

**NHS LONDON
CAPITAL INVESTMENT BID PROFORMA**

NHS ORGANISATION	Whittington Health Trust
TITLE OF SCHEME	Consolidation of ownership of Simmons House
CAPITAL VALUE (£'000)	2011/12: £5,000 k
LEVEL OF PRIORITY (OPTIONAL) If more than one proposal is submitted by the Cluster/NHST/FT, indicate whether this is 1 st / 2 nd / 3 rd priority etc.	Whittington Health Trust - 3 rd priority
CONTACT DETAILS:	Philip Ient Director of Estates & Facilities philip.ient@nhs.net

SCHEME SUMMARY	<p>Presently the facility at Simmons House is operated by Whittington Health Trust (WHT) and provides Tier 4 specialist adolescent mental services to a range of commissioners in the locality. It occupies a section of the St Luke's Hospital site which is owned by Camden & Islington NHS Foundation Trust (C&I) but could be operated independently of the remainder of the site.</p> <p>The land and (basic) buildings are owned by C&I but were the subject of an extensive re design and refurbishment in 2002/03 at a cost of £ 3.71m which was funded via Islington PCT (IPCT).</p> <p>The freehold of St Luke's Hospital site is expected to be disposed of imminently, including the Simmons House facility. At this time the new owners are expected to grant a short lease back to C&I for Simmons House but the lease is not expected to extend beyond a few years.</p> <p>On determination of the lease (say 5 years) there will be a loss of value to IPCT of £ 2.9m and, if required, the commissioners will have to re provide the service either by contracting out or by re building a similar specialist facility in a similar location.</p> <p>Although the decision to continue with the service is the prerogative of the commissioners alone, WHT feel committed to the continued provision of this highly regarded service as part of the healthcare landscape operated by the ICO.</p> <p>For the following key reasons WHT believe that there is a compelling case for the land and buildings at Simmons House held by C&I, and the refurbishment works conducted by IPCT, to be re combined in to a single freehold facility owned by a single NHS body.</p>
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	<p>Simmons House is a tier 4 specialist CHAMS service which is well run and operates from a facility specifically designed for the purpose.</p> <p>The loss of disposal value, by not selling the Simmons House element of the site, will be much lower than the cost of re providing the service/facility.</p> <p>If the facility is lost, in the view of WHT, the possibility of future capital funding for the re building of such a specialist facility is regarded as remote.</p> <p>WHT therefore believe that funding should be provided in order for them to purchase the Simmons House facility from C&I and for the refurbishment costs, paid for by IPCT, to be transferred to WHT under the PCT Estate transfer process. This would then leave WHT with a freehold facility which would still be subject to the reversionary provisions of the PCT Estate transfer.</p> <p>Irrespective of the level of funding required by C&I to be able to carve this section out of the present third party disposal process, it will be significantly lower than the cost of re provision of the service in 5 years time which could be in excess of £ 8m.</p> <p>Similarly it is recognised that the true net cost to the sector will only be the loss of third party income due to the reduced sale proceeds.</p>
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<p>STRATEGIC CASE</p>	<p>Services provided from Simmons House</p> <p>Simmons House is a specialist Tier 4 in-patient service that has been running for over 30 years. It has adapted its service over the years and now offers assessment, treatment and acute admissions for 13 -18 year old adolescents with severe emotional and psychiatric problems.</p> <p>Simmons House has been a member of the Quality Network for In-patient CAMHS (QNIC) for nine years. QNIC do an annual review of the service. This year Simmons House volunteered to take part in piloting an accreditation process with QNIC. Meeting the accreditation standards will satisfy CQC requirements. From the QNIC review reports, Simmons House consistently gets good feedback from service users, parents, carers, referring clinicians and commissioners. Every patient admitted has agreed aims of admission and, on discharge, a clear outcomes report.</p> <p>QNIC has consistently commented upon the strengths of the dedicated and skilled team at Simmons House and described the environment provided at Simmons House as exceptional. . <i>In October 2011 Simmons House was one of handful of T4 services that were accredited.</i></p> <p>The facility is one of only a hand full of such facilities in the country.</p> <p>Facilities at Simmons House</p> <p>The facility at Simmons House is located in a small area in one corner of</p>
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the St Luke's Hospital site which is presently owned by Camden & Islington NHS Foundation Trust (C&I). The site is "self contained" and has independent access.

We are unaware of the current NBV of the land and buildings attributed to the Simmons House section of the St Luke's Hospital site.

Refurbishment

In 2002/3 Islington PCT (IPCT) proposed paying £ 3,710,882 for the refurbishment and re modelling of the facility and expected to write this off over the successive 60 years, assumedly starting in FY 2004/05.

Table of expected NBV in the books of IPCT

	Close of FY	Cost	Depr	NBV
Completion	2004/05	3,710,882	61,847	3,649,035
Now	2011/12	3,710,882	494,776	3,216,106
End of 5 year lease	2016/17	3,710,882	804,011	2,906,871
End of 5 lease plus further 3 years	2019/20	3,710,882	989,552	2,721,330

PCT Estate transfer proposals

Under the PCT Estate Transfer proposals, NCL included this property on the list of those to be transferred to WHT as they provide more than 50% of the services currently provided from the property.

On investigation this was removed from the list as NCL did not have ownership of the Land which still rests with C&I.

St LUKE'S HOSPITAL SITE DISPOSAL

The entire site is presently being marketed for sale and initial tenders were expected to be received by June 2011.

Original plans for the sale specifically excluded the sale of the Simmons House facility however, after consultation, the plans now include a proposal to sell the entire site but for the acquiring developer to provide C&I with a sub lease of the Simmons House element of the property. In turn C&I would sub let this to a provider (WHT or their successors).

For planning purposes WHT have looked at lease options that range over 5 years (2 remaining contracted years plus a further 3 year term) and 8 years (plus a further 3 year service contract period).

Although WHT do not feel that there is a significant amount of "marriage value" to the Simmons House element of the site we are not aware of any tenders or financial values relating to the sale of the site.

ECONOMIC CASE	SUMMARY OF OPTIONS
	<p>WHT's understanding is that once the lease from the developer expires the property will revert to the developer and the facility will be effectively lost. At this point the commissioners will have the following options :-</p> <p><u>Do Nothing</u></p> <p>The Do Nothing option would be defined as closing the service as there was no property from which to provide it.</p> <p><u>Outsourcing of the Service</u></p> <p>This is defined as using alternative suppliers to provide the service that was otherwise provided by Simmons House.</p> <p><u>Total re provision</u></p> <p>This is defined as re provision, not only of the service but also of the facilities which were lost at the reversion of the property to the developer.</p> <p>Although these options would only impact on the Commissioners at the end of the lease, WHT believe that there is a fourth, more strategic option, and that is to allow WHT to take ownership of that proportion of the site before the balance is sold to the developers.</p> <p><u>Site purchase</u></p> <p>Allowing WHT to purchase the land, followed by the PCTs transferring their respective interests thus putting an un encumbered freehold site in the hands of WHT followed by continuing to use the facility to provide the service.</p> <p>DO NOTHING</p> <p>Under this option the service would close at the end of the period (5 or 8 years) effectively at the point that the property reverted back to the developer.</p> <p>This would be a decision that is purely within the Commissioners sphere of influence and the decision not to provide the service would have to be taken within the commissioners normal de commissioning processes with the potential for closure and redundancy cost.</p> <p>A decision to do nothing and let the lease expire would also increase the annual depreciation costs. Either the current Net Book Value would have to be impaired now, or the depreciation cost would rise in order to arrive at a £ Nil value in 5 years time rather than the original 60 years time.</p> <p>OUTSOURCING OF SERVICE</p> <p>Should the Commissioners decide that the service is required, but that they could not provide it directly, then they would have to make arrangements with alternative local suppliers if at all possible.</p>

This would be a decision that is purely within the Commissioners sphere of influence and the decision to out source the service would have to be taken within the commissioners normal de commissioning processes with the potential for closure and redundancy cost. A decision to outsource would also increase the annual depreciation costs. Either the current Net Book Value would have to be impaired now, or the depreciation cost would rise in order to arrive at a £ Nil value in 5 years time rather than the original 60 years time.

As this is one of only a hand full of similar facilities the future provision of the service would be limited to the availability of spaces at similar facilities that may be some distance away from the homes of the affected adolescents.

As a scarce resource the Commissioners can expect that the cost, on a case by case basis, would be higher than it is at present if the service were provided either by a third party commercial supplier, or by another NHS body.

TOTAL RE PROVISION

Fundamentally this option would include re providing the service and facilities, on an alternative site, in a similar location, at the point that the current property lease expires.

Although it would avoid the potential for the redundancy and closure costs associated with closing the service it would include the need for a capital injection of up to £ 8m to re provide the specialised buildings equivalent to the existing Simmons House facility.

This option also allows for the lease to expire which will increase the annual depreciation costs. Either the current Net Book Value would have to be impaired now, or the depreciation cost would rise in order to arrive at a £ Nil value in 5 years time rather than the original 60 years time.

SITE PURCHASE

It is proposed that WHT purchase the freehold of the land and buildings currently carried by C&I which relate to Simmons House, in conjunction with the transfer of the buildings which could then pass to WHT as part of the PCT Estate Transfer process. This would then allow a single NHS provider body to have control of both the service and the freehold property and can be done within the immediate term.

OPTION SELECTION

The option selection depends on the commissioning intentions of the PCT's in the NCL cluster and whether they wish to continue providing the service in the long term.

If they do not, then they will have to officially de commission the service and pay the cost of closure and the cost of writing off the value of the

	<p>property.</p> <p>If they do wish to continue with the service, and they allow the property to be sold off, then they can either do so from outsourced facilities or from a completely new property.</p> <p>Outsourcing will not avoid the cost of de commissioning and property impairment and, given the specialist nature of the service, will probably be difficult to arrange and more expensive on a case by case basis.</p> <p>The option to re provide would avoid the de commissioning costs but would require the re provision at a capital cost of some £ 8m which is considered difficult.</p> <p>The option to purchase the land and consolidate the property continues the service at the existing cost, avoids the cost of de commissioning and avoids the cost of re providing the property.</p> <p>Comparison table</p> <table border="1"> <thead> <tr> <th></th> <th>Incur closure costs</th> <th>Incur Property Impairment</th> <th>Increased Operating costs</th> <th>Capital Re provision</th> <th>Land Purchase</th> </tr> </thead> <tbody> <tr> <td>Cease service</td> <td>√</td> <td>√</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Outsource</td> <td>√</td> <td>√</td> <td>√</td> <td></td> <td></td> </tr> <tr> <td>Re provide</td> <td></td> <td>√</td> <td></td> <td>£8m</td> <td></td> </tr> <tr> <td>Site purchase</td> <td></td> <td></td> <td></td> <td></td> <td>£ ?</td> </tr> </tbody> </table> <p>The preferred option for WHT, and we believe the local health economy, is to purchase the land and consolidate the property ownership.</p>		Incur closure costs	Incur Property Impairment	Increased Operating costs	Capital Re provision	Land Purchase	Cease service	√	√				Outsource	√	√	√			Re provide		√		£8m		Site purchase					£ ?
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FINANCIAL CASE	<p>COST BENEFITS TO THE TRUST AND THE WIDER HEALTH ECONOMY</p> <p>Comparative cost of options Again this analysis will depend on the commissioning intentions of the PCT within the cluster.</p> <p><u>De commission (Do Nothing)</u> If the decision is to cease the service at the point that the lease expires then the comparative cost of that decision will be the de commissioning costs of the service plus the impairment cost associated with the refurbishment and building costs..</p> <p><u>Outsource</u> The cost of re providing the service on an outsourced basis will be higher than the cost of simply ceasing to provide. The staff will still leave the service and the property will still be impaired, however the commissioners will still have to cover the cost of another provider</p>
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producing a service.

Re provision

The cost of allowing Simmons House to close at the end of the lease and to have to construct a similar facility in a similar location have been modelled as part of a simple DCF computation.

Avoidance of future cost

Under current proposals (WHT or its successors) will be provided with a short term operating lease, from the eventual developers, which may last for up to 8 years. On the expiry of the lease the providers will be faced with the write off of the existing cost of the re development plus the cost of re providing the facilities from which to provide the service. This re provision would probably have to be made in a similar location to the existing service.

The assessment of the financial benefit of WHT acting now to purchase the freehold of the land is based on the principle *future cost avoidance* and is predicated on the assumption that the Adolescent mental health services should be a continuing part of the healthcare landscape in the area. The cost benefit analysis therefore compares the cost of investing in the freehold land now, compared to the cost of not investing now and having to construct similar replacement facilities in the future.

By using a simple DCF model to calculate the net present cost of not purchasing the land now (ie showing the cost of the decision not to buy now) the model provides a maximum value for the land. Theoretically this is the maximum amount you would be prepared to pay, today, in order to avoid the future costs of re building.

The option to continue with the service out of the existing buildings would avoid the operational cost of writing off the carrying value of the existing property. Presently the depreciation charge over 60 years would be £ 309k for the next 5 years. This should be compared to the additional write off cost of £ 2.9m to bring the property to a £ Nil value at the end of the 5 year lease..

Should the Commissioners be minded to stop provision of the service then there will be certain property closure costs plus the cost of redundancy for any staff that could not transfer to any other provider.

Key assumptions

In looking at the financial consequences of the options WHT have made the following key assumptions, that :-

- The residential service will be required beyond the period of the proposed short term lease.
- At the expiry of the lease, the developers would have legal control of the site and would require the providers to quit the buildings.
- The Simmons House facility would have to be re provided at the end of the lease term on alternative premises.

NPC model and sensitivity

Commercial lease

The developers will be expected to provide an operating lease for the land and buildings which has been initially estimated at £ 150k per annum. This figure has been used in the absence of any other knowledge and the model has been subjected to a range of sensitivities as set out below :

Annual ground lease cost

Low case	£ 100 k
Base case	£ 150k
High case	£ 200 k

Lease term

The initial lease term has been set at 5 years as this comprises the last two years of the present CSC plus a further 3 year contract period. A sensitivity has been modelled at 8 years which might result from a further extension of the term by another 3 years.

Cost of re construction

The cost of re construction has been based on a “like for like” basis using the original Business case as a start point.

Land assumed to be re provided in a similar location and assumed to cost £ 1.5m in year 5 as land with existing development potential. In year 8 this is estimated to rise to £ 1.6 m

Buildings assumed to be re provided as a similar size and quality facility for the same amount as it would have taken to re develop the original buildings in 2003, as adjusted by building inflation.

Inflation building inflation is estimated at an average of 5% in the long run.

Replacement Replacement build cost schedule

Year	Cost	Infl 5%	Revised
2003	3,710	186	3,896
2004	3,896	195	4,090
2005	4,090	205	4,295
2006	4,295	215	4,510
2007	4,510	225	4,735
2008	4,735	237	4,972
2009	4,972	249	5,220
2010	5,220	261	5,481
2011	5,481	274	5,755

2012	1	5,755	288	6,043
2013	2	6,043	302	6,345
2014	3	6,345	317	6,663
2015	4	6,663	333	6,996
2016	5	6,996	350	7,346
2017	6	7,346	367	7,713
2018	7	7,713	386	8,098
2019	8	8,098	405	8,503

Once constructed the buildings are regarded as being maintained up to such a standard that they would not require replacement for a further 60 years.

Comparative Net Present Cost Table

	5 Yr lease	8 Yr lease
Low rent	£ 7.9m	£ 8.4m
Base case rent	£ 8.1m	£ 8.7m
High rent	£ 8.3m	£ 9.0m

Cost of land purchase

The cost of purchasing the land has not been estimated as we have no basis on which to make such judgements, however it is thought unlikely that it will be more than £ 1.5m.

Conclusion

That the net present cost of re providing the service would be in excess of £ 8.1m which is thought to be significantly higher than the cost of purchasing the land from C&I.

Although the bid has been prepared with a capital value of £ 5m, the final cost payable would be an amount sufficient to cover the loss in disposal receipts incurred by C&I because they were not selling the entire site to a single developer. The financial case shows however that the amount payable should never be above £ 8.1m as the service could be re provided elsewhere for this amount.

COMMERCIAL CASE	<p>The commercial case would simply require :-</p> <ul style="list-style-type: none"> • Sale of the land and buildings to be arranged via the Trust's respective solicitors at an agreed price. • Transfer of the refurbishment costs held by IPCT in conjunction with the PCT estate Transfer rules.
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	These could be conducted at low cost within a short period of time.
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MANAGEMENT CASE	<p>The management case is similarly simple and requires only an exchange of correspondence.</p> <p>The timetable for completing the PCT estate transfer work is at present un known.</p>
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LOCAL APPROVAL PROCESS	<p>The Trust has identified this scheme as desirable in terms of good estate management.</p> <p>The scheme has been approved by the Executive Committee and given Chairman's approval pending full Trust Board approval of the outline business case on 25th January 2012."</p>
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CONFIRMED AS SUPPORTED INPRINCIPLE BY:

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