

Delegated Decisions report



21 December 2021

LANDLORD WORKS AND LEASES OF FIRST AND SECOND FLOORS - WHITEHOUSE HEALTH CENTRE

Name of Cabinet Member	Councillor Rob Middleton (Cabinet member for Resources)
Report sponsor	Stuart Proffitt Director - Environment and Property
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Exempt / confidential / not for publication	No
Council Plan reference	28
Wards affected	Stony Stratford

Executive Summary

This report is seeking approval for leases to be granted to Milton Keynes University Hospital (MKUH) and Oxford University Hospital (OUH) at Whitehouse Health Centre. In addition, resource and spend approval is sought for the capital project to create the required OUH facilities along with approval to directly award the contract for these works via a national construction framework and associated professional services via the Council's Professional Services Framework.

This report also requests approval to award both the Pre-construction Services Agreement (PCSA) and Construction stage assuming it comes within the available resource allocation for the project. Willmott Dixon are the contractor for the original build of the Health Centre and by using the same team, this is seen as the best way of achieving value for money, coordination, integration and maintain building warranties of the Health Centre itself.

1. Decisions to be Made

- 1.1 That in respect of the contract for the design and build of OUH facilities at Whitehouse Health Centre:
 - (a) the Major Works section of the Procurement Hub framework be used for the award; and
 - (b) the contract for a works package of £1m, be awarded to Willmot Dixon.
- 1.2 That the procurement and award of the associated Professional Services contracts (Project Management and Quantity Surveying) be approved via:
 - (a) the Council's Professional Services Framework (CU2642); and
 - (b) the use of a mini competition for each service within the applicable value band.
- 1.3 That the resource and spend approval in the 2021/ 2022 Capital Programme for £1.3million, funded from capital receipts, to undertake the capital works at Whitehouse Health Centre, be approved.
- 1.4 That a lease to Milton Keynes University Hospital Trust for part first floor of Whitehouse Health Centre, be granted.
- 1.5 That a lease to Oxford University Hospital Trust for the second floor of Whitehouse Health Centre, be granted.
- 1.6 That the Director - Environment and Property be given delegated authority to finalise terms of the above lettings.

2. Why is the Decision Needed?

- 2.1 The Council's led Whitehouse Health Centre in the Western Expansion Area was completed in 2019 and was funded by a joint agreement between the Council and NHS England. This was the second health centre opened by the Council, the first being Brooklands Health Centre in the Eastern Expansion Area.
- 2.2 A letting of the primary care space was agreed in partnership with BLMK CCG. This opened to patients in 2020. The build also provided space for Thames Valley Police, a pharmacy and a coffee shop. Lettings have been agreed for these units and are either operational or at the tenant fit out stage.
- 2.3 Work has been ongoing to find tenant(s) for the medical space on half of the first floor and the whole of the second floor. The planning use and conditions of the NHSE funding arrangements on the building, alongside the strategic desire to promote the building as a health hub means our focus has been on working with strategic health partners to deliver community-based health outcomes building.

- 2.4 Negotiations have concluded with two tenants, MKUH and OUH, to secure endoscopy and renal services respectively. The leases are for 15 years (subject to a ten-year tenant break) and means that these important services can be extended and grown within MK. Dialysis patients, for example, often have to travel to the John Radcliffe in Oxford or Stoke Mandeville Hospital in Aylesbury, which can take up to an hours' drive in each direction. It will also give opportunities for MKUH to free up some space on the main hospital site which can be used for expanding other important health services to local people.
- 2.5 MKUH will take a lease of the first floor to provide endoscopy services. OUH will take a lease of the second floor to provide renal services, including dialysis. Both hospital trusts will work together strategically including the sharing of some facilities, ICT and staff welfare, and both leases will run concurrently.
- 2.6 OUH has a capital funding limit which means it is not able to raise capital for its fit out works which are significant because the second floor is currently open plan shell and core. To achieve the community health benefits proposed by this deal, MKC will fund the fit out works up front as Landlord Works in the sum of £1.3m including professional fees. This will be recovered via an additional rent on the OUH given the enhanced level of fit out being provided. The Council's costs will be recovered by year ten.
- 2.7 MKUH will pay for and procure its fit out works directly to the first floor which are less costly because of the enhanced level of fit out already in that area. That trust has already procured Wilmot Dixon as the design and build contractor alongside a professional team, all of which are the same team that was used for the original design and build. By using the same team, this is seen as the best way of achieving value for money, coordination, integration and maintain building warranties of the health centre itself. Works to the first floor will commence in January and conclude by the end of March, opening to endoscopy patients by spring 2022.
- 2.8 The Council will utilise the same approach and appoint Willmott Dixon via a direct award under the Procurement Hub's Major Projects Framework which we are able to access. The Council's Landlord Works to the second floor will commence in April once MKUH's tenant works to the first floor have completed, although there may be some scope to run some elements in parallel for efficiencies.

3. Implications of the Decision

Financial	Yes	Human rights, equalities, diversity	No
Legal	Yes	Policies or Council Plan	Yes
Communication	No	Procurement	Yes
Energy Efficiency	No	Workforce	No

(a) Financial Implications

For the first floor, MKUH will pay a rent of £240/m² which represents the enhanced level of existing fit-out provided to the first floor. This equates to a commencing rental of £105,708 per annum. Additionally, a service charge will be payable.

For the second floor, OUH will pay a rent of £220/m² which represents the base rent given the limited fit out. This equates to £165,680 per annum. In addition to reflect the Landlord's Works for enhanced fit out, a further rent is payable by the tenant. The cost of the Landlord's works is estimated at £1.3m and for illustrative purposes the additional rent for this part is fixed at £127,284 per annum based on an interest rate of 5% (fixed) with such additional rent being payable for the first ten years. The actual amount of rent may vary depending on the final cost of the works.

The building is opted to tax and therefore VAT will be payable on the rent.

Resource and spend approval for £1.3million is being requested via this Delegated Decision, following approval at Corporate Portfolio Board. This budget resource is to cover the construction costs, contingency and all professional fees and surveys. The funding source is capital receipts. The works to the building are of a capital nature adding to the fabric of the building.

(b) Legal Implications

The works to the first floor will be documented via a licence for works and lease on completion between the Council and MKUH. For the second floor, the Council will wish to condition that the tenant, OUH, will take a lease on completion of the landlord works so this will be documented via an agreement for lease and lease.

This report seeks approval to appoint Willmot Dixon via a direct award through the procurement Hub framework. The use of frameworks is a recognised route to market. The Procurement Hub framework has been set up following a procurement process and is open for use by public bodies. The Council can therefore use it to procure construction works as requested. In order to remain compliant with procurement law, the procurement and any contracts awarded pursuant to the procurement need to adhere to the terms of the framework, and the rules relating to transparency, fairness and equal treatment of parties

There is a requirement for the Council to obtain the best consideration (in this context rent) that can reasonably be achieved. This applies for any disposal (including leases) with a term over seven years. This is demonstrated in the body of the report.

(c) Other Implications

Clear and timely communications with MKUH and OUH to ensure this interface is well managed with all parties being aware of timescales and planned activities to maximise the chance of success for this project.

This proposal also helps to achieve the Council Plan aim reference 28 - to work with health partners to ensure proper access for all to GP, dental and mental health services, and support the expansion of MKUH.

4. Alternatives

- 4.1 The alternative is that the Council does not complete the proposed landlord fit out works to the first floor and offers it to rent as an empty shell only. This would likely mean that the deal with OUH on the second floor would not go ahead and the area would remain vacant. There is interest from private medical uses, but these do not have the strong tenant covenant of an NHS trust nor would it create the wider community health benefits.

5. Timetable for Implementation

Delegated Decision	Tuesday 21 December 2021
Call-in expires	Tuesday 4 January 2022
Works to commence on first floor	w/c 4 January 2022
Lease commencement with MKUH	April 2022
Works to commence on second floor	From April 2022
Lease commencement with OUH	Early summer 2022

List of Annexes

None

List of Background Papers

None