

NHS GREATER GLASGOW AND CLYDE

NHS Board

15 December 2009

Paper No. 09/70

Director of Finance

Proposal to Relocate Board Headquarters and associated corporate functions

1. **Introduction**

In May 2009 a paper was presented to the Performance Review Group (PRG) which outlined a proposal to reprovide accommodation currently occupied at Dalian House and Tara House, aimed at reducing corporate overhead costs. This outline proposal has now been developed into a detailed proposal capable of releasing a minimum of £840k of corporate overhead costs as an annual cost saving, commencing in 2010/11. This will be released by vacating accommodation currently leased at Dalian House and relocating to available accommodation on the Gartnavel Royal site while continuing with the existing lease of Tara House. The purpose of this paper is to describe the business case for the proposal and seek the approval of the NHS Board to proceed to implementation.

2. **Background**

In June 2010, the present lease for the accommodation currently occupied by the Board at Dalian House will expire. The current level of occupancy/service cost incurred annually in respect of Dalian House is £1.25m. For Tara House, there is a breakpoint in the current lease in October 2010. The current level of occupancy/service cost incurred annually in respect of Tara House is £269K.

There is accommodation within existing NHS estate which has recently become available as a consequence of the implementation of the Board's Acute and Mental Health service strategies. This has opened up the possibility of achieving a significant reduction in corporate overhead costs by relocating from externally leased accommodation to NHS owned accommodation during 2010.

The total staff complement currently located at Dalian House is 335 staff. This comprises 90 staff identified by Heads of Service as working within Corporate HQ function(s) and 245 identified as working within Information Management, Finance, Human Resources (HR), Mental Health Partnership, Public Health and Acute Services Planning. A further 122 staff, all working within HR, are currently located at Tara House.

To guide the process of identifying suitable accommodation solutions for HQ and other staff groups, a number of key criteria were established, including:

- 1) availability of suitable meeting room facilities
- 2) functional suitability
- 3) ease of access to road and public transport networks
- 4) capital and revenue affordability
- 5) best value

A full description of the above "key criteria" is attached at Appendix 1. These were approved by PRG at its May 2009 meeting.

3. Review of alternative options

Four alternative options have been identified and appraised. These are described below, together with associated capital and revenue costs. Revenue costs include rent, rates, property service charges and equivalent costs for in-house accommodation options.

1) Option 1

Establish Corporate HQ base for no more than 60-70 staff, located within externally leased premises close to the city centre, thereby retaining a city centre presence. Relocate remaining staff to available accommodation within existing NHS estate.

A search of available office accommodation currently available for lease within close proximity to the city centre, and satisfying the key criteria established for selecting a future Board HQ accommodation solution, has been carried out. This identified a number of alternative options, all with a similar cost profile. The two lowest cost options are noted below:

<u>Option</u>	<u>Key Characteristic</u>	<u>Annual Cost (Note 1)</u> £'000
1	Purpose built, brand new open plan office accommodation, within new building, limited car parking	312
2	Existing building built (c.2000) configured to requirements of previous occupier. Limited car parking.	293

Note 1 Annual cost includes rent, rates and property service charges, based on a 10 year lease with a break at year 5 and net of landlord incentive (i.e.18 month rent free occupancy).

The above summary confirms that the annual occupancy cost of retaining a corporate HQ premises close to the city centre, accommodating approximately 70 staff, including board room and conference rooms, would be close to £300K per annum. Were the Board to source an accommodation option within the city centre area, this would be more expensive with costs in the region of £350k per annum

Service Heads were asked to separately identify those staff groups within their area(s) of responsibility whom they intended to transfer to existing office accommodation. Responses received from Service Heads confirmed that the total number of staff within this category was 48, leaving 339 for whom alternative accommodation solution required to be sourced.

A review of potential accommodation solutions within existing NHS estate was then carried out, including available accommodation at Victoria, Queen Mother's and the Gartnavel Royal sites. The scale of the staffing complement requiring alternative accommodation meant that the range of options open to the Board in terms of identifying suitable accommodation solutions within its own NHS estate was limited. Indeed, the accommodation located within Henderson House/West House on the Gartnavel Royal site proved to be was the only potential solution with the capacity to accommodate a staff complement of this size. In addition, unlike other sites it also offered opportunity for long term occupancy, avoiding the need for further relocation in 6/7 years time...at that point in time the other sites identified are to be made available for disposal, to contribute towards the cost of funding the Board's future capital programme.

The maintenance of an extensive NHS presence on the Gartnavel Royal site, combined with the current position of the property market means that the prospects for negotiating a financially viable disposal package for remaining

surplus land, including the West House, can now at best be regarded as remote. As a consequence, the Board would face the challenge of maintaining the West House building into the foreseeable future, were it not to commission its use as office accommodation.

The costs of converting/refurbishing Henderson House and West House for occupancy as offices by the staff cohort identified above are set out below. This would enable the accommodation within Henderson House to be occupied for a period of 30 years and the accommodation within the West House to be occupied for a period of 15 years, without the requirement for further significant capital investment during these timescales. It should be noted that the accommodation to be occupied as offices within the West House has recently been occupied as office accommodation, and so a minimal level of capital investment is required to bring this up to an acceptable standard.

<u>Capital Works</u>	<u>£'000</u>
<u>Henderson House</u>	
Reprovision of office accommodation, including Telephones and IT cabling, fees and VAT	2,420
<u>West House</u>	
Upgrading of office accommodation, including Telephones and IT cabling, fees and VAT	<u>520</u> 2,940 =====
<u>Annual Recurring accommodation costs</u>	
Capital Charges	196
Rates	180
Other	<u>55</u> 431 ===

2) **Option 2**

Collocate Corporate HQ base together with all remaining Dalian House and Tara House staff in available accommodation within Henderson House and the West House on the Gartnavel Royal site

This, in essence, is a variant on option 1 albeit the cost of external leased accommodation for a Corporate HQ facility close to Glasgow city centre would be avoided. To deliver this accommodation solution it would be necessary to significantly expand the area of accommodation brought into use within the West House to include three additional former ward areas, not previously used as office accommodation. This would require a significant level of additional capital investment, and in all likelihood would require an extended time period to secure planning permission on account of a proposed change of use for accommodation within a listed building.

The costs associated with this option are as follows:

<u>Capital Works</u>	£'000
Capital costs of Option 1	2,940
Add : Supplementary costs Refurbishment of additional accommodation within West House, including telephones and IT cabling, fees and VAT, including preparatory works.	<u>2,580</u>
	5,520
	=====
<u>Annual Recurring Accommodation Costs</u>	£'000
Capital Charges	378
Rates	180
Other	<u>55</u>
	613
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3) **Option 3**

Collocate Corporate HQ base together with all remaining Dalian House staff in available accommodation within Henderson House and the West House on the Gartnavel Royal site. Retain leased accommodation at Tara House.

This is a further variant on option 1, albeit the cost of external leased accommodation for a Corporate HQ facility close to Glasgow city centre would be avoided, also the Board would retain occupancy of Tara House at an annual occupancy/service cost of £269k per annum. The retention of accommodation leased at Tara House is justifiable on the basis of a highly competitive annual occupancy/service cost for this premises, which presently accommodates in excess of 120 staff.

The capital costs of converting/refurbishing Henderson House and West House for occupancy by the staff cohort currently accommodated within Dalian House who would relocate (i.e. 287 staff) would be the same as for Option 1, with a section of the top floor of Henderson House partitioned for boardroom/conference room use rather than office accommodation.

<u>Capital Costs</u>	£'000
Capital	2,940
	=====
<u>Annual Recurring accommodation costs</u>	
Capital charges	196
Rates	180
Other	<u>38</u>
	414
	===

Note: This option would involve retaining occupancy of accommodation at Tara House at an annual recurring accommodation cost of £269k per annum.

4) **Option 4**

Retain Corporate HQ facility in Dalian House, also accommodation leased at Tara House, renegotiating a new occupancy/lease agreement for Dalian House.

The Board's property advisers have approached the landlord of Dalian House and received proposed costs for a 10 year lease of the building, commencing in June 2010, following the termination of the existing lease.

This annual recurring costs of this option comprising rent (net of proposed landlord incentive), rates and other occupancy costs would be £1.093m per annum.

Note: This option would involve retaining occupancy of accommodation at Tara House at an annual recurring occupancy cost of £269K per annum.

4. **Financial Summary**

A summary of the costs of each of the 4 options described within section 3 is presented below, together with the current costs of accommodation at Dalian House and Tara House:

	<u>Option 1</u>	<u>Option 2</u>	<u>Option 3</u>	<u>Option 4</u>	<u>Current Costs</u>
	£000	£000	£000	£000	£000
<u>Capital Cost</u>					
Capital expenditure on Henderson House	2420	2420	2420		
Capital expenditure on West House	<u>520</u>	<u>3100</u>	<u>520</u>		
	2940	5520	2940	-	-
	===	===	====	=====	===
<u>Recurring Costs</u>					
Henderson House/West House	431	613	414		
Tara House	-		269	269	269
Dalian House	-	-	-	1093	1254
City Centre HQ	312	-	-	-	-
	<u>743</u>	<u>613</u>	<u>683</u>	<u>1362</u>	<u>1523</u>
	===	===	===	===	===
Annual Cost Saving	780	910	840	161	N/A
Pay back (years)	3.8	6.1	3.5	N/A	N/A
	==	==	==	===	===

This confirms that Option 3, being the relocation of the Board's Corporate HQ together with all remaining staff at Dalian House to Henderson House and West House, has the shortest pay back period and generates an annual cost saving, in terms of basic occupancy costs of £840k per annum. This excludes potential additional cost savings related to the provision of other site services including catering, cleaning, maintenance, facilities etc and also heat/light/power costs. It is reasonable to assume that the combined cost of these services at Gartnavel Royal will not exceed current expenditure levels.

A discounted cash flow has been prepared, using the above figures. This also confirms that the option offering the best value for money is option 3:

	NPV
	£'M
Option 1	9.6
Option 2	10.2
Option 3	8.9
Option 4	15.7

Note: In vacating Dalian House the Board will incur dilapidation costs as part of the normal process of concluding its current rental agreement. Dilapidation costs have been assessed at a level which is equivalent to the one off refurbishment costs which the Board would expect to incur in the event it extended the present lease of Dalian House, and so has no impact on the financial comparison of the different options set out above.

5. **Review of Non-Financial Benefits**

Section 4 confirms that option 3 represents the most financially attractive of the 4 options considered regarding the future reprovision of accommodation currently located at Dalian House and Tara House.

Section 5 reviews the non-financial benefits associated with option 3, considering these in the context of the key criteria which were established for identifying a suitable future Board HQ accommodation solution.

(i) The facility located within Henderson House offers a unique opportunity, not readily available within any other area of the current NHS GG&C estate, to create a dedicated conference suite, including full boardroom facility, for the use of the Board. This, together with the capacity available within the remainder of the Henderson House and West House, is capable of providing all meeting room facilities necessary to the effective functioning of a Board Corporate HQ and those functions which would relocate to Gartnavel Royal.

(ii) The accommodation which is located within Henderson House/West House allows collocation on a single site of all HQ Directors and their support staff, thereby maximising the opportunity for effective functional interrelationships.

(iii) Gartnavel is situated close to the motorway network at the North end of the Clyde Tunnel, and has good road access to Glasgow city centre.

There is good public transport access to the site, with three railway stations nearby including one, Hyndland Station, which has direct access to the site. There is a number of main bus routes which operate along Great Western Road and Crow Road.

(iv) Henderson House/West House offers the potential of being a long term accommodation solution for the Board HQ function and associated functions, without the requirement for future significant capital investment, obviating the need for further move(s) beyond the short term period (i.e. 6-7 years). It also provides the Board with the opportunity through developing remaining accommodation within West House over a period of years to establish a central hub with the potential for releasing further central overhead costs in future years for reinvestment in front line services.

6. **Preferred Option**

For the reasons given within sections 4 and 5 above, option 3 represents the Board's preferred option.

7. **Implementation Plan**

(1) **Preliminary Works**

- A draft accommodation plan has already been prepared and is currently being reviewed with Heads of Service and their designated leads.
- A project team has been established and is addressing key tasks including detailed project planning of:
 - capital works programme, including telecomms and IMT
 - configuration of workspace(s)
 - functional adjacencies
 - document storage/destruction arrangements
 - library relocation
 - car parking arrangements
 - staff communication
 - removal plan(s)

(2) **Timescales**

Subject to securing project approval, capital works will commence in January 2010 and will be completed in phases, allowing progressive relocation of staff currently based at Dalian House during the period July – September 2010.

(3) **Risk Management**

The Board's Property Manager has entered into discussions with the landlord of Dalian House to obtain terms for extending the current lease for a short term period not exceeding 6 months, to cover the intervening period between June 2010 and the planned relocation date of September 2010 and provide some contingency for any further possible unforeseen delay.

8. **Conclusion and Recommendation**

Board members are asked to consider the proposal contained within this paper and approve the preferred option to relocate the Board HQ facility and all remaining staff at Dalian House to Henderson House/West House on the Gartnavel Royal site.

Key Criteria

The following are regarded as key criteria for identifying a suitable future board HQ accommodation solution. This should:

- 1) Provide meeting room facilities necessary to the effective functioning of the Board of Directors and its sub-committees. This would include a room capable of being used for Board Meetings of up to 50 people seated, together with supplementary space for public and press in attendance. It is envisaged that this room would be sufficiently flexible to allow for partitioning and use for sub-committee meetings when not in use as a Boardroom. In addition, this accommodation would be used to hold meetings of Area Wide fora such as the Area Partnership Forum.
- 2) Provide accommodation and meeting rooms necessary to the effective functioning of a Corporate HQ function. This should comprise those Directors designated as having responsibility for Corporate functions together with their direct support staff. The scale of this function would clearly require to be determined however it is anticipated that an overall figure would ultimately sit somewhere between 60 and 100 staff. Based on a staffing complement of between 60-100, it is estimated that there could be a requirement for 2 further meeting rooms, each capable of holding meetings of up to 15 persons.
- 3) Be readily accessible to road, and public transport networks. The present GGC Health Board HQ is located within close proximity to Glasgow City Centre and is readily accessible to both road and public transport networks. Proximity to Glasgow City Centre however, may not be essential to ensuring ready access to the road and public transport networks, and so it is proposed to cast the net wider than Glasgow City Centre in seeking to identify a potentially acceptable HQ accommodation solution, in particular one which may prove to be more economically attractive to the Board.
- 4) As a minimum, be affordable within the context of existing accommodation budgets for at least 6 years, while offering the potential for a significant annual cost saving on current accommodation budgets during this period due to a reduction in corporate overhead costs. In this regard, it is proposed to set a minimum cost savings target of £400k per annum, after taking into account the cost of reprovided office accommodation for those staff who do not relocate to the future HQ accommodation solution. This would yield £2m of revenue cost savings over a 5 year period.
- 5) Be the best value option open to the Board, following a detailed appraisal of alternative accommodation options available to the Board, including available NHS accommodation and Local Authority accommodation.