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| Report To: | Primary Care Commissioning Committee (Public) Meeting |
| Report Title: | Shipston Medical Centre (M84025) – New Practice Development (Ellen Badger Hospital site) |
| Report From: | Hannah Willetts, Director of Primary Care |
| Author: | Hannah Willetts, Director of Primary Care and Liz Flavell-Smith, Director of Finance (Strategy) |
| Date: | 26 January 2022 |
| Previously Considered by: | Primary Care Committee of NHS South Warwickshire Clinical Commissioning Group – October 2020, August 2019 |

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| Action Required (<i>delete as appropriate</i>) | | | | | | | |
| Decision: | ✓ | Assurance: | | Information: | | Confidential | |

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| Purpose of the Report: |
| To inform the Primary Care Commissioning Committee regarding the progress of the above new development scheme which achieved business case approval in October 2020 and, noting the updated position reported as regards the revenue impact of the scheme for the CCG, to ask the Committee to confirm its approval for the scheme to proceed to build commencement. |
| Key Points: |
| <ul style="list-style-type: none"> The current report provides an update to the Committee regarding the delivery of a previously approved new practice development scheme on the site of the Ellen Badger Hospital in Shipston-on-Stour. This strategically important scheme, which is being jointly delivered by Shipston Medical Centre and South Warwickshire NHS Foundation Trust ('SWFT'), achieved business case approval in October 2020 via the Primary Care Committee of the predecessor NHS South Warwickshire Clinical Commissioning Group ('CCG'). Section 1 of the main report provides a brief overview of the scheme and the key benefits expected to flow from its delivery, including as a result of the integrated nature of the scheme. Following on from the Primary Care Committee approval, planning work has progressed via a dedicated Project Board through to completion of the final tender process in late August 2021. Through the planning process both Shipston Medical Centre and SWFT have incurred a range of non-recoverable costs. Costs incurred by the GP practice to date are in the range of circa £400k. Across the same time period that the planning work has been progressed, both the United Kingdom (UK) exit from the European Union and the Covid-19 pandemic have significantly impacted the UK construction market, with both labour and material supply affected. In this context, and despite an extensive cost engineering/review exercise being undertaken, the overall scheme cost has risen significantly, resulting in a requirement for the CCG to instruct the District Valuer to provide a 'Value for Money' assessment, incorporating a review of the notional rent/Current Market Rent (CMR) position. The findings of the District Valuer's report, which was received by the CCG in early January, are summarised in Section 2 of the main report. Critically the report confirms; <ul style="list-style-type: none"> The outputs of the cost engineering exercise have been reviewed and no 'over generous' allowances or over specification exist in the surviving design and specification; Prevalent conditions in the construction market are extremely challenging – indeed the scheme is being delivered in what could be described as the 'eye of the storm' as far as market conditions are concerned; |

- It has been possible for the District Valuer to arrive at a Value for Money recommendation – as set out in **paragraph 2.4.** of the main report the District Valuer’s proposed way forward incorporates an increased notional rent/CMR and a ‘top up’;
- The District Valuer is increasingly seeing ‘top ups’ being used/considered by other CCGs nationally in response to the impact of the current extraordinary market conditions on costs;
- The ‘top up’ will erode over time and fall away entirely at the point that notional rent/CMR reaches £325,000 per annum.
- The Director of Finance (Strategy) has been engaged in discussions with the District Valuer over recent weeks and is reassured that the District Valuer’s recommendation, including the provision of a tapering ‘top up’, offers value for money to the tax payer. The ringfenced Delegated Primary Care allocation of £76m funds premises reimbursement costs, and the recommended increased notional rent/CMR of £12,870.60 and top-up the £26,629.40 are affordable within the financial plan set for 2023/24.

Recommendation:

Noting the content of the report, and specifically the updated position reported as regards the revenue impact of the scheme for the CCG, the Primary Care Commissioning Committee is asked to confirm its approval for the scheme to proceed to build commencement, subject to the resolution of the matters set out in **paragraph 3.1.** of the main report.

| Implications | | | | | | |
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| Objective(s) / Plans supported by this report: | Creating Value Building Capacity Delivering at Place ✓ | | | | | |
| Conflicts of Interest: | None relevant to the current report. | | | | | |
| Financial: | Non-Recurrent Expenditure: | Capital funding for GP practice component of the scheme is being provided by the GP practice partnership. Limited Section 106 funding is available and will be utilised to fund costs associated with the development the scheme business case. | | | | |
| | Recurrent Expenditure: | At the point of business case approval in October 2020, the post scheme completion commencing rent reimbursement figure proposed by the District Valuer was £285,500 per annum. Per paragraph 2.4. of the main report, the District Valuer is now proposing a CMR figure of £298,370.60 per annum and a ‘top up’ of £26,629.40 per annum. This represents a total increase of £39,500 per annum versus the October 2020 position set out above (consisting of a CRM increase and the recommended top-up). The ‘top up’ element will taper over time as rent reviews are undertaken and notional rent/CMR increases to the point it reaches £325,000 per annum. Water and rates costs will also be subject to increase and will be reimbursed at the actual cost. | | | | |
| | Is this expenditure included within the CCG’s Financial Plan? (Delete as appropriate) | Yes | ✓ | No | | N/A |

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| Performance: | Investment in GP premises improvements/developments will support improved access to effective care and provide opportunities for service integration. | | |
| Quality and Safety: | It is expected that investment in GP premises improvements/developments will support an enhanced patient experience of general practice services. | | |
| Equality and Diversity: | General Statement: The CCG is committed to fulfil its obligations under the Equality Act 2010, and to ensure services commissioned by the CCG are non-discriminatory on the grounds of any protected characteristics. Policies/decisions may need to be adjusted in line with any equality analysis or due regard. Any decision that is finalised without being influenced by appropriate due regard could be deemed unlawful. | | |
| | Has an equality impact assessment been undertaken? <i>(Delete as appropriate)</i> | Yes | <div style="display: flex; align-items: center;"> <div style="margin-right: 10px;">✓</div> <div>An equality impact assessment was completed as part of the business case development process for the scheme.</div> </div> |
| Patient and Public Engagement: | None relevant to the current report. | | |
| Clinical Engagement: | None relevant to the current report. | | |
| Risk and Assurance: | <p>The impact of the extraordinary conditions in the construction market on build costs represents a risk area for the CCG in terms of the affordability of other schemes that will come forward in line with the CCG's general practice estates programme.</p> <p>The following offer potential mitigation:</p> <ul style="list-style-type: none"> • Affordability assessment is considered throughout the business case development process and a business case would not come forward for approval unless the financial case was affordable to the CCG. Apart from the current scheme, there are no other schemes within the CCG's general practice estates programme which have an approved business case but have yet to start construction; • Many other schemes within the CCG's general practice estates programme are supported by either Section 106 or Community Infrastructure Levy funding and will therefore be subject to/benefit from the 'abatement rules' in the Premises Costs Directions, meaning that the revenue impact for the CCG will be reduced for a period time. Schemes prioritised for any national capital funding available to Integrated Care Boards in future will also be subject to these rules; • Per the District Valuer's report to the CCG, construction market conditions are anticipated to 'balance'/recover to some degree over time, with the position as regards material availability expected to improve before the position on labour availability. As the District Valuer observes the Shipston scheme is being impacted by the 'eye of the storm' as far as construction market conditions are concerned. | | |

Background

- 1.1. During the summer of 2016, and in response to the announcement of the NHS England Estates and Technology Transformation Fund ('ETTF'), the predecessor NHS South Warwickshire CCG developed a General Practice Estates Strategy.
- 1.2. With reference to the Strategy, a February 2019 report to the Primary Care Committee of NHS South Warwickshire CCG identified a number of priority GP practices, with Shipston Medical Centre identified as one of the highest priority. This practice is a teaching practice, operating beyond capacity, in a building which is not fit for the longer-term future. This coupled with a significant population growth (the practice list size is predicted to increase to 14,371 patients from a current position of 11,806 patients), an older than average patient population with higher incidences of complex, chronic disease, and access challenges from the rurality of the local area formed the basis for a clear case for change.
- 1.3. Recognising the above, the CCG secured and deployed funding from the ETTF to engage a third-party property expert to undertake an options appraisal process, with the aim of identifying a feasible, deliverable and supported preferred option for Shipston Medical Centre to take forward to business case development.
- 1.4. Following on from the conclusion of this process, which indicated that a new GP Practice was the only feasible option, in August 2019 the Primary Care Committee of NHS South Warwickshire CCG gave approval for Shipston Medical Centre to progress the development of a business case for a new GP practice co-located with the Ellen Badger Hospital and a new health and wellbeing hub.
- 1.5. The vision for the co-located GP Practice, health and wellbeing hub and hospital is to create a campus from which sustainable, truly integrated health care and health promotion can be delivered, enabling the local community to 'live well' for longer. There is extensive local stakeholder support for the scheme, with ongoing engagement to actively shape the 'live well', community owned model.
- 1.6. Working in conjunction South Warwickshire NHS Foundation Trust ('SWFT'), the Stour Health and Wellbeing Partnership and other partners, Shipston Medical Practice concluded the development of its business case for the GP practice component in the late summer of 2020. The GP practice is planned to comprise of 20 clinical and 6 digital consulting rooms, with a gross internal area (GIA) of 1,331m².
- 1.7. The business case was presented to and secured approval from the Primary Care Committee of NHS South Warwickshire CCG in October 2020.
- 1.8. Following on from this milestone, planning work has progressed via a dedicated Project Board through to completion of the final tender process in late August 2021. Through the planning process both Shipston Medical Centre and SWFT have incurred a range of non-recoverable costs. Costs incurred by the GP practice to date are in the range of circa £400k
- 1.9. Across the same time period that the planning work has been progressed, both the United Kingdom (UK) exit from the European Union ('Brexit') and the Covid-19 pandemic have significantly impacted the UK construction market, with both labour and material supply affected. In this context, the overall scheme cost has risen significantly, resulting in a requirement for the CCG to instruct the District Valuer to undertake a review of the notional rent/Current Market Rent (CMR) position reported in October 2020.

Impact of Current Situation

- 2.1. As set out above the combined impact of Brexit and the Covid-19 pandemic has been to drive up the overall scheme cost significantly. As an initial response to this position, Shipston Medical Centre and SWFT initiated a focused cost engineering/review exercise, supported by a quantity surveyor and a number of other expert industry advisors. Following the completion of this process,

the CCG was informed that although costs had been reduced they were still significantly higher than the October 2020 position (circa. £1.38M higher; with total costs now standing at circa £5.1M for the practice).

- 2.2. Recognising this position and noting the advanced scheme delivery point (tender process completed, now at contract mobilisation with planning approval imminent), in line with the Premises Costs Directions, the CCG urgently instructed the District Valuer to provide a 'Value for Money' assessment, incorporating a review of the notional rent/Current Market Rent (CMR) position.
- 2.3. The District Valuer's report, which was received by the CCG in early January, confirms the following:
 - The outputs of the cost engineering exercise have been reviewed and no 'over generous' allowances or over specification exist in the surviving design and specification;
 - Prevalent conditions in the construction market are extremely challenging with build costs having risen exponentially since the autumn of 2020 – although some degree of market recovery is to be expected over time, the Shipston scheme is being delivered in what could be described as the 'eye of the storm' as far as market conditions are concerned. Among the key challenges impacting the market are labour and material supply.
- 2.4. In the above context the report proposes the following:
 - A revised CMR figure of **£298,370.60 per annum** (no VAT payable);
 - Over and above this, a 'top up' payment in accordance with the Premises Costs Directions of **£26,629.40 per annum**;
 - **Hence a total post scheme completion commencing rent reimbursement of £325,000 per annum.**
- 2.5. The District Valuer report confirms that, subject to compliance with various matters set out in the report, the scheme overall continues to represent Value for Money to the NHS.
- 2.6. In relation to the 'top up' component specifically, the District Valuer report confirms:
 - The District Valuer is increasingly seeing 'top ups' being used/considered by other CCGs nationally in response to the impact of the current extraordinary market conditions on costs;
 - The 'top up' will erode over time with each rent review and fall away entirely at the point that notional rent/CMR reaches £325,000 per annum.
- 2.7. In terms of the revenue impact for the CCG, the position set out in **paragraph 2.4.** represents an increase of £39,500 per annum versus October 2020 (at this point the post scheme completion commencing rent reimbursement proposed by the District Valuer was £285,500 per annum).
- 2.8. The Director of Finance (Strategy) has been engaged in discussions with the District Valuer over recent weeks and is reassured that the District Valuer's recommendation, including the provision of a tapering 'top up', offers value for money to the tax payer. The ringfenced Delegated Primary Care allocation of £76m funds premises reimbursement costs, and the recommended increased notional rent/CMR of £12,870.60 and top-up the £26,629.40 are affordable within the financial plan set for 2023/24.

Next Steps

- 3.1. Assuming that the Primary Care Commissioning Committee indicates its approval for the scheme to proceed to build commencement, an updated decision letter will be drafted with legal input. The letter will 'secure' the terms and conditions set out in the District Valuer's report, including those relating to the 'top up' payment – there is a specific point that will require an agreed position relating to VAT, on which the CCG will seek input from both its legal and VAT advisors.

- 3.2. Confirmation of the outcome of Stratford-on-Avon District Council's consideration of the planning application is expected imminently.

Recommendation

- 4.1. Noting the content of the report, and specifically the updated position reported as regards the revenue impact of the scheme for the CCG, the Primary Care Commissioning Committee is asked to confirm its approval for the scheme to proceed to build commencement, subject to the resolution of the matters set out in **paragraph 3.1.** above.
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END OF REPORT