

Sheffield Lease

Agenda Item: 12
Reference: 12B.010



Board Meeting: 30 January 2012

Summary	<p>NHS Direct presently occupies 612m² on part of the ground floor at Distington House, Sheffield, under the terms of a MOTO agreement from Yorkshire Ambulance Service (YAS). The head-lease ends December 2012 and the our existing security of tenure ends on 30th June 2012 due to a break in the head-lease held by YAS.</p> <p>Following negotiations it is proposed to take a new lease direct from the landlord over almost all (580m²) of the existing NHSD space, at 50% of the current rent, with a break option July 2013 subject to 6 months notice (i.e. January 2013) .</p> <p>This protects the existing operation, avoids the cost and disruption of change, and keeps open the option to review this again later in 2012 once the 111 procurement outcomes are clear.</p>
Issues to be considered	<p>The existing security of tenure at Sheffield ends on 30th June 2012, due to a break in the head-lease held by YAS.</p> <p>At this point we must either commit to a new lease (heads of terms have been agreed) direct with the landlord, or take steps to close the site by 30th June.</p> <p>The new lease reduces rent by £50kpa and contains a break clause that would enable closure of the site in 2013, if appropriate, in line with estates consolidation strategy.</p>
Action required	<p>Recommendation to the Board to approve a new 5-year lease for existing premises at Sheffield, with a tenant only break clause operable in July 2013, subject only to 6 months notice and without penalty other than dilapidations, as per the agreed Heads of Terms.</p>
Accountable Executive Director	<p>Roger Rawlinson, HR & Transition Director</p>
Author of Paper	<p>Ian Campbell, Head of Estates & Facilities</p>
Date prepared	<p>13th January 2012</p>

Introduction

NHSD presently occupies 612m² on part of the ground floor at Distington House, Sheffield under the terms of a MOTO agreement from Yorkshire Ambulance Service (YAS). The head-lease held by YAS covers both the NHSD demise on ground floor and the whole of the first floor. The site has never been operated by YAS, but their name is on the lease, because the original NHS tenant was NHS Professionals (NHSP) and when the lease began NHSP were not able to act as head leaseholder.

NHSD have occupied this site since relocating in September 2007. At that time occupation was through a MOTO agreement with NHSP who acted as the head leaseholder, although the head-lease was actually in the name of YAS. Initially NHSP occupied the whole of the first floor, but in April 2010 NHSP were abolished, the first floor became vacant, and YAS took direct control of the head-lease. Consequently a MOTO agreement was established directly between NHSD and YAS to facilitate ongoing occupation of the NHSD ground floor demise.

The MOTO between NHSP and NHSD was silent on the matter of responsibility for strip-out and dilapidation claims, though usually in these circumstances costs are shared reasonably between the relevant NHS bodies. The current MOTO between YAS and NHSD is also silent on this matter.

Current Situation

Under the terms of the current MOTO NHSD occupy the ground floor space only until 30th June 2012. YAS have served a break clause in the head-lease that will operate on 3rd December 2012, ending their tenancy. The period from 30th June to 3rd December would be used to strip out the fit-out and complete dilapidations work.

This would effectively mean closing Sheffield site on 30th June 2012 with 74 people based there, almost entirely in front line roles.

The planned 111 procurement timetable for Yorkshire aims to have contracts signed on 31st July 2012 with mobilisation in April 2013.

Proposed Deal

From this situation a property deal has emerged:

1. Heads of Terms have been agreed for YAS to surrender their lease early in January 2012. This involves YAS paying the landlord a premium to cover most of the cost of rent, rates and service charge for the unexpired lease term until December 2012, with an additional allowance for first floor dilapidations
2. Conditional on point 1, and subject to NHSD Board approval, Heads of Terms have also been agreed for NHSD to take a new lease of a slightly reduced ground floor demise from January 2012, with a passing rent at £7psf compared with existing rent of £14psf, and a tenant's break clause operable in July 2013, subject only to 6 months notice without penalty.

This deal brings benefits to all parties:

- Landlord. They receive a premium from YAS that gives most of the income that would be received if the lease ran to the break date, with the balance of income from the new NHSD lease and retention of NHSD as a tenant beyond the current lease break date
- YAS. They crystallise their dilapidations liabilities and remove from their books a surplus leasehold property in which they have no operational interest. The premium is slightly less than their net liabilities to the break date (rent, rates and service charge –income from NHSD)
- NHSD. The Trust avoids the cost and disruption of closure or relocation. It benefits immediately from substantially lower rent (saving £50k pa) and retains the flexibility to terminate the lease without penalty, except for dilapidations liability, in July 2013, subject only to 6 months notice (I.e. January 2013). This fits well with NHSD estates consolidation planning.

Alternative Sites Considered

The NHSD demise will be reduced to 580m² by removal of the additional training room at landlord's expense. The total area is larger than ideal for the operation at Sheffield, so other options were considered.

These included:

1. 370m² on the 2nd floor of Distington House.
2. Various floors in Don Valley House, Sheffield, typically 450m²

Don Valley House is occupied mainly by NHS occupiers including the SHA and CPC. Rents are marginally lower than Distington House (£5psf is possible) but the quality, functionality and amenity of Don Valley House reflects this. The landlord has some empty floors that were viewed.

There is no surplus leasehold space available in Sheffield where the NHS is the leaseholder.

Conclusion

Due to the uncertainty of the NHSD property requirements beyond 2013, the dilapidation and fit-out cost and disruption incurred in relocating, and the substantially reduced rent secured for the new lease it is advantageous to remain in the ground floor at Distington House and review the situation again later in 2012 when NHSD estate requirements beyond 2013 should be clearer.

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