

Hambleton, Richmondshire & Whitby Clinical Commissioning Group

Governing Body - Thursday 24 January 2019

Whitby Hospital Redevelopment

1. Introduction

Hambleton, Richmondshire and Whitby CCG have been working with NHS Property Services (NHS PS) (the owner of Whitby Hospital) and Humber Teaching NHS Foundation Trust (Humber FT) (the main service provider) to develop a plan to redevelop the existing community hospital. The plan aims to right-size the footprint, reduce the operational costs and avoid the need for backlog maintenance which is estimated to be in the order of £6 million.

The plan is to:

- Completely refurbish and right-size the Whitby Hospital estate at a capital cost of £12.8 million (excl. VAT). The size of the hospital will be reduced by 52% (NIA from 7,629 m² to 3,691 m², GIA 9,614 m² to 3,948 m²);
- Put in place an Agreement for Lease with Humber Teaching NHS FT for 100% of the space;
- Develop a fully managed service lease once the building is completed, which will allow all of the tenants to reclaim the VAT charged on these services; and
- Once completed, the scheme will allow for the disposal of surplus land.

2. Background

Hambleton, Richmondshire & Whitby Clinical Commissioning Group developed a vision for Whitby and the surrounding area in partnership with local stakeholders, members of the public and patients through the Fit 4 the Future engagement programme. From this, a case for change for the Hospital was developed which included:

- 75% of the current hospital facility is not occupied;
- Privacy and dignity issues;
- No dedicated treatment rooms for integration of Out of Hours and Minor Injury services;
- Building is beyond its life and not fit for purpose; and
- The current site layout does not allow for joint working.

Following this work, the CCG commissioned Community Ventures to undertake strategic estates feasibility review, options appraisal and recommendations for the future of Whitby Hospital.

The key conclusions were presented to the Governing Body meeting on 24 July 2014 and are summarised below:

- Space utilisation: the current hospital is currently underutilised by approximately 75% and does not deliver value for money in terms of revenue costs;

- The existing estate is not functionally suitable for the service models being planned and commissioned for now or in the future;
- A new build on the existing site would have limitations, incur higher costs and have a number of planning constraints;
- A new build on an alternative site would incur higher costs and significantly higher levels of risk;
- Any new build on the existing site or an alternative greenfield or brownfield site in Whitby are not considered to be deliverable in terms of cost and availability of suitable sites based on current searches;
- There are feasible options to create a remodelled community hospital on the existing site;
- The overwhelming message from the engagement period is that people place very significant value on local services and would like to see the new hospital developed on the existing site;
- Remodelling and refurbishing buildings on the existing site offers the best value for money option going forward to deliver CCG commissioning intentions and the opportunity for integrated services within a timescale and programme that the CCG/NHS can dictate and influence; and
- The decision to progress would generate revenue saving to the NHS and would require less capital investment than other alternative options. The preferred option could also offer an immediate solution to LA partners for their strategic service plans assuming appropriate project and commercial arrangements can be agreed.

In December 2016 a detailed option appraisal was undertaken in partnership with NHS Property Services. The preferred option of refurbishing the existing site was selected by the CCG and approved as part of their OBC business case on 23 November 2017. At the Governing Body meeting on 23 November 2017 the Whitby Hospital Business Case was discussed and approval was given to the next phase of the project. The Governing Body minute is set out below:

- Approval is given for the release of additional project funding (previously approved) to support the completion of the technical design, market test the packages and agree the Guaranteed Maximum Price for the works;
- Further work was required to finalise the financial model specifically around the VAT implications and model, redundancy costs, market rents and service changes (YTHFT having recently informed the CCG that they are giving 6 months on the provision of outpatient and radiology services).

Following the Governing Body meeting in November 2017, the CCG agreed to set up a Senior Management Group to oversee the final stage of the work. Regular meetings have been held with the main partners (HTFT & NHS Property Services) to ensure that we have the necessary assurances in place regarding the future service model and the financial impact of the redevelopment project.

3. Latest Financial Model

The initial project work confirmed that the new service model could be delivered within a reduced bed base and therefore consolidated into the tower block with a minor extension. The current space requirement would therefore be reduced from the current 7,629m² to 3,691m².

The construction costs will be in the order of £12.8m excluding VAT.

During the planning phase there have been a number of iterations of the financial model. The latest model using the approved capital allocation and based on a 40 year term has been completed and shows the initial revenue cost for the tenants as follows:

Table 1 – Financial Model

	Latest Financial Model
	£
Rent	686.913
Rates	92.700
Operating Expenditure	871,272
Management Charges	27,357
Lifecycle Costs	184,550
Annual Charge (excluding VAT)	1.862,791

Discussions have been held with colleagues at Humber Teaching NHS FT to finalise lease arrangements and we are currently assuming that they will take the head lease for the whole site as a forty year fully managed serviced lease. The other tenants (TEWV, Harrogate FT, York FT & STHFT) will occupy space on a sub-let basis and will be invoiced by Humber TFT.

Table 2 - Proposed charges per tenant

	Total Charges	Less: charges to other tenants					Charge to
		HDFT	YTHFT	TEWV	STHFT	NHSPS	HTFT
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Rental	1,340.3	100.5	45.7	35.0			1,159.1
Soft FM	522.5	39.2	17.8	13.7			451.8
Total	1,862.8	139.6	63.6	48.7	-	-	1,610.9

Each of the tenants (Providers) has been informed of the proposed new lease costs and has been requested to provide written confirmation of their agreement to these new charges.

Negotiations are progressing with the other tenants to ensure that they are in agreement with the allocated space (they have signed off plans at all stages in this work) and the proposed charges. Whilst we are still waiting for final sign off by each of the tenants (on behalf of HTFT), the overall cost of this scheme does not exceed the current resource envelope available in the system (Table 2) and should not therefore create cost pressures for the CCG.

4. Risk Considerations

The main financial risks for the CCG are listed below together the planned mitigation:

Financial Risk

- **Humber Teaching NHSFT (HTFT) contract**

Risk: Affordability of the current service model

Mitigation: The CCG has been working with HTFT to identify a range of service redesign opportunities to ensure that costs can be contained within the current contract value.

- **Construction costs and delivery risk**

Risk: Capital costs increase in excess of approved budget.

Mitigation: The construction costs are being managed by utilising a P22 framework contract with a Guaranteed Maximum Price. The construction budget includes a contingency of 4.1%. Should the cost of unknowns be greater than the contingency then NHS PS will need to absorb these costs

- **Third party lease income**

Risk: Failure of third part tenants to pay invoices raised by HTFT.

Mitigation: The CCG is currently working with the other tenants to ensure that we have an agreement in place before the capital works commence. The CCG will look to reduce contract payments to providers to offset any shortfall in payments made to HTFT.

5. Commissioner Commitment

The CCG is required to sign a letter setting out a binding agreement in relation to NHSPS funding and Capital Works in respect of the premises.

The letter sets out the Commissioner commitments and these are detailed below:

- To commission services from the relevant NIA of the premises to ensure full utilisation of the Relevant Space for a minimum period of at least the Repayment Term;
- To use all reasonable endeavours to ensure that each Current Provider will promptly enter into a lease of the Relevant Space with NHSPS including a clear statement relating to the prescribed charging policy;
- The Commissioner will ensure that NHS Property Services are fully briefed on any re-procurement of services delivered from the premises to ensure that any new tenants are aware of the lease requirements and must sign the lease before services begin;
- If the CCG fails to honour its commitments to NHS Property Services, to the extent that such failure is not caused by or fairly attributable to a NHS Property

Services act or failure to act (in a timely manner, or at all) the Relevant Commissioner will be responsible for ensuring that NHS Property Services is not financially disadvantaged as a result; and

- If at any time the Premises or a material part of the Premises should cease permanently to be required for the provision of health services the CCG will work with NHS Property Services and in good faith to achieve a sustainable solution as soon as is reasonably practicable to mitigate the cost to the NHS of continuing to hold that surplus space.

The CCG is required to countersign and return the letter to confirm acceptance, acknowledgement and agreement to its terms on behalf of NHS Property Services.

6. Recommendations

The Governing Body is asked to:

- i. Confirm that the reconfiguration of the existing hospital building remains the preferred option for services in the Whitby locality;
- ii. Note the financial risks and mitigating actions identified in this report;
- iii. Note that the redevelopment of Whitby Hospital can be managed within existing allocated budgets and is “cost neutral” for the CCG; and
- iv. Delegate responsibility to the Clinical Chair and/or the Accountable Officer to sign the Commissioner Commitment letter which is a key document to support NHS Property Services in providing approval for the redevelopment of Whitby Hospital to commence.

Bernard G Chalk

Interim Finance Lead for Whitby Hospital Redevelopment Scheme

24 January 2019