Welsh Ambulance Services NHS Trust

Financial Support to replace obsolete Ambulance Vehicles 2008/09

BUSINESS JUSTIFICATION CASE
## VERSION HISTORY

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<th>Date Issued</th>
<th>Brief Summary of Change</th>
<th>Owner’s Name</th>
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Version No:
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Author:
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NB Please note that the above Annexes have not been included in this report. If you would like to receive a copy, please contact Caroline Jones on 01745 532970.
1. INTRODUCTION

The purpose of this Business Justification Case is to seek WAG Capital Funding and Strategic Capital Charges funding support to facilitate the procurement during 2008/09 of 31 new Emergency (EMS) Ambulances, 71 Patient Care Services (PCS) Vehicles, 9 Rapid Response Vehicles, 9 Specialist Vehicles and 6 District Transport Vehicles and all the necessary associated equipment.

The Welsh Ambulance services NHS Trust is responsible for the provision of Emergency response and non emergency ambulance transport throughout Wales.

Covering some 16 million miles annually, the Trust currently operates 250 emergency and 235 non-emergency ambulances, 62 Rapid Response Vehicles (RRVs), 40 emergency response cars, and 47 support vehicles.

Currently the Trust has £5.0 million of Discretionary Capital to support all its Capital requirements.

The number of vehicles planned to be procured to replace vehicles that are over 5 years old for EMS and over 7 years old for other vehicles

The benefits of the planned procurement are threefold:

- Improved operational efficiency, reliability and patient safety through the replacement of vehicles which have already been retained in service beyond their planned replacement date.
- Supporting the Trust in achieving annual lease cost savings of £679,000 recurrently, thus helping the Trust to meet its SCEP.
- To increase the number of solo responder vehicles, thus assisting the Trust to achieve its performance standards.

2. STRATEGIC CASE

Organisation Overview

The Welsh Ambulance services NHS Trust is responsible for the provision of Emergency response and non emergency ambulance transport throughout Wales.

Covering some 16 million miles annually, the Trust currently operates 250 emergency, 53 Rapid Response Vehicles (RRVs) and 235 non-emergency ambulances, 40 emergency response cars, and 47 support vehicles.
Strategy and Programme Investment Aims

The modernisation plan streamline working practices, reduce bureaucracy and introduce new ways of delivering patient care to the people of Wales.

The plan focuses on two key areas, inextricably linked to each other:
- building confidence in the Service’s ability to deliver as a traditional ambulance service in the short-term;
- undergoing, simultaneously, a more fundamental process of change over a longer period.

Both elements will be integrated with a Capital Investment Strategy designed to underpin the process of modernisation.

The first element is about ‘Getting the Basics Right’, a programme of activity aimed at aligning strategy, people, processes and systems to deliver:
- safe, clinically effective and cost effective emergency and urgent ambulance services;
- reliable, punctual and cost-effective non urgent ambulance services.

The second, longer term, element is about ‘Delivering Patient Care Differently’, ensuring that the Trust provides more appropriate care to the people of Wales. In delivering this element of the modernisation plan, the Trust will seek to play its part in an integrated approach to unscheduled care in Wales, as set out in the recently published Welsh Assembly report ‘Delivering Emergency Care’.

The Trust’s modernisation Strategy “Time to Make a Difference” was published in January 2007. In Strategic Theme 6 the Trust is focused on ensuring that there are the right supporting mechanisms in place to effectively deliver the operational aspects of our services. Our vision is to ensure the Trust has the most appropriate infrastructure, equipment and logistic support to ensure effective service delivery. In support of this a number of key goals have been identified and are supported by a number of strategic objectives. This includes Goal 2.6.4 - “To ensure our fleet infrastructure and arrangements are fit for purpose, able to support our service delivery objectives and provide value for money.” The purchase of these vehicles is one essential part of achieving this goal.

Existing Arrangements

Currently, 82% of the vehicles operated are owned, with 18% leased. Numbers quoted exclude vehicles deployed on short-term hire.

- The cost of the leasing vehicles in 2007/08 is approximately £900,000.

- This Business Justification Case seeks Welsh Assembly Government support for Capital and Revenue funding to replace leased EMS and PCS vehicles with capital purchase which will result in:
  - Renewal and Modernisation of part of the Ambulance Fleet, including reduction in lost vehicle hours.
• The Trust being able to meet its Strategic Change and Efficiency Programme through avoidance of £0.679m recurrent revenue costs from operational services.
• Capital resources being freed up to support modernisation plans.
• Better long-term value for money for the public purse.
• Improved operational efficiency with less “lost hours” due to vehicle breakdown.

3. ECONOMIC CASE

Critical Success Factors

The criteria against which the successful delivery of the programme will be evaluated are as follows:

1) Assist to deliver revenue savings.
2) Affordable with regards to revenue within the Trust existing financial plan.
3) Affordable with regards to capital within the Trust existing draft Strategic Outline Programme (SOP)
4) Result in the Trust operating EMS vehicles that are under 5 years old and non-emergency vehicles.
5) Result in improved value for money for the health sector as a whole.

AVAILABLE OPTIONS

The Trust considered 4 options:

A Do Nothing – maintain the status quo
B Only replace vehicles over 5 years old for EMS or 7 years for other vehicles.
C Replace vehicles both over their expected life and those on lease.

The options can be summarised as follows:

A. Do Nothing

This option involves the Trust not replacing any of its vehicles.

Benefits of Option

• No requirement for Capital resources or Strategic Capital Charge support.

Main Drawbacks of Option

• Increase in operational “lost hours” and subsequent reduction in performance.
• No progress toward the Modernisation Plan.
• Deteriorating fleet would require additional maintenance.

B. Only Replace Vehicles over 5 years old for EMS or 7 years old for Non-Emergency Vehicles.

In this option the Trust would replace 31 EMS vehicles, 71 PCS vehicles, 9 RRVs, 6 District Transport Vehicles and 9 Specialist Vehicles.
Benefits of Option

- Reduces the number of “lost vehicle hours”.
- Achieves the goal within the modernisation plan to replace all EMS vehicles within 5 years and non-emergency vehicles within 7 years.

Main Drawbacks of Option

- The Trust would require £7.5 million Capital support in 2008/09 and £1.10K Strategic Capital Charge support in 2008/09. The support required in future years is shown on the final page of this Appendix.
- The Trust would continue to incur lease costs for a proportion of its fleet which is not funded by its contract income.

C. Replace vehicles both over their expected life and those on lease.

In this option the Trust would purchase 31 EMS vehicles, 86 PCS vehicles, 9 RRVs, 6 District Transport Vehicles and 9 Specialist Vehicles. This would include 102 vehicles that the Trust is currently leasing and therefore the Trust would be purchasing a second hand asset. The Trust would be required by the leasor to pay a termination fee and the remaining lease costs.

Benefits of Option

- Assists the Trust to meet its SCEP.

Main Drawbacks of Option

- The Trust would require £3.735 million Capital support in 2007/08 and £2.2 million Strategic Capital Charge support in 2007/08.
- Does not provide Value for Money as the Trust would be required to pay a penalty clauses in buying-out these contracts. The total amount for these penalty clauses is estimated at over £2 million for all the vehicles.

D. Replace vehicles in such a way as to avoid additional Strategic Capital or Strategic Capital Charge Support

In this option the Trust would purchase x EMS and x PCS vehicles

Benefits of Option

- Does not require Capital or revenue support

Main Drawbacks of Option

- Increase in operational “lost hours” and subsequent reduction in performance.
- No progress toward the Modernisation Plan.
- Deteriorating fleet would require additional maintenance.
PREFERRED OPTION

The Trust’s preferred option is **Option B**, to replace all vehicles that are over 5 years old for EMS and over 7 years old for all other vehicles.

Whilst there will always be a need for a double manned vehicle form of response, experience in Wales and elsewhere in the UK is that a mix of single crewed response vehicles and traditional ambulances provides a far more flexible and efficient capability. This approach will increasingly be adopted, both as means of reaching more patients more quickly and to support paramedics working in the community as the Trust moves towards delivering healthcare closer to home. The future vehicle procurement strategy will adopt this approach accordingly and the purchase of 9 RRVs is in line with this strategy.

However the procurement proposed in this Business Justification Case is consistent with the Trust’s immediate needs for the replacement and modernisation of both the Emergency and Patient Care Services Fleet.

From the Value For Money exercise undertaken, it has shown from current costs it is between 8 and 10% better value for money to buy vehicles rather than lease from new.

**Risks**

As the Trust has recently undertaken a successful project to procure a significant number of vehicles the likelihood that the project will not be delivered on time is low and the same team will be used to undertake this procurement.

The Trust would expect to purchase the leased vehicles in April 2008 and for the replacement vehicles to be delivered to the Trust between 1st September and 31st December 2008.

The prices quoted for the vehicles are based on the recent procurement exercise and have changed (some have increased and some decreased) compared to the prices quoted in the previous Business Justification Case. As these prices were quoted less than 6 months ago there is only a minimal risk of these changing significantly. However, prices for buying out the lease from the lease company only reached a preliminary stage and therefore a worst case scenario is presented for the buy-out of these vehicles.

**Value for Money**

A value for money exercise was undertaken in the Business Justification Case presented in September 2006 to demonstrate that purchasing represented better value for money than leasing in the current vehicle market. As these prices are still current this remains the case.

Whilst such an appraisal is inevitably subject to a degree of variability as market factors change, we believe based on prudent and conservative estimates that the disparity is sufficient to indicate a significant cost advantage to purchase rather than leasing of vehicle assets.
4. COMMERCIAL CASE

A tender will be actioned via the BSP (Business Services Partnership) to find suppliers for the Trust. This will be fully compliant with SFI’s and EC regulations.

New EMS and PCS Vehicle specifications have been developed and the vehicles have been road tested as part of the previous procurement.

5. FINANCIAL CASE

Indicative Cost

The preferred option would require additional WAG capital investment of £7.499m in 2008/09, with strategic capital charge funding of £2,783m in 2007/8.

The additional strategic capital charges support required, excluding any cost for indexation or revaluation, is as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Capital £'000s</th>
<th>Capital Charge support £'000s</th>
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<tr>
<td>2008/09</td>
<td>6.149</td>
<td>495,007</td>
</tr>
<tr>
<td>2009/10</td>
<td>-</td>
<td>1,100,360</td>
</tr>
<tr>
<td>2010/2011</td>
<td>-</td>
<td>1,055,901</td>
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<tr>
<td>2011/2012</td>
<td>-</td>
<td>1,011,441</td>
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<tr>
<td>2012/2013</td>
<td>-</td>
<td>966,891</td>
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<tr>
<td>2013/2014</td>
<td>-</td>
<td>823,794</td>
</tr>
<tr>
<td>2014/2015</td>
<td>-</td>
<td>453,620</td>
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<tr>
<td>2015/2016</td>
<td>-</td>
<td>221,711</td>
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Affordability

The Trust is not able to procure these vehicles through its Discretionary Capital allocation as this is being utilized as detailed below:

<table>
<thead>
<tr>
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<th>£’000s</th>
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<tbody>
<tr>
<td>Medical Equipment</td>
<td>2.00</td>
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<tr>
<td>Estates Expenditure</td>
<td>0.85</td>
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<tr>
<td>IT Expenditure</td>
<td>0.80</td>
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<tr>
<td><strong>Total</strong></td>
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<tr>
<td><strong>Discretionary Allocation</strong></td>
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<tr>
<td><strong>Total available for vehicles</strong></td>
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The preferred option is only affordable to the Trust if the above Capital and Strategic Capital Charges Support is available in 2007/08 or the Trust is able to attract additional Discretionary Capital and additional revenue support. Additional revenue support outside of Strategic Capital Charge Support is highly unlikely. The Trust had previously funded these vehicles via a Capital to Revenue transfer. This is no longer possible as capital to revenue transfers can not be facilitated by WAG.
6. MANAGEMENT CASE

The Procurement of vehicles would be managed through the Trust’s Procurement department ensuring strict adherence to best procurement practice.

The project team established for the previous procurement will ensure this project from design, specification, build, quality testing, staff acceptance and transfer into operational service. This team would feed into the Executive Team weekly meetings to monitor and assure progress.

Business Needs

The safety and effectiveness of all the patient services provided by the Welsh Ambulance Services NHS Trust is heavily dependent on access to sufficient funding to provide modern, fit for purpose capital equipment, particularly Ambulance vehicles. Clearly this is insufficient to support the Trust’s replacement programme.

Emergency vehicles require replacement on a 5-year cycle, and non-emergency vehicles on a 7-year cycle. On an annualised basis, the Capital cost of fleet replacement at current prices amounts to £6.8 million per annum. Currently the Trust has a discretionary capital allocation of £5.0 million to maintain its entire asset base, which is not sufficient to replace all of the vehicles on the normal replacement cycle.

In order to maximise the vehicles, which could be replaced within the limited discretionary capital allocation, the Trust from its inception adopted a policy of leasing rather than purchasing Ambulance Vehicles, funding the revenue consequences by transferring funding from capital to revenue budgets. This is no longer possible as capital to revenue transfers can not be facilitated by WAG.

7.0 CONCLUSION AND RECOMMENDATION

In order to ensure that the Trust has a modern up-to-date fleet of vehicles, additional Capital is required over and above the Trust’s current Discretionary Capital Limit. The option that gives the Trust the greatest benefit is to replace all the vehicles older than 5 years for EMS and 7 years for other vehicles (Option B). This option will require both Strategic Capital Charge Support and Capital investment.