

Report to: **Cabinet**

Date of Meeting: 8 January 2020

Public Document: Yes

Exemption: None

Review date for release None



Subject: **Loan to finance purchase of Seaton Hospital**

Purpose of report: This report sets out a request from Seaton Area Health Matters (SAHM) for the Council to purchase Seaton Hospital under special arrangements for public bodies direct from NHS Property Services. To be passed directly to SAHM (being set up as Charitable Incorporated Organisation (CIO)) in a back to back legal agreement.

The funding of the purchase to be met by the CIO in the main through a 40 year loan from the Council with all cost recovered by the Council and with necessary loan security being put in place. The estimate loan amount will up to £2.1m being the balance required after other funds being applied by CIO to meet the purchase cost.

Recommendation: **Recommend to Council:**

- 1. To loan Seaton Area Health Matters (to be formed into a Charitable Incorporated Organisation) £2.1m for 40 years on an annuity loan to purchase Seaton Hospital at an estimated value including fees of £2.5m. EDDC to purchase the hospital to be then immediately sold in back to back arrangement to Seaton Area Health Matters. Delegated authority being given to the Chief Executive in consultation with the Portfolio Holders for Finance and Sustainable Homes and Communities to finalise arrangements subject to the following assurances being obtained; valuations, security, community support and the acceptance of a viable business plan and the carrying out of the usual due diligence.**
- 2. The Council recognises that the issues being addressed in Seaton may have commonality in the district but any proposal for support will be considered on case by case basis requiring a viable feasibility and viability assessment and viable business plan to support any request.**

Reason for recommendation: A proposal has been submitted for the Council to facilitate the creation of a community Health Hub in Seaton

Officer: Simon Davey
Strategic Lead Finance

Financial implications: These are outlined in the report. The request is for a loan of up to £2.1m over 40 years secured on land and buildings; the Council will ensure that all costs involved are recovered in full and linked to be a corresponding

fixed rate PWLB loan by the Council. This is to include all legal and purchase costs.

Risks are highlighted regarding income projections and although the Council's loan will be secured against land and building the Council needs to understand the risk of loan default and practically would the Council be prepared to take necessary recovery action to redeem recovery.

Legal implications: Further information and detail will be required to enable Legal Services to consider the transaction in more detail, such as the impact of SDLT on the transfer from NHS to EDDC, the length of the leases available from RDE/CCG, valuation of the site, clawback/overage on the transfer from NHS to EDDC and we do not currently have sufficient information to advise further on these points. We would be looking for the CIO to meet all of the Council's legal costs to ensure that the transaction is cost neutral to EDDC.

Equalities impact: Low Impact

Climate change: Low Impact

Risk: Medium Risk

The projected income is significantly reliant on rent from RDE and it is understood that only a relative short lease will be entered into (possibly 5 years). There are organisational and changing strategies within the health authority which brings risk to this key income stream. Further assurance is required in this matter.

Links to background information: • [Business Plan](#)

Link to Council Plan: Encouraging communities to be outstanding

1. Background

- 1.1 The inpatient wards in Seaton Hospital were closed in 2017. The RDE (Royal Devon & Exeter) continues to run day clinics in part of the hospital including a physiotherapy gym. The place-based care teams are also located in the hospital. Whilst the clinics and care teams provide a valuable service it is recognised that there is a need for community based clinical support in the form of additional clinics, therapy sessions and classes. This demand is recognised by the RDE and local GP practices, the most important elements being; ease of access, especially for the "hard to reach" groups and to engage and enable the voluntary sector to play a significant role in providing additional services.
- 1.2 Seaton Area Health Matters (SAHM) is a community group set up in 2018 following the closure of the wards. Its remit is to assess and support health care issues in the Seaton and Lower Axe area. It recognises the demand and has over the past 2 years worked with the NHS, RDE, CCG, local GP practices, voluntary groups and the equivalent organisations in East Devon to define the need and develop a plan to enable the delivery of relevant services to the Lower Axe area centred in Seaton.

- 1.3 One of the key drivers for the RDE is to be able to deliver its services efficiently and economically. The current practice, occupying approximately 35% of the hospital is not tenable financially as the RDE/CCG has to pay for used and empty space at NHS Property Services rates that relate to provision of full clinical facilities. If an alternate structure cannot be agreed the RDE/CCG may have to pull out of Seaton Hospital and the hospital could then be disposed of possibly to the private sector or for alternative development.
- 1.4 SAHM has been in discussions with RDE and NHS Property Services for the last 12 months. During this time national health policy has modified, accepting the vital role locally based clinical and social support can play in the overall health service provision. This has led to the possible relaxation of certain policies and development of a pilot process, enabling the disposal of a property to a community group. These changes in approach are recent and SAHM is now in a realistic position to put forward a bid to purchase Seaton Hospital for the benefit of the community. To maintain momentum in the process SAHM is requesting the Council agree in principle to provide the necessary funding to give credence and confidence in their bid.

2. Current position

- 2.1 SAHM formed a steering committee in 2018 to develop the hospital project. It has prepared an outline business and operating plan identifying the demand, the background data, area demographics and voluntary sector capability and capacity. The plan describes the vision and services SAHM aims to develop through the new Health Hub. This can be seen in the background papers link. There is a small variance in finance figures between the business plan and this report, this reflects the change in PWLB interest rates and the change from interest only to capital repayment and interest terms. The period remains at 40 years with all capital repaid.
- 2.2 SAHM have prepared an initial financial plan based on information from NHS PS relating to the current building costs. NHS PS is to provide additional information on operational and utility costs. The steering committee is preparing a more detailed operational plan. The site value used in the finance plan has been estimated in two ways, capitalising rental yield and assessing value as a domestic building site. A formal Red Book valuation including building services survey has been arranged and will be commissioned once NHS PS confirm that the sale process to SHM can proceed. This is expected shortly and the Council will expect to see this with details of tenancies.
- 2.3 SAHM has received a grant to enable it to fund initial surveys to better understand the demands and resources in the area. The RDE currently occupy 630m² of the 1446m² lettable area and may require some additional space. SAHM has been approached by a commercial health care provider who may commit to 300+m² subject to confidence in SHM being in a position to provide. And a recent meeting with the potential care provider was very positive and they are considering taking a significant lease on a portion of the property. The next step is to confirm in principle that the transfer to SAHM can proceed, once this is confirmed the care provider will proceed to more detailed negotiations and design. A commercial agent has also viewed the whole premises and advised on potential rental rates.
- 2.4 SAHM has taken legal and financial advice and will be established as a Charitable Incorporated Organisation (CIO). This will grant advantageous tax status and in particular give relief of Stamp duty on purchase of the property. However there is likely to be stamp duty payable by the Council which would need to be recovered from the SAHM.
- 2.5 The Seaton Hospital League of Friends, who provided a significant portion of the original hospital build costs and have funded work and equipment for many years, are fully supportive of the proposal and have offered a portion of the capital funding.

3. The proposal

- 3.1 The proposal is for SAHM to purchase the hospital from NHS PS. Current regulations require NHS PS to sell to a government or public body. The sale process, if authorised by NHS PS will be for EDDC to purchase the hospital then execute a back to back sale to SHM.
- 3.2 EDDC will provide loan finance, likely through the PWLB. The current prediction is £2.1m at 3.26% over 40 years (the figures in the original plan showed 2.55% as originally provided). The loan will be secured against the property. Seaton Hospital LoF have indicated a capital contribution of £0.5m. The initial loan to value security will be between 90% and 75% depending on the contribution from the LoF. Annual repayments of interest and capital based on current PWLB rates are £94,000 pa giving full repayment over the 40 year term.
- 3.3 Predicted total rental income, after fees and voids is £108,000 covering loan payments of £94,684 estimating a current surplus before rent increases of approximately £13,000. The income from RDE alone will be £54,000 equating to 57% of the loan repayments. Additional income through grants, direct payment from RDE for clinical support and fundraising is conservatively anticipated to be £80,000. The total operational income including rental surplus is estimated at £93,000. This is set against a predicted operational spend of £86,000 giving a small annual surplus of £7,000.
- 3.4 Building services and utilities will be cost neutral covered by a service charge.
- 3.5 The Health Hub will have 1.9 FTE staff responsible for running the building and facilities. The classes, therapy sessions will be run by the RDE, third party providers or voluntary organisations. The charity trustees under the normal corporate structure will oversee the operation.

4. Outline Finances

- 4.1 Below is an extract from SHM business plan, updated for revised PWLB rates. This show a projected annual operating surplus of £7k.
- 4.2 A copy of the business case for Seaton based Health hub is linked to this report.

FINANCE HEADLINES						
Benefits of RDE/CCG and NHS PS						
			Rent	SC	FM	Total
Current costs to RDE based on 607m2 and revised 2019/20 rates			£ 84,980	£ 34,093	£ 55,843	£ 174,916
Cost to RDE if hospital sold to SHH			£ 54,630	£ 29,457	£ 30,212	£ 114,299
			Annual savings to RDE			£ 60,617
Current cost to CCG or lost opportunity to NHS PS through voids			£ 102,775	£ 41,110	£ 67,538	£ 211,424
			Total value of RDE savings and void costs			£ 163,392
			Total savings RDE incl SC and FM of voids			£ 272,041
FINANCE HEADLINES						
Benefits of RDE/CCG and NHS PS						
Based on current costs and space requirements the RDE could achieve savings per annum in excess of						£ 60,617
By selling the hospital to SHH the CCG / NHS property services could achieve savings per annum in excess of						£ 211,424
Capital Values (average based on rental yield and as domestic housing site)						
Estimated Market value of hospital (Charities relief, no stamp duty)				£ 2,340,660		
Purchase legal and professional costs				£ 117,033		
Estimate cost of renovation works (possibly covered by betterment grant)				£ 150,000		
Less LoF input				-£ 500,000		Interest+cap
Balance to fund using 40yr PWLB int+cap				3.26%	£2,107,693	£ 94,683.74
Property Rental Income						
Gross rental income based on sq ft rate	£ 8.55			£ 120,052		
Less voids and fees		10%		-£ 12,005		
Net rental income					£ 108,047	
Property expenditure						
Annual repayment capital plus interest 40yrs as PWLB dec2019				£ 94,683.74		
Service and FM charges/expenditure cost neutral				£ -		
Net property expenditure					£ 94,684	
Net Income rental to support SHH operating costs					£ 13,363	
SHH Operating income and costs						
Hub operating income						
RDE/CCG support of courses				£ 30,000		
National grants				£ 20,000		
LoF and fundraising				£ 30,000		
Net rental income				£ 13,363		
SHH operating income					£ 93,363	
Other Hub operating costs						
Publicity				£ 2,000		
Events				£ 5,000		
Course and class support				£ 10,000		
Equipment				£ 10,000		
Admin materials and costs				£ 5,000		
Staffing				£ 53,820		
SHH operating costs					£ 85,820	
Potential annual operating surplus of SHH					£ 7,543	

5. Other proposals.

- 5.1 If Council agree to this proposal there may be requests from other community hospitals in the District for similar arrangements; there are 6 other community hospitals in the District. It is suggestion that any such requests are subject to the same due diligence process in that any proposal will require a viable feasibility and viability assessment and a viable business plan with appropriate safeguards to the Council. Each scheme if forthcoming will be supported, or not, based on the individual circumstances.