



DISTRICT COUNCIL

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19 July 2019

Dear Member

Cabinet – 25 July 2019

I am now able to enclose, for consideration at the next meeting of the **Cabinet**, the following reports that were unavailable when the agenda was printed.

Agenda. No. Item 7 – Crediton NHS Hub

(To add to your agenda for the meeting on **25 July 2019**)

7. Crediton GP/NHS Hub - Loan Decision (Pages 3 - 98)

Report of Deputy Chief Executive (S151)

To consider a long term arrangement to help facilitate the construction of a NHS Hub building in Crediton.

Please note:

It is intended that the report and first two appendices in relation to this item will be discussed in Part 1. However, appendices 3 and 4, due to the financial nature of the information contained therein, will be discussed in Part II. **Appendices 3 and 4 are not therefore for publication and are not to be disclosed.**

Available in other languages and formats on request

Please telephone 01884 255255 or email customerfirst@middevon.gov.uk

Yours sincerely

Sally Gabriel
Member Services Manager

CABINET
25 JULY 2019
CREDITON NHS HUB

Cabinet Member(s): Councillor Alex White
Responsible Officer: Andrew Jarrett, Deputy Chief Executive (S151)

Reason for Report: To consider a long term loan arrangement to help facilitate the construction of a NHS Hub building in Crediton.

RECOMMENDATION:

- 1 To agree to make a loan to the GP Practice of £2.1m repayable over 28 years on an annuity basis at a fixed interest rate of 3.75%, subject to the Deputy Chief Executive (S151), in consultation with the Group Managers for Finance and Legal Services:
 - (a) Completing a suitable loan agreement with the Practice adequately protecting the Council's position;
 - (b) Registering a first charge over the relevant land and completing a deed of priorities to be registered at the Land Registry; and
 - (c) Being satisfied following the finalisation of any remaining due diligence deemed necessary, that the loan remains a financially prudent course of action.

before the Practice is permitted to drawn down any portion of the loan.
- 2 To agree to add this to the Capital Programme and to fund from External Borrowing when necessary.

Financial Implications: The financial implications are included in this report.

Legal Implications: Michelmores LLP have been engaged to advise on the loan agreement, including the implications of any ownership, property and valuation issues for the detail of the agreement. In terms of State Aid, the Group Manager for Legal Services advises that the following key principles apply and will be satisfied based on an assessment of the currently proposed lending terms:

- The lending is carried out in line with normal market conditions. A public body is afforded a wide margin of discretion when taking an entrepreneurial decision – it will only involve state aid if it is manifestly clear that no rational market operator would have entered into a transaction on the same terms.
- The European Commission sets a reference rate each month for each member state. A margin must be added to the reference rate and this depends on the creditworthiness and the security offered. The combination of the reference rate and the margin is the minimum rate which could be said to be within the realms of a normal market rate.

- The reference rate as of 1.7.2019 was 1.09% and has been notified as the same for 1.8.2019. It has been at this level since the beginning of the year. It is unlikely to change to any material degree before the loan is entered into. In adding the margin, the table below shows how it should work. These are the margins which the EC says should be added “in principle” to the reference rate to end up with the minimum rate which should be levied.

CREDITWORTHINESS	COLLATERALISATION		
	High	Medium	Low
STRONG	0.60%	0.75%	1.00%
GOOD	0.75%	1.00%	2.20%
SATISFACTORY	1.00%	2.20%	4.00%
WEAK	2.20%	4.00%	6.50%

The view of officers is that the creditworthiness is Good and the Collateral is High. Even if we were to take a very cautious approach and apply a margin which would be applied to a borrower with a satisfactory rating category (BB) and a medium security (collateralisation), this would result in a minimum interest rate of 3.29% (1.09% + 2.20%) - still well below the interest rate proposed.

Other bodies are included in the diversification of investment risk in the Treasury Management Strategy. An unlimited timescale is applied to such investments with a maximum transaction limit of £3 million. The loan therefore falls within these parameters and provision will be made in the budget for this investment by way of a loan, subject to Council approval.

Risk Assessment: We will have a first legal charge over the property and this is important in mitigating the risk and giving us a better “ranking” than the Estates and Technology Transformation Fund (ETTF) NHS who will have a second charge.

Equality Impact Assessment: There are no equality impacts in relation to this report and its recommendations.

Relationship to Corporate Plan: The loan will support the aim to work with local communities to encourage them to support themselves by supporting local communities to retain and develop their local facilities and services.

Impact on Climate Change: This is a financing decision and has no climate change implications for us as a council.

1.0 Background

- 1.1 We were approached towards the end of 2018 by representatives of two GP Practices who were proposing to merge and locate to a new building in Crediton. The new building was proposed to provide much more than just a larger GP Practice, but to be more of an integrated health hub with both GP and wider NHS treatment areas. The new building will be mostly funded by the NHS, but the GPs have to source a certain amount of the funding

themselves. They approached this Council to see whether we could offer a more competitive lending rate than that already offered by two banks. See Appendix 1 for the full scenario which was the original proposal (but has subsequently been updated).

- 1.2 We saw this as an opportunity not only to ensure that there was a modern, fit for purpose GP surgery in Crediton, as we were aware that the existing two practices were becoming inadequate, but also for the Council to lend to a suitable stakeholder who was willing to secure the loan and still provide us with a good rate of return on our money. In the current economic climate with the limited returns that are available to us, this was an attractive proposition.
- 1.3 The GPs and their representatives have undertaken public awareness sessions. This has been well received and we are pleased that the public and some of our councillors have been able to attend to see the plans and the details of the proposal.
- 1.4 The initial proposal to progress this project was brought as an Urgent Decision in December 2018. Since that time further work has been completed and the urgency of the request for funds subsided due to the extension of the timelines by the NHS. This delay has given us time to complete further due diligence and to be more involved with the decision making around the project. We are now in a strong position to recommend the granting of finance and give assurance on the level of risk.
- 1.5 We are mindful that the rate of interest we offer to the GP Practice must remain competitive and not “fall foul” of State Aid rates. We have therefore sought to offer an interest rate which is advantageous to the Practice partners but is still competitive and gives us a much better rate of return than our general investments. We will have a first legal charge over the property and this is important in mitigating the risk and giving us a better “ranking” than the EUTF NHS who have a second charge. The “secured” status of the loan also means we can mitigate risk and offer a better interest rate knowing that we have the security of the building and site should the project not progress appropriately. We also understand that it is in everyone’s interest for this project to be successful and that the NHS will be making a considerable contribution to the scheme, over double our requested requirement.

2.0 Progress

- 2.1 On 21 June 2019 the representatives for the GP Hub sent out Invitations to Tender for the proposed building works. The closing date for the Tender was 5 July 2019 and we await details of the successful bidder.
- 2.2 At the Planning Committee 3 July 2019, permission was granted for the “Erection of a 2-storey GP Practice – land at NGR 284429 99439 Joseph Locke Way, Crediton”. See Appendix 2 for Plan.
- 2.3 We engaged external expertise from Michelmores to supplement our in-house legal service provision. We now have a final draft of Heads of Terms which is mutually acceptable to both parties.

3.0 Financial Implications

- 3.1 We have a number of further background reports which give forecast costings for the project, details of the payments to be received in respect of the advance and the schedule of payments to the GP Practice from ETTF (the NHS funder). An overall financial costing schedule is attached as Appendix 4.
- 3.2 At the 11 July 2019 the PWLB rate available to the Council for a loan for 28 years is 1.93% (2.13% less 0.2% certainty rate). With the proposed interest charge to the GP Practice of 3.75% this equates to an overall surplus of over £750k over the 28 year period. This is calculated on an Equal Instalment basis with reducing interest elements. The initial income “surplus” to the Council is c£42k reducing to £2k at the end of the loan period, very similar to the mechanics of a repayment mortgage. The partners also agreed to fund our legal advice and other associated costs.
- 3.3 The Council, as part of its daily Treasury decisions, may decide to fund the advance from internal borrowing, if possible. This then increases the surplus made as we would not be paying an external lender. The cost to the Council would be the opportunity cost of not investing those funds. With our average return on investment of around 1% this would be a prudent approach.
- 3.4 With either external or internal borrowing there will be a Minimum Revenue Provision (MRP) payment to be made which would be offset by the principal repayments from the GPs. The Capital Financing Requirement (CFR) will be adjusted to include the possible need to borrow to fund the advance.
- 3.5 The Heads of Terms are being finalised and these will crystallise our requirements for repayment and the schedule of advances as not all of the £2.1m will be required immediately.
- 3.6 For the removal of doubt regarding the status of the parties to the agreement, the legal representatives have confirmed that the GPs are signing an Umbrella Agreement in advance of the other legal agreements. This legally binds all the contemporary Partners from the 2 practices together as an entity so that the new building project can navigate through its stages to completion and occupation into the future. It dictates the terms on how the two practices engage until such time as a new partnership agreement is signed post-merger. It accounts for eventualities and will bring the collective of Partners into the new building even if there is a stall on any part of the merger process.
- 3.7 The NHS/CCG has made a 28 year commitment for the payment of the GP’s “notional rent” which covers the loan for the project, alongside their other income streams.

4.0 Conclusion

- 4.1 We are confident that this is a sound project and we have undertaken robust due diligence which has included extensive fact finding and numerous meetings with the GPs and their representatives. This is a good project from an economic regeneration basis; developing a disused site and maintaining a

health provision hub in Crediton, and also a favourable financial proposition which will help mitigate the budgetary pressures we are facing in future years.

Contact for more Information: Andrew Jarrett, 01884 234242,
ajarrett@middevon.gov.uk

Circulation of the Report: Cabinet Member for Finance – Councillor Alex White and Leadership Team seen and approved.

List of Background Papers:

- Appendix 1: Overview**
- Appendix 2: Plan**
- Appendix 3: Valuation (Part II)**
- Appendix 4: Financial costing schedule (Part II)**

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View Towards New Building Entrance CREDITON HUB - CREDITON Drawing No: 002_P010 Rev 1

A strategic, integrated primary care facility for Crediton, designed for the next 20 to 30 years.

- To co-locate the two town GP practices from existing premises to a new-build primary care facility, strategically located for future medical expansion in Crediton and Mid Devon.
- On behalf of Chiddenbrook & New Valley GP Surgeries in Crediton, and the Mid Devon Healthcare Federation of nine GP practices.
- A 2 storey contemporary building of 1,376 m2 GIA, located at Joseph Locke Way, Crediton, adjacent to the Tesco superstore, the railway station, bus routes, the main A377, and the new road infrastructure for the next ten years of planned housing expansion and development.
- A new building 80% funded by the NHS from a national funding programme, bringing £4.1m of inward investment into Mid Devon.

Our Key requirements for the next 20 to 30 years:

The Co-location of Crediton's 2 GP practices to a single, contemporary building, creating a robust GP partnership model of 8 to 10 partners.

To provide the medical capacity to meet the population increases in the Crediton locality from the new homes currently forecasted in the MDDC Plan.

To implement emerging models of care for Mid Devon patients, putting patients care needs first for the next two decades.

Ensuring that GP and medical staff employment is attractive in Crediton, leading to secure recruitment and retention of GPs and medical staff in the future.

Increasing the surgery size at Chiddenbrook Surgery which is 46% undersize for its current patient list.

To excel in meeting the NHS Five Year Forward View and the GP Forward View.

To provide contemporary and proven medical IT initiatives for Crediton and Mid Devon patients, using best practice from across the NHS/UK. To have special small 'pod' rooms for e-consult and other patient-focused software.

To provide training for GPs and core medical staff.

To create greater access to medical services
- Including a specific 'lock-down' area accessible for a small team and ambulance paramedics for weekends and extended evening hours.

Flexible space designed for changing medical practices in the future.

Project Timeline:

2015

Crediton's GPs Dr Jo Harris and Dr Peter Twomey began to analyse how the GP Primary Care services in Crediton could be made sustainable for the next 20 to 30 years.

This work carried out in conjunction with the newly established Mid Devon Healthcare Federation of GP practices, now including 9 practices.

The GPs, together with the NHS identified:

- Patients' future needs
 - and the role that good GP leadership could play in delivering these
- future excellence of GPs & medical staff
- what capacity / growth required
- analysed the existing estate
- Models of Healthcare best practice and visited many other schemes
- the local, regional and national strategic objectives for health, as put forward in the:
 - NHS 5 Year Forward View (NHS 5YFW), 2015
 - GP Forward View (GPFV), 2016
 - Devon STP
 - NEWDevon CCG Local Estates Strategy
 - The Estates and Technology Transformation Fund (ETTF).
- Key concepts for the scheme:
transformation : integration : sustainability : recruitment & retention

2016

Business case submitted in May 2016.

The Scheme approved subject to final business case November 2016 by Sir Simon Stevens, Head of the NHS.

2017/18

Applications for Outline Business Case (OBC) first submitted.

Liaison and development in detail with NEW Devon CCG, the Devon STP, NHS/ETTF and patient groups and staff.

January 2018: GP Partners agreement to proceed.

Project team assembled.

April 2018: Pre-project costs awarded by NHS.

November 2018: Submission for Planning - approval sought July 2019

2019

Patient groups and staff engagement in the project design and rationale.

Site acquisition - Building Design phase.

November, proposed start-date for construction on site.

Construction phase to January 2021

2021

Spring, occupation of new building.

The 'perfect' practice size for the future ?

is in the region of 15,000 to 18,000 patient list.

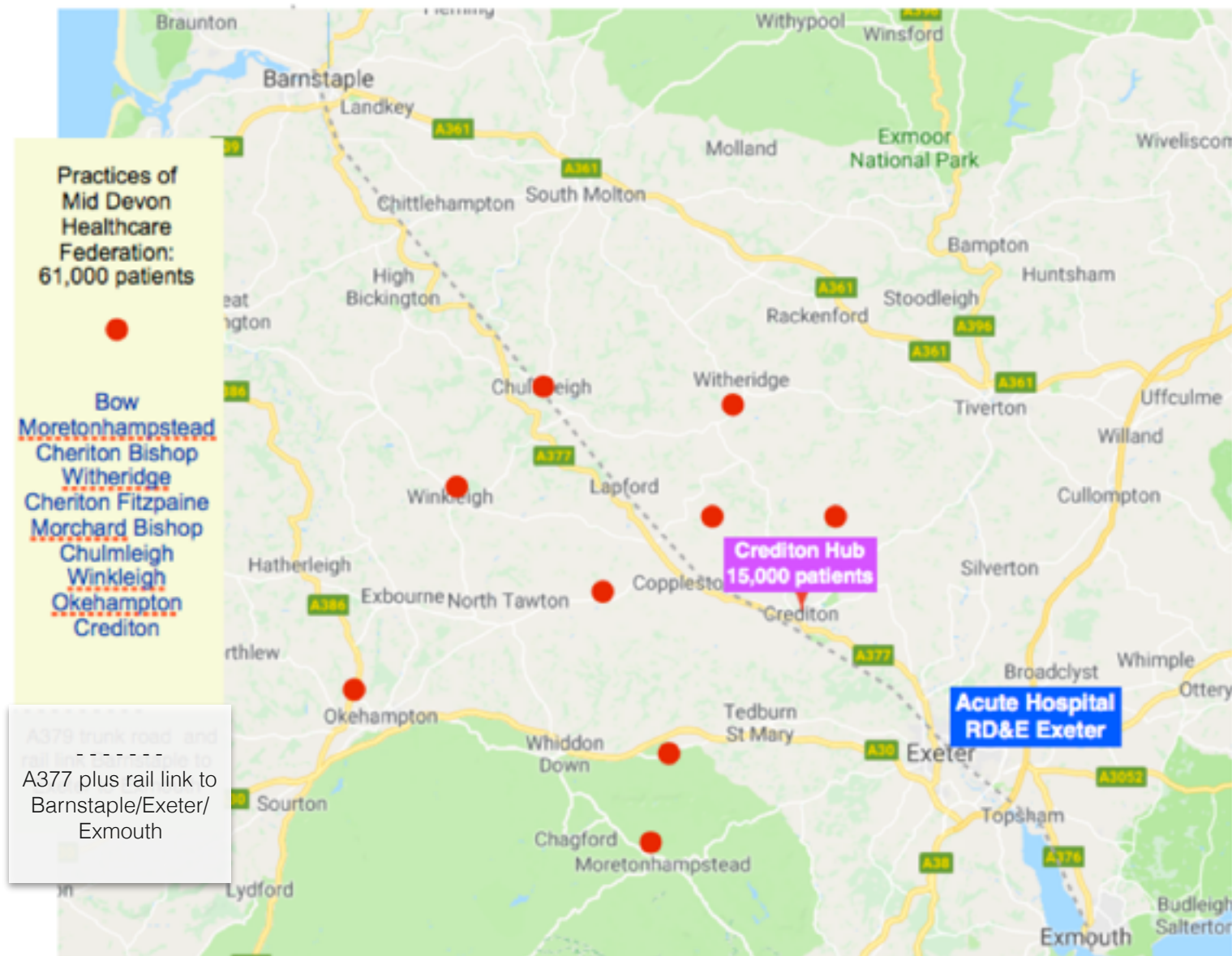
The 2 Crediton GP practices (Chiddenbrook and New Valley) currently have a combined patient list of 14,370 rising to 18,100 within the next 5 to 10 years due to the existing planned housing development in the Crediton locality.

The Scheme has met the NHS exceptionality criteria to secure majority funding because of:

- Service transformation
- Patient benefit
- GP Leadership
- Financial stability
- Value for money
- Programme interchangeability
- Halting risks to services
- Maximising technology
- Meeting ETTF criteria for effective care

The GPs business case included a detailed analysis of financial and non-financial options in accordance with NHS, Government and Green Book procedures and public purse spending.

Crediton's new GP facility will provide out-of-hours care for patients of the Mid Devon Federation of GP practices, a total of 61,000 patients.



Joseph Locke Way, Crediton :-

A Strategically located site. Identified in 2016 with assistance from MDDC Planning and confirmed for access by DCC highways. Site is a single roundabout access off the main A377 trunk road, yet with quiet parking/easy turning for older drivers. The Railway station is in sight and easy walking distance. Situated on the 'growth' side of Crediton and it's new infrastructure road. This site achievable within the NHS funding period.

A377 Exeter



Bus-gated access road

Joseph Locke Way, Crediton :-

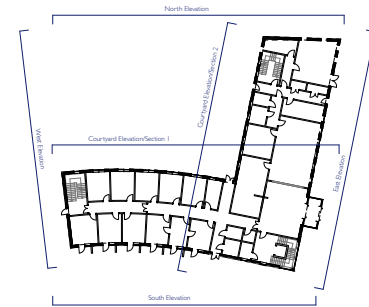
Build-ready site; excellent access; drop-off /easy parking for patients, bus; road; rail; mitigating extra bus provision for Crediton town. Expandable site for future services.

Patient groups and staff involved in the planning and design.

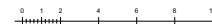




Dimensions are not to be scaled from this drawing
Drawing to be read in conjunction with Building regulation notes.
Rev. Date Description Author
23 Aug '18 Initial Issue - Tabled at meeting ga



Proposed Elevations - Key	
1	Horizontal Timber Cladding
2	Black Brick Plinth
3	Dark grey window/vent, door Frames. Green reveal casing to openings on East Elevation
4	Dark grey spandrel panel
5	Dark grey metal roof
6	Movable timber shutter with metal frame
7	Metal edging to balcony floor and entrance lobby roof
8	Metal balcony railing
9	Metal column/bracing
10	Dark grey Louvers
11	Dark grey rainwater goods to match colour of roof finish



PRELIMINARY

Crediton Hub GP Practice, Crediton

Proposed Elevations 1 of 2

Scale: 1:100 @ A1

Drawing No: 1232_PL09 Rev /
The Bull Shed Michael Browning Way
Exeter EX2 8DD
01392 438051 mail@ga.uk.com

grain architects

Page 18

The floor plan illustrates the layout of the first floor, featuring a central corridor that facilitates access to various clinical and administrative spaces. The left wing is dedicated to medical consultations and treatments, while the right wing handles reception, waiting, and administrative functions. The plan also shows external features like parking and landscaping.

Room Name	Area (sq. ft.)
GP (Cons. Room)	14.00
Treatment	14.00
GP (Cons. Room)	14.00
Treatment	14.00
Treatment	14.00
Private	14.00
GP (Cons. Room)	14.00
GP (Cons. Room)	14.00
GP (Cons. Room)	14.00
GP (Exam)	14.00
GP (Exam)	14.00
GP (Exam)	14.00
Reception Area	14.00
Waiting Area Main	14.00
Waiting Area Small	14.00
Meeting Room	14.00
Records	14.00
Server	14.00
Plant	14.00

Joseph Locke Way, Crediton :-

2 patients waiting areas, Pods for training / e-consult. Professionals integration, pilot projects, GP specialist training space (and nearby railway station for access by trainee GPs from Exeter Medical School). Attractive working environment. Resident GP specialist interests developed.



A De-risked partnership investment opportunity: NHS & MDDC.

**The Project is underwritten by NHS to 80% of costs.
NHS are providing interest-free funding of £4.1m
plus regional and IT funding.**

The NHS ETTF (Estates and Technology Transformation Fund) has allocated £4.1m interest free, repayable over 28 years. The project will have other costs supported by the NHS including Advanced IT.

The NHS GP Contractor is Chiddenbrook Surgery L 83065 on behalf of Chiddenbrook and New Valley GP Practices. Pre-Project costs to the start of construction of £545,000 are funded by the NHS at NHS risk.

Construction start date: **November 2019.**

MDDC funding requested: LWBC £2.1m over 27 years

De-risked. MDDC funding has First call, just as a primary bank lender.
NHS have second call.

Securing the GP Partnership model for Crediton - a priority.

Keeping our Primary Care provision under the control of our local, resident GPs.

A De-risked partnership investment opportunity: NHS & MDDC.

MDDC, a partner with committed GPs in improving the lives of the people in our rural Mid Devon community. Funding partnerships of this type are recommended by Government.

A De-risked investment:

- 1: MDDC has First call, just as a primary bank lender - so the value in the building will always repay the borrowing. The NHS have second call.
2. Guaranteed stream of rental income from NHS to cover interest.
3. Larger partnership of committed individuals providing this key service to the community.
4. Will always be a requirement for NHS England to provide primary care services to the Crediton Community – so there will always be a need to them to support a building of this nature.
5. Profitable, long standing, ongoing business with continued stream of income from NHS based on the registered list
6. Notional rent review every three years which may increase the rental income
7. Huge percentage of funding for the project provided by NHS England ETTF, so provides highest level of security on MDDC borrowing.

Letters of Support: Organisations & those engaged in the project

- Chiddenbrook Surgery PPG,
- New Valley Practice PPG
- CREDITON Town Council Policy Forward Planning Committee
- Mid Devon Federation of GP Practices
- Ian Turnbull, NHS England
- Dominic Hudson, NEWDevon CCG
- Approval announcement by Sir Simon Stephens Head of NHS.

- New Valley and Chiddenbrook League of Friends
- CREDITON Hospital Steering Group
- CREDITON Town Council
- Mid Devon Healthcare Federation (nine practices)
- South West Deanery of General Practice
- Peninsular Medical School (Exeter Medical School)
- RD&E Acute Trust
- People of CREDITON – CCG meetings Public Meeting at CREDITON RFC.
- Andrew Spear – Lentells – Project Accountant
- Ben Willis/Oliver Pool – Project Solicitors
- NHSE Region
- Pick Everard NHS Auditors

- Adel Jones, Integration Director , RD+E NHS Foundation Trust
- Em Wilkinson-Brice Deputy Chief Executive / Chief Nurse RD+E NHS Foundation Trust
- NHS ETTF Strategy Team
- CREDITON Town Team
- Martin Cordy, Lead Commissioner Urgent Care NEW Devon CCG

- MDDC Planning and CEO
- Devon STP
- NEWDevon CCG
- NHSE ETTF Strategic Lead
- Lloyds and Nat West Banks
- DCC Highways
- Land owners
- Grainge Architects
- WT Hills – quantity surveyors/employers agents
- Mel Stride, local MP and Paymaster General



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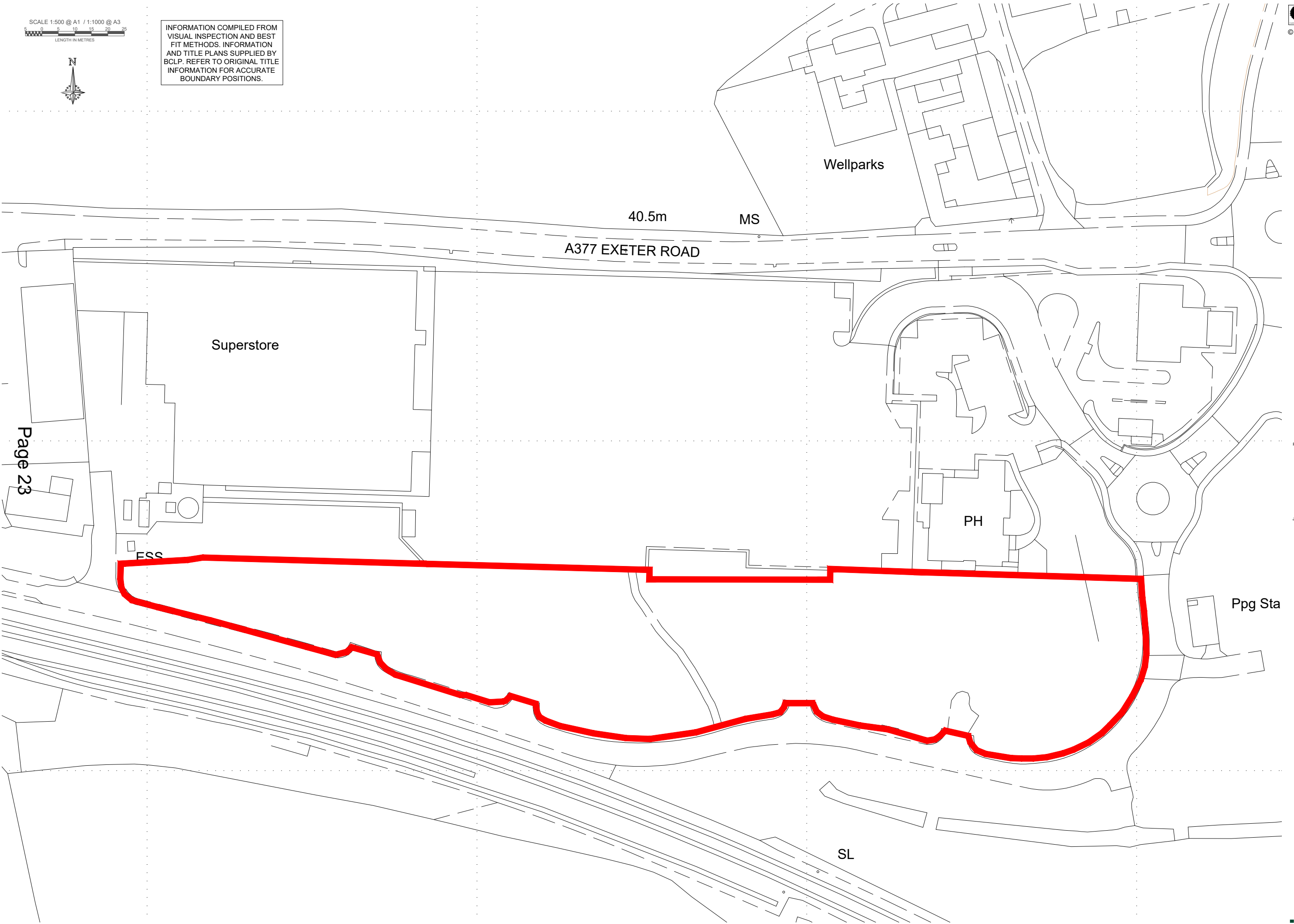
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RG12 1WA. T: 0331 378079



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