

CABINET
26 MARCH 2020
CREDITON NHS HUB - UPDATE

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

Reason for Report: to provide the Cabinet with an update on the negotiations and due diligence undertaken since the decision in July 2019 to approve the loan with delegated authority to the Deputy Chief Executive. Further, to provide the Cabinet with an opportunity to understand the final terms and how the arrangements for the project as a whole will work.

RECOMMENDATION: Arising from the previous decisions of Cabinet and Full Council, to note this update report setting out the progress of the negotiations and the due diligence undertaken.

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

Legal Implications: The Council has received expert advice from Michelmores with their experience in projects, banking, loan agreements etc. Furthermore, the state aid implications, explained in the previous report, are the subject of Counsel's advice which has been sought in light of the revised terms. The Deed of Priority will secure the Council's ability to recover the loan as a priority over the NHS England's ETTF funding. The Council will have a first charge over the land on which the new surgery/hub will be built (including the buildings erected on it).

Risk Assessment: the risks were set out in the previous report and, where they are modified or mitigated in the subsequent negotiations, this report explains that. The Deed of Priority secures the Council's capital input and the interest rate mechanism addresses the issue of any rate changes between the date of the loan agreement and actual drawdown.

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

Relationship to Corporate Plan: This supports the aim of supporting sustainable and prosperous communities by working in partnership with statutory and non-statutory bodies. In particular, it will help to promote new, more integrated approaches to good health for the residents in the Crediton area.

Impact on Climate Change: None directly arising.

1.0 Background

1.1 Cabinet are reminded that a number of reports and updates have been provided over the past year following an approach in 2018 by representatives of two GP Practices who were proposing to merge and locate to a new building in Crediton. They asked the Council to consider making a loan for part of the project, the remainder to come from NHS England's Estates and Technology Transformation Fund (ETTF).

- 1.2 Following an initial urgent decision taken in December 2018 to enable the GP Practices to make a funding bid to the ETTF, there have been extensive discussions between officers, the Council external legal advisors and those acting for the GP Practices. Furthermore, the GP Practices have been involved in extensive and protracted negotiations for the land purchase and with the ETTF.
- 1.3 A formal report was brought to Cabinet on 25 July 2019 (covering report included at Appendix 1) with a recommendation through to Full Council on 11 September 2019. The Group Manager for Finance provided a further update to Cabinet on 13 Jan 2020. In February, the Cabinet recommended the Budget and Capital Programme for 2020/21 to Full Council and this was approved on 26 February 2020.
- 2.0 **What the Cabinet and the Council has agreed to date and what is now on the table**
- 2.1 The original proposal was to make a loan of £2.1m at a fixed rate of 3.75% for a term of 28 years. When the request came in late 2018, it was expressed as a NHS project. This was not correct. The project is that of the GP Practices, Chiddenbrook Surgery and New Valley, in Crediton. Further, the NHS's ETTF, seeing the benefit and purpose behind the project, has stepped in with the bulk of the funding – 83.5% of the overall project cost.
- 2.2 Subsequently a briefing was given to Cabinet in January 2020 highlighting the request to increase the loan by £75k following an update to the project costs. Further, the Deputy Chief Executive proposed to increase the interest rate charged to c4% based on the recent government increases to the PWLB lending rates. This additional £75k was included in the now approved Budget and Capital Programme for 2020/21. So, to confirm, the Council has agreed the principle of the loan (with delegated authority to the Deputy Chief Executive) and the amount of the loan (£2,175,000.00). The term will now be 27 years from practical completion of the project - because the rental payments from NHS England to the GP Practices will not be available until they are able to occupy the premise for the purposes of providing healthcare.
- 2.3 The proposal now is the crystallisation of the terms and details behind the project. This has been arrived at after a prolonged period of due diligence undertaken by the S151 Officer; the Deputy S151 Officer; the Monitoring Officer and with the expert advice from Michelmores – specifically on the loan agreement which they have drafted in liaison with VWV Solicitors who act for the GP Practices. Both firms have extensive practice in commercial property, property development, healthcare, funding agreements, lending transactions, due diligence etc. Appreciating that this was a concern which remained for some members, Michelmores have also commissioned advice on state aid. The costs of the advice provided to the Council will be met by the GP Practices.
- 2.4 As with any project of this kind, the details do evolve – due in this case to negotiations by the GP Practices over land purchase and specifically as a result of a change in stance and commitment by the ETTF. For example, one of the original asks was that the Council's funding be used for the purchase of the land and the first phase of the build. Whilst the Council has sought, and will still

have, a first charge over the land enshrined in a deed of priority, its funds will not be needed until the end of the project – with the ETTF funds being used for the land purchase and the principal part of the build phase. The Council's position is therefore significantly better in this regard than it was previously.

- 2.5 Next we have the interest rate. With the anticipated drawdown of the Council's loan now being deferred for a number of months, it would not be appropriate to fix the rate now. The rates at which the Council may borrow (whether from the Public Works Loan Board (PWLB) or another lender) may vary between the date of the loan agreement and actual drawdown. The Council would not want to be in a position of lending at a rate which could be disadvantageous to it – for example if the PWLB rate increased again. The interest rate will therefore be PWLB + 1.5%. At the same time, we need to ensure that the interest rate does not fall below a certain threshold for the purposes of state aid – there is a mechanism in the draft loan agreement that secures this.
- 2.6 The interest rate will accrue from drawdown with a bullet payment being made at practical completion for the interest accrued to date. The loan – payments of interest and capital will then proceed as set out in the loan agreement for the duration of the loan.
- 2.7 Initially, it was envisaged that the Council's loan would be drawn down in a number of tranches as the project progressed to mitigate the risk. With the ETTF now providing the bulk of the funding to be used for the land purchase and principal part of the build phase, it is easier to justify and to administer a single drawdown later on.

3 Timescales

- 3.1 As often happens in such matters, there can be protracted negotiations and project work and then suddenly it all comes together in an apparent rush. The ETTF needs the Council's signed loan agreement as it will be appended to their funding agreement prior to that too being signed and completed. They want to do that on Friday 27 March 2020, we are told.
- 3.2 The project needs to get underway to ensure the funding remains in place and on terms which have been factored into the project costs. The build has been procured and, if delayed, there is a risk of increased costs and/or delay due to the contractors no longer being available. Contractors are naturally looking for certainty in the current uncertain times – and the contract will only be entered into when there is certainty of funding i.e. the loan and funding agreements are all completed. Having to re-procure could delay the project and increase costs.

4 Financial Implications

- 4.1 In over-arching financial terms the original £2.1m requested loan equated to 29.7% of the overall project funding at that time. The approved £2.175m now equates to 26.5% of the scheme, hence a lower proportion.

5 Risk

- 5.1 The new revised funding for the scheme has seen the ETTF contributing a significantly higher sum, including the land purchase at the commencement of the scheme. This means that the Council only have to fund towards the latter end of the project timeline, estimated to be in Dec 2020 as specified in the project Gantt chart and cashflow forecast supplied by the project team.
- 5.2 We have also received confirmation that any project overspends or time line delays will be met financially by an additional payment from the ETTF and will not result in an additional ask to the Council.

6 Conclusion

- 6.1 In regards to the loan agreement, Members are reminded that we will have a first charge over the property and that the loan agreement has the term set out above. However, due to the fact that we are making our funding towards the latter end of the project, we have recently agreed to change the terms to a fixed rate of PWLB (rate) prevailing at the exact time of the loan drawdown plus 1.5%.

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Circulation of the Report: Cabinet Member – Cllr Alex White; Leader – Cllr Bob Deed; Leadership Team; Group Manager for Finance; Group Manager for Performance, Risk and Data Security.

List of Background Papers: Appendix 1: Cabinet Report of 25 July 2019 (covering report only)