

Agenda Item No 7(g)

DERBYSHIRE COUNTY COUNCIL

CABINET

20 September 2018

Report of the Director of Finance & ICT

**LOANS TO SUPPORT CAPITAL EXPENDITURE AT THE ROYAL DERBY
HOSPITAL**

(STRATEGIC LEADERSHIP, CULTURE AND TOURISM)

1 Purpose of the Report

To agree in principle three medium-term loans to D-Hive Ltd, a fully owned subsidiary of the University Hospitals of Derby and Burton NHS Foundation Trust (the “**Trust**”), to support capital expenditure at the Royal Derby Hospital.

2 Information and Analysis

The Council aims to strike an appropriate balance of security, liquidity and yield over the Council’s investment portfolio as a whole. This policy of diversifying investments across approved asset categories has generated additional income for the Council, which helps to protect frontline services.

The Council and the Trust are critical partners in providing health and social care in Southern Derbyshire. The financial health and well-being of both parties is becoming increasingly vital to fulfill the common shared outcomes developed in this relationship. D Hive Ltd was incorporated in July 2016 and is a wholly owned commercial subsidiary of the Trust.

The proposed three loans are as follows:

Loan 1 - for £1.8m over 10 years, for a staff car park at Manor Road, Derby. There is a shortage of on-site staff car parking and the provision of this additional off-site parking will provide greater capacity, which will be used 24 hours a day, 365 days a year, due to the shift patterns of the staff employed. It will also potentially free up on-site space for additional visitor parking. Trust staff pay for vehicle parking via a Salary Sacrifice arrangement and there is currently a significant waiting list for spaces.

Loan 2 - for £9.8m over 10 years, for a visitor multi-storey car park in Derby. Visitor parking is currently a significant issue for the hospital and the cause of constant complaints. This additional multi-storey parking facility will create three additional upper decks, as well as the ground floor, creating approximately 1,000

additional spaces. This will help to alleviate lack of capacity issues currently being experienced during peak visiting periods.

Loan 3 - for £2.4m over 10 years, for an additional operating theatre in Derby. The additional operating theatre would enable the Trust to separate its surgical area into private and public sections. This has significant logistical benefits for the Trust and will assist with efficiencies and cost savings. The extra capacity will enable the Trust to generate additional income, which can be reinvested into providing better front line services for the public of Southern Derbyshire.

All three loans produce positive cash-flows, with a payback period well within the duration of the loan facility.

Detailed financial Business Cases, which have the approval of the Trust's board, will be sought prior to commencing the loans.

All loans are to be charged at a variable interest rate of Bank of England Base Rate ("Base") + 2.25% (currently 3%).

The Treasury Management Strategy approved by Council in February 2018 requires that loans to other non-corporate bodies require individual Cabinet approval.

Rewards

Yield - The Council would achieve a yield of £4.2 million (£0.420m per annum) on its £14m total investment. This return of 3.00% is double the current rate of return on the investments of the Council of 1.48%. The yield is also in excess of the current CPI rate of inflation of 2.50%.

Interest Rate Risk – this is eliminated by the variable interest rate of Base + 2.25%. This means that the yield received will probably increase over the term of the loans.

The increased parking provision would be very popular with the public of Southern Derbyshire and the staff employed at the hospital. The Trust would be seen to be listening to public and staff concerns, and the Council would be helping a critical partner, by providing a loan to the Trust at an interest rate lower than that available from the Department of Health. The interest saved by the Trust can be utilised for patient care rather than payment of debt charges.

Risks

Security – The facility will be only partially secured (Loan 1 - Manor Rd car park), so there is always a slight risk of default. To mitigate this risk, a contract will be entered into with the D-Hive Ltd to cover, amongst other obligations, the ability

for the Council to receive income streams from the projects covered by the loans.

Liquidity – 10 years is a medium term commitment. There are always potential political risks from a change in Government policy. It is not certain how the NHS or the Council will be funded in 10 years from now.

Affordability – The individual projects covered by the loans are all self-financing schemes. The Trust's 2016-17 Audited Accounts show annual budget of £510 million. The Trust's long term borrowings of £361m include £289million Private Financing Initiative for the hospital site and £72m of borrowing from other health related bodies.

The loans will be payable to a wholly owned subsidiary of the Trust, D-Hive Ltd. It is highly unlikely that the Trust would allow its subsidiary to default on a loan from a critical partner. The income streams generated from the loans will continue whenever the hospital is in operation. It is highly unlikely that Government would not provide support to enable the Trust to remain a going concern in the event of any financial stress. On balance, the rewards, both financial and non-financial, have been assessed by the Council as outweighing the associated risks.

3 Financial Considerations

As set out above.

4 Legal Considerations

The Council is permitted to make such loan payments under the "General Power of Competence" set out in the Localism Act 2011. A binding legal contract shall be used to set out the terms and conditions for which the loan payments are to be made by the Council and how repayments are to be made by D-Hive Ltd. In the event of default by D-Hive Ltd, the contract will also permit the Council to recover its loan payments from income streams that D-Hive Ltd will receive from the projects covered by the loans.

5 Other Considerations

In preparing this report the relevance of the following factors has been considered: prevention of crime and disorder, equality and diversity, human resources, environmental, health, property, transport and social value considerations.

6 Background Papers

Papers held in Technical Section, Finance & ICT Division, Room 137.

7 Key Decision

No

8 Is it necessary to waive the call-in period?

No

9 Officer's Recommendation

That Cabinet agrees in principle three medium-term loans over 10 years to D-Hive Ltd, a fully owned subsidiary of the University Hospitals of Derby and Burton NHS Foundation Trust, as follows:

- i) £1.8m loan for a staff car park on Manor Road;
- ii) £9.8m loan for a multi-storey visitor car park; and
- ii) £2.4m loan for an additional operating theatre.

That Cabinet is in receipt of further reports once details of the three loans have been finalised.

PETER HANDFORD
Director of Finance & ICT