA

3. Within CBLA, Mr Jerwood has taken firm management control of the project. The operational requirements of the scientists involved are now challenged and where appropriate rejected or reduced. This improvement is in part due to the imposition of a cash limit (see below).

Subsequent Action - DHSS

4. Our Works Group are critically examining the CBLA's procedures for monitoring progress and control of cost. Some areas for improvement have been identified. These have been taken up with the CBLA. Additional members with business and NHS experience have been appointed to the Authority.

Current Position

5. The £35.3m cash limit was based on the CBLA's best estimate at June 1984 prices of the expected final cost. It thus excluded the effects of cost inflation in 1985/6. Some design work and a number of subcontracts remained unsettled at that time. In imposing a cash limit at that stage, there was always a risk that it could not be made to stick. This has proved to be the case. Nevertheless, the imposition of that cash limit has had a valuable salutary effect on attitudes at CBLA.

6. MHN (the design and build contractor) now put the estimated final cost of the main building at £37.4m (building and engineering £31.1; fees £6.3m). On Building and Engineering CBLA have suggested ways of reducing this expenditure by £1.4m. Most of these are illusory. They are either only presentational (eg delaying expenditure) unacceptable (switching capital to revenue); or undesirable (eg placing production and stock at risk by dropping standby generators). Our Works Group can see viable savings of only £0.3m.

7. On fees, CBLA assume they can save £0.9m. This involves negotiating total fees for the project of £5.4m against the £6.5m currently estimated by MHN (including £0.2m for further commissioning). This is unrealistic since £5.4m has already been incurred. Fees will continue to be incurred on a work done basis until CBLA commute this commitment into a fixed sum. Commuting is not without its drawbacks. The contractor may then match staff effort to the lump sum rather than to that needed to keep the project to time. CBLA will be told to reach agreement with MHN as quickly as possible to reduce this major area of uncertainty. The total fees as a percentage of building and engineering costs are rather high compared to design consultants fees for traditional building methods. They do however cover construction management also and overall may not be excessive.

Heat Treatment

8. Since the February meeting the CBLA, in response to the AIDS problem, has started heat treating certain products. It needs to continue to heat treat when the new facility is in operation. This will add an unavoidable £0.4m to the capital cost.

Summary of Costs

9. On the basis of all the available information, we believe that the estimated final cost is unlikely to be below the following:

	£m
Building and Engineering	31.0
Heat Treatment Process (including fees)	0.4
Fees (including commissioning)	6.5
	<hr/>
	37.9

A revised cash limit of £38m is probably a realistic basis for future control. This control will be helped by the establishment of target costs for various elements of the project. However, this is a high technology enterprise and unexpected difficulties at commissioning stage might take the cost higher. Internally we should be prepared for this. It is not possible to quantify the amount still at risk. Our Works Group will however be closely monitoring the cost of the scheme. Any increase in cost will be closely scrutinised.

10. The above figures exclude the cost of the quality control facility and warehousing (see paragraph 1). We still believe CBLA should examine all possible ways of meeting these requirements and subject them to a rigorous investment appraisal. However we will probably have to concede that some expenditure on these facilities is unavoidable. We will try hard to keep this below the £3m sought earlier.

Discussion

11. We have a project about $\frac{3}{4}$ complete. The original justification (self-sufficiency, savings on commercial products and income from exports) is still valid. The AIDS problem has added to the importance of self-sufficiency. Abandonment is not a realistic option.
12. We have some confidence that there have been and will be improvements in the management of the project. Whilst there are still uncertainties these now arise more from the nature of the project and not from its management.
13. The additional cost identified above can be funded this year without disrupting other parts of the capital programme. Any expenditure in 1986/7 would involve choices between this project and other parts of the Health Authority capital programme.
14. We need to keep Treasury informed but not to seek further approval.

Conclusion

15. We would recommend that CBLA be given a revised cash limit of £38m and officials be given authority to discuss further unavoidable expenditure on a quality control facility and warehousing.

Advice Sought

16. Is MS(H) content that we proceed as recommended?

GRO-C

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