

## **SOUTHERN DERBYSHIRE NHS LOCAL IMPROVEMENT FINANCE TRUST (LIFT)**

Report of the Chief Executive

### **SUMMARY OF REPORT**

- 1.1 This report updates the Cabinet on the progress made in establishing the Southern Derbyshire NHS Local Improvement Finance Trust (LIFT). It identifies the key decisions that are needed by the Council in order for the project to proceed to the next phase.
- 1.2 The Council has a key interest in two of the first tranche schemes to be included. The Disabled Children's short-break re-development project and the Primary care Centre development on the Village school site. At this stage our interest in the latter concerns the sale of a parcel of land on the site whilst our interest in the former is as a full partner in a joint scheme, previously reported to Cabinet.
- 1.3 Cabinet has previously approved in principle the LIFT Company purchasing an appropriate site or sites, redeveloping and, where appropriate, leasing them back to the Council and its partners to be used for the project. The minimum lease would be for a period of 25 years and would include an element of facilities management. The report seeks Cabinet approval for the sale of two sites to the Central Derby Primary Care Trust for inclusion in the LIFT programme to enable the development of the short break project for disabled children and the Austin Estate Primary Care Centre. The report also gives further details of this Lease Plus Agreement and the facilities proposed for inclusion for which approval is also sought.
- 1.4 The LIFT Board, on which the Council is represented, has selected a shortlist of three companies who will be invited to negotiate for the position of development partner within the LIFT Company. Part of this process concerns a detailed Invitation to Negotiate document that the prospective companies have to respond to. This contains greater detail of the individual schemes within the development. It is important at this stage that the Council considers and approves the content of that section of the invitation that contains the detail of the joint project for disabled children.
- 1.5 With regard to the Disabled Children's short-break project it is important that the basic Heads of Terms for the partnership agreement are also agreed prior to the sale of the site. This report therefore also seeks Cabinet approval for the draft agreement.

1.6 Finally the report gives details of the financial framework and an outline of the potential costs and financial implications for the Council both for the immediate work and the longer-term lease arrangements.

1.7 Agreement in principle by the Cabinet to the matters contained within this report will commit the Council to sign up to a Lease Plus Agreement for the capital development of the short break service subject to the tender process being successfully concluded.

### **1.8 Recommendations and Reasons**

1. To give approval for the sale of the two sites referred to in section 2.4 to the Central Derby Primary Care Trust for the purposes outlined in this report.
2. To approve in principle the section of the Invitation to Negotiate document that concerns the disabled children's scheme
3. To approve in principle the draft Heads of Terms partnership agreement for the operation of the disabled children's scheme.
4. To note the proposals for the lease plus agreement and the potential costs and receive a further report clarifying the legal and financial implications before a final decision is reached.
5. To note the potential release of Vicarage Road as a building surplus to requirements once the new Disabled Children's service becomes operational.

The approval of these recommendations will allow the Council to participate fully in the next phase of the LIFT project and enable the two developments to proceed.

## **MATTER FOR CONSIDERATION**

- 2.1 The NHS Local Improvement Finance Trust (LIFT) initiative is intended to deliver a step change in the quality of the primary care estate and to contribute to the investment plans for primary care and related services. The LIFT approach is a variation on the Private Finance Initiative (PFI). A portfolio of schemes will be offered for development to a private sector partner through a competitive process. As well as capital provision the schemes can include some facilities management should this be required.

A joint venture is then established between the local health bodies, partnerships for health and the private sector partner to form the LIFT Company.

- 2.2 The Council is a member of the strategic partnership and is represented on the LIFT Board. The Strategic Service Development plan, (SSDP), was approved by the Council and this is now published. A copy is available in the Members' room for consideration.
- 2.3 There are two schemes within the first tranche that the Council has a direct interest in. The Disabled Children's short-break re-development project to be located at the Armstrong site on St.Mark's Road and the Austin estate Primary Care Centre development on the Village school site.

### **2.4 Site disposal**

- 2.4.1 There are two sites for which approval is sought for sale to the Central Derby Primary Care trust for inclusion within the LIFT programme. For the Disabled Children's development the site of the former Armstrong Family Support Centre has been identified. The building was identified in last year's best value review of family support services as being surplus to requirement. The revenue savings arising from its discontinued use were agreed for reinvestment within the family support service as an outcome of the review. It is currently being temporarily used for contact sessions but this is shortly to cease when the new arrangements for this commence elsewhere.
- 2.4.2 The Council and the PCT have jointly been seeking a suitable site for the Disabled Children's scheme for some time. Sites have been difficult to identify that are suitable and meet the operational requirements. This site is well suited for the proposed scheme, being flat, close to arterial bus routes and meets the wider service requirements. Also the proposed development of the area through New Deal for Communities will mean that there will be facilities locally for young people to access. The site has an initial open market valuation of approximately £225,000 based upon its alternative development uses.

- 2.4.3 The second site for which approval to sell is sought is a parcel of land on the Village school site. Here the proposed development is for a local Primary Care Centre. The parcel of land required for the development has an open market valuation in the order of £0.3m. This proposal is in keeping with the overall regeneration plans for the locality.
- 2.4.4 The Primary Care Trust has received approval from the Department of health for enabling funds to purchase the sites required for the LIFT programme to proceed. The Council can expect to receive a sum in the order of £0.53m for the combined sale of these two sites. The Primary Care Trust will then make these sites available for the LIFT Company for the development of the Disabled Children's Centre and the Austin Estate Primary Care Centre.
- 2.4.5 It is intended to give central Derby PCT an option to purchase these sites on the date of financial close for a price equivalent to their open market value. Discussions are taking place about the possibility of demolition works taking place under licence prior to the sale. This would be subject to appropriate safeguards being built in for the Council.
- 2.4.6 Once the new Disabled Children's service becomes operational there will be the potential to declare Vicarage Road surplus to requirement and release this as a capital asset for the Council. The most recent open market valuation indicated a site value in excess of £320,000.

## **2.5 The Lease Plus Agreement**

- 2.5.1 The lease that the partnership will require for the operation of the disabled children's development will be for a period of twenty-five years. As well as a full repair and maintenance lease the agreement can also include a range of hard facilities management services. These have yet to be negotiated, however at this point we would only be seeking a grounds maintenance element to the lease. Catering, cleaning and care taking would remain in-house services to the partnership. As it is proposed that the Council be the lead partner for the Disabled Children's scheme these services would continue to be provided by the Council.
- 2.5.2 It is expected that the building for the project will be available for commencement of the new service no earlier than 1<sup>st</sup> October 2004 and more likely 2<sup>nd</sup> January 2005. At this point the service currently operating from Vicarage Road Disabled Children's Centre would transfer fully into the new arrangement. This will be a joint venture between the Council and the Central Derby Primary Care Trust. Derbyshire County Council has withdrawn from the project following their decision to develop their own in-house facility at Stanton Vale, Long Eaton. Prior to the commencement of the lease plus agreement a decision will need to be taken as to whether or not the Council, as the primary partner takes a Head Lease with an under lease to the PCT or whether the tenancy is joint. This will be resolved by the final Partnership agreement.

## **2.6 The Invitation to Negotiate**

- 2.6.1 The Invitation to Negotiate is the document that will be issued to the three preferred bidders for development partner in the LIFT. It sets out the context based on the Strategic Service development plan and is a schedule of the schemes to be provided. The Disabled Children's scheme is covered in volume three of this document and a copy is again available for consideration in the Members' room. At this stage the details of the tenants requirement of the scheme are dealt with broadly in four sections.

These are:

- The Site
- Whole Development Statement for the Proposed Investment
- Tenants Functional Requirements
- Desirable Extras

- 2.6.2 Volumes 1 and 3 give a clear indication of the detail and the purpose of the scheme. These are available in the Members reading room for consideration and include the following:

*The Disabled Children's Centre will be a brand new purpose built facility accommodating existing services from the current locations.*

*The range of services to be offered include:-*

- a) Overnight short breaks*
- b) Some daytime respite*
- c) Outreach team base*
- d) Accommodation for some fieldwork services*

- 2.6.3 Three short-listed private sector companies are working up three sample schemes in response to the Invitation to Negotiate document. From their responses and the detailed selection process one of these preferred bidders will be selected to become the partner developer. Once this stage has been reached there will be further details worked up regarding the building and service specifications from which final design and costs will be agreed. We have control over this specification and initial discussions have already commenced with officers in our property and planning sections within the Council. A final decision on the cost of the facility will not be required until this stage has been completed. Early indications suggest that it will range between £0.9m and £1.2m. This is expected to be finalised in September 2003.

## **2.7 The Partnership Agreement – Heads of Terms**

- 2.7.1 A draft Heads of Terms agreement has been drawn up by the Council's Legal Services. This has been agreed in principle with the Primary Care Trust and sets out the purpose, role and function of the scheme and the respective parts to be played by the Council and the Primary Care Trust as the key partners.

The issue of the nature of the tenancy is referred to in section 2.5.2 This will be resolved prior to the commencement.

- 2.7.2 The costs to the Council for the service will be contained within the existing budgets for Vicarage road and the attached outreach team. The final make up of the staff group for the scheme has yet to be finalised in terms of the category, type and number of staff required. However it is proposed that employees within the new service retain their employment with their existing employer and be seconded to the service. An appointment of joint Head of Service will be made prior to the establishment of the operational posts within the service. The funding for these posts will be met from the operational revenue budgets currently allocated by the Social Services Department and the Central Derby Primary Care Trust. It is expected that there will be a mix of social care staff and some qualified nurses within the team as well as some ancillary staff. None of these staff will be employed by the developer as part of the Lease Plus Agreement.
- 2.7.3 A copy of the draft Heads of terms agreement has been placed in the Members' room for consideration. Once the details of the staff and budgetary requirements have been established the agreement will be finalised and re-submitted to Cabinet for consideration, amendment if required and approval.

## **2.8 The Financial Framework**

- 2.8.1 The use of LIFT is a means to bring in significant additional capital resources for the improvement of the primary care estate and other health and social care related facilities. It is based on the identification of a primary developer partner who will provide the Capital resources for the creation of modernised services. These resources are then leased to the partners within the LIFT over a period of twenty-five years. After this initial lease period there is an option for tenants to negotiate an extension of the lease plus agreement, or to purchase the freehold at the open market value reduced on a sliding scale by a proportion of the amount by which this exceeds the private sector partners original residual value.
- 2.8.2 The Council has already signed the Strategic Service Development Plan and is committed to be involved in the procurement process, but not as a primary shareholder in the LIFT Company. To enter at a higher level of involvement would require the Council to give exclusive rights over new capital developments to the private sector partner, subject to a limited approval process. It is not recommended that the Council should do this, as it would potentially place restrictions on future development proposals.
- 2.8.3 Using LIFT will enable sufficient capital resources for the projects to proceed. Use of LIFT finance will also mean that the capital value of the existing resources would be able to be released for alternative use. For the Council the existing capital resource is Vicarage Road Children's Centre, which has an estimated current capital value of £320,000. This approach also means

that bridging finance will not be required and there is no difficulty with dual running whilst the new building is being built.

- 2.8.4 There will be an ongoing revenue cost to the partners for the duration of the Lease Plus Agreement. The cost range for this will not be accurately known until the successful development partner has submitted their final costs for the facilities to be provided. A model of potential costs has been included in section 3 of this report to give an indication to the Cabinet of the likely cost implications for the new service. No revenue costs for the lease are due until the service occupies the new building. At best this would be October 2004 but more likely January 2005. We will test the proposals against similar schemes for value for money as this becomes clear.
- 2.8.5 The Council will need to access its own specialist legal advice regarding risk assessment as the details of the Lease plus Agreement for the Disabled Children's scheme are worked up. A budget of £15K within the Social Services Department has been identified to meet these costs.
- 2.8.6 The sale of the parcel of land on the Village School site is relatively straightforward and will deliver a further capital receipt to the Council for use against other Council capital projects and accommodation pressures.

## **2.9 Fall back position**

In the event that the LIFT programme does not proceed then the Armstrong site should still be earmarked for the Disabled Children's project. The Capital funding for the scheme would need to be drawn from the eventual sale of the three existing centres – one Council owned (Vicarage Road) and two owned by Central Derby PCT. There would also be a requirement to supplement this with additional capital as well as identify bridging finance for the dual running of services whilst the new building was completed. It would not be possible to retract services during the building period.

In these circumstances there would be no release of capital resources for the Council to consider using for other Capital scheme requirements.

- 2.10 The use of LIFT as a mechanism to provide new purpose built buildings of a high standard is a timely development for the disabled children's project. It will enable the new service to become established without the financial pressure of either bridging finance or dual running costs. It should enable a smooth transition into a new building and give time for the details of the partnership agreement to be finalised. Increasingly there is a joining up of health and social care services to ensure that members of the public receive a smooth and efficient service that meets their needs. Through the use of Health Act flexibilities and shared lead approaches the Council can be at the forefront of these developments through these types of schemes. The territory is however new and complex and legal advice and guidance will be needed at each significant stage.

## FINANCIAL IMPLICATIONS

- 3.1 The costs of the Lease Plus Agreement will be based on the total value of the new building and the services to be included in the lease plus agreement. It is expected that the new building will cost between £0.9m and £1.2m, exclusive of any private sector set up costs. Shown below is a range of potential costs that may be incurred, subject to the level of private sector financing rates applied. The Council and the Primary Care Trust have agreed in principle that the lease costs will be shared 50/50.

Value	7%	8%	9%
0.9m	100K	105K	111K
1.2m	133K	140K	147K

The eventual costs will depend on the prevailing market interest rates at the time contracts are signed, however, recent PPP projects in other sectors have been signed at or below the lowest indicative rates shown above. Based on the figures in the above table, the annual capital financing cost of the asset would range between £100,000 and £147,000 for a period of 25 years. The figures are for illustrative purposes and do not include any additions for facilities management.

- 3.2 Including the scheme within the LIFT would free up for potential sale or re-use, the following capital assets:

	Estimated Value
Vicarage Road	£320,000
Armstrong Centre	£225,000
Land at Village School	£300,000
Total	£845,000

- 3.3 The costs for the operation of the new disabled children's service including the Lease Plus Agreement will be met jointly from the existing budgets used for this purpose by the Social Services Department and the Central Derby Primary Care Trust.
- 3.4 Investigations are being carried out by Corporate Finance to ensure that any Lease Plus Agreement entered into meets the relevant criteria as set out in the Local Authority (Capital Finance) regulations 1997.

## LEGAL IMPLICATIONS

- 4.1 Legal services are currently working on the detailed implications for the Council's involvement in the LIFT development and the level at which it should participate. This does not have to be finalised at this stage. The Head of Legal Services has recommended that before we finalise any agreements the Council



should seek external legal advice and this is being sought. Paragraph 2.8.2 indicates that involvement at level two for the Council is appropriate.

- 4.2 Agreement in principle by the Cabinet to the matters contained within this report will commit the Council to enter into a Lease Plus Agreement for the development of the Armstrong site to be used as a short break service subject to the outcome of the tender process.
- 4.3 The proposed disabled children's service will be established under the provisions of the Health Act 1999 as set out in the NHS bodies and Local Authorities Partnership Regulations 2000, which are made under Section 31 of the Health Act. The draft partnership arrangement covers the matters required by these Acts.
- 4.4 The scheme will provide services under the 1989 Children Act and to standards as required by the national care standards Regulations 2000.

## **PERSONNEL IMPLICATIONS**

- 5. It is not proposed that any employees of either the Council or the Central Derby Primary Care Trust would be required to transfer to the developer partner within LIFT. There will be some detailed work to be undertaken to establish the final make up of the joint staff group for the new service as referred to in 2.7.2. This will require discussion with the staff concerned and consultation with the relevant Trade Unions and will be the subject of a later report.

## **ENVIRONMENTAL IMPLICATIONS**

- 6.1 The development of a new building to provide a range of services for disabled children will add to the overall positive environmental improvement of the Gateway area within the New Deal area of Derwent. The Council has submitted an outline planning application for this scheme.
- 6.2 Similarly the development of the Village school site will enhance the locality in line with the plan. The Primary Care Trust will submit an outline planning application for this proposal.

## **EQUALITIES IMPLICATIONS**

- 7. Disabled children are a particularly vulnerable group. This development is much needed to ensure that disabled children from all backgrounds have access to modern and appropriate short-break and other services. The support this brings for their parents and carers also ensures that the risk of breakdown is reduced and their overall quality of life is enhanced.

## **RECOMMENDATIONS**

- 8.1 To give approval for the sale of the two sites referred to in section 2.4 to the Central Derby Primary Care Trust for the purposes outlined in this report.
- 8.2 To approve in principle the section of the Invitation to Negotiate document that concerns the disabled children's scheme
- 8.3 To approve in principle the draft Heads of Terms partnership agreement for the operation of the disabled children's scheme.
- 8.4 To note the proposals for the lease plus agreement and the potential costs and receive a further report clarifying the legal and financial implications before a final decision is reached.
- 8.5 To note the potential release of Vicarage Road as a building surplus to requirements once the new Disabled Children's service becomes operational.

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Background Papers : None