The Leeds Teaching Hospitals NHS Trust

Single Site Valuation

Trust Board
25th January 2024

Presented for:	Decision
Presented by:	Simon Worthington, Director of Finance
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Previous Committees:	Audit Committee Dec 2023

Our Annual Commitments for 2023/24 are:	
Effectively develop and deploy new assets (buildings, equipment, IT)	✓
Reduce healthcare associated infections	
Improve staff retention	
Deliver the financial plan	
Reduce average length of stay by 0.5 days per patient	
Achieve the Access Targets for Patients	
Support a culture of research	

Risk Appetite Framework

Level 1 Risk	**(✓)**	**Level 2 Risks**	**(Risk Appetite Scale)**	**Risk**
Workforce Risk		Choose an item.	Choose an item	Choose an item.
Operational Risk		Choose an item.	Choose an item	Choose an item.
Clinical Risk		Choose an item.	Choose an item	Choose an item.
Financial Risk		Financial Reporting Risk - We will deliver sound financial management and reporting for the Trust with no material misstatements or variances to forecast.	Minimal	↔ (same)
External Risk		Choose an item.	Choose an item	Choose an item.

Key points	
1. This paper advises Board members of the assessment criteria and evidence to support the Single Site Valuation methodology for the Trusts annual valuation in line with accounting standard IFRS 13.	For decision / re-affirmation

1. Summary

The purpose of this paper is to provide a summary of the assessment criteria and the associated evidence regarding our Single Site Valuation methodology to support the Trust Board in re-affirming a decision it took in March 2018 to adopt St. James's as the single site for estate valuation purposes. The Single Site Valuation methodology was reviewed in detail by both the Audit Committee and the Trust Board in March 2023 as part of the year end process for 2022/23, where it was agreed the methodology continued to be the appropriate valuation methodology for the Trust. This paper was taken to the Audit Committee on 13th December 2023 and was supported.

2. Background

The Trust Board decided in March 2018 that our valuation, which is based on the cost of a modern equivalent replacement, would also be based on the assumption of a single site, i.e. St James's. Single site valuation assumes that all current services would be re-provided from an entirely new facility built to the latest healthcare design standards and benefitting from synergistic floor area and land savings. As work continues to progress for BtLW and as part of our annual review of this decision, it is appropriate to reflect on whether the decision to use the St James's site for asset valuation purposes remains valid.

Mazars are required by auditing standards and National Audit Office guidance to challenge the assumptions underpinning significant estimates and judgements which impact the financial position to be reflected in the accounts. In previous years Mazars have raised a few queries and have been comfortable with the responses provided. As we approach the 2023/24 audit they would like confirmation the board has considered management's belief that it is right to retain St James's as our single site for the time being.

It is worth noting there are likely to be some changes to the annual valuation requirements in 2024/25. DHSC are in discussions with HM Treasury regarding whether annual valuations are necessary given the expense and resource required to carry out this theoretical exercise. The Trust provided feedback via the Consultation process but no official guidance has yet been issued. The changes will not affect the current financial year (2023/24).

3. Summary of Guidance and Assessment Evidence

The DHSC Group Accounting Manual (GAM) sets out the following guidance when approaching annual valuations in line with IFRS 13.

DHSC GAM Guidance	Trust Assessment / Evidence
For specialised assets, current value in existing use must be interpreted as the present value of the asset's remaining service potential, which can be assumed to be at least equal to the cost of replacing that service potential. The methodology used will be depreciated replacement cost on a modern equivalent asset basis. (Chapter 4, Annex 4 Para 4.174)	The Trust's estate is specialised, held for providing healthcare services and remains in use.
Is the asset a specialised asset (i.e. those for which no active market exists)?	There is no active market for purchasing existing hospitals.

Is the asset currently in use?	The hospital is currently providing healthcare services.
The asset should be valued on a depreciated replacement cost on a modern equivalent basis.	Cushman and Wakefield value the estate on a depreciated replacement cost basis assuming the replacement would be built to modern equivalent standards.
The modern replacement asset should have the same productive capacity as the property being valued. (Chapter 4, Annex 4, Para 4.423)	The SJUH site has the identified space to rebuild a hospital which can provide the current productive capacity in it's entirety.
Where the practical requirements of healthcare delivery, for example, require that a hospital is located on the same geographical site it now occupies, the valuation must be based on that site and not an alternative. (Chapter 4, Annex 4, Para 4.437)	Healthcare services are required to be delivered from within the City of Leeds. Therefore we have deemed our existing site as appropriate for valuation purposes rather than considering new and alternative sites.
There is no guidance specifying the Trust must rebuild a like for like replacement and the Trust is therefore able to assume long term aspirations can be met as part of the theoretical replacement valuation.	The Trust has a long term aspiration to consolidate all services on to a single site, as evidenced in a business case which was put together a number of years ago, to consolidate all services on the SJUH site. Funding was not available at this time, however this remains a long term aspiration for the Trust.

For information, the Trust's assumptions around short, medium and long term timescales are set out below. The Group Accounting Manual (GAM) does not specify any specific timescales around this and we are compliant with the GAM guidance and the below assumptions are based on our judgement in the context of annual valuations.

- Short term 0 - 15 years
- Medium term 15 - 25 years
- Long term 25 years +

In addition to the guidance set out by the DHSC Group Accounting Manual, the Trust has considered the following considerations as part of determining the single site valuation methodology:

The Trust is pursuing a major building project on the LGI site	The replacement of buildings at the LGI is a major upgrade to dilapidated estate which is no longer fit for purpose. This does not change the Trusts long term aspirations to centralise all services to a single site should the funding become available. This underpins our single site valuation assumption. External auditors have accepted the two issues of practical short to medium term

	replacement and long term vision are entirely separate. The GAM makes no reference to any development on one trust site precluding another from being the practical choice for single site valuation purposes.
Is SJUH the appropriate site to be assumed as our proposed single site?	SJUH is the only practical site within our existing estate which can accommodate delivery of all the Trust's healthcare service obligations. SJUH is accessible to both the local and regional population we serve. The Pathology Service redevelopment and consolidation is clear recognition that SJUH remains a practical location for delivery of health services and is a step towards consolidation. Bexley Wing, as a major PFI provided facility which is mid contract would have to be specifically re-provided in any change from SJUH to an alternative site for valuation purposes. This would inevitably push the estate value and capital charges up.
Is there any management bias in retaining SJUH as a single site for valuation to reduce capital charges?	There is no bias but there is an absolute obligation for management to demonstrate that it is doing everything possible, within the bounds of the financial regime in which it must operate, to deliver against our control total. We are comfortable we have sought a valuation which is in line with the DHSC GAM and the valuation rules and that is not artificially or unnecessarily high.

4. Financial Implications

Valuing the estate on a single site basis will minimise any financial implications for the trust. The 2023/24 valuation will be carried out as a desktop valuation by Cushman and Wakefield, which means they will not visit the site and will value the estate by applying indices to the previously year's rebuild costs. Any financial impact will not be known until this exercise is carried out and will then be evident in the year end accounts.

5. Risk

Valuing the estate on a single site basis is consistent with previous years and therefore does not change the risk position for the annual revaluation exercise.

6. Communication and Involvement

This paper is being reported to the Trust Board and will support informing the accounting policies for the year end accounts.

7. Equality Analysis

We do not believe there to be an impact on staff, communities or populations groups as a result of this decision.

8. Publication Under Freedom of Information Act

- This paper is exempt from publication under Section 22 of the Freedom of Information Act 2000, as it contains information which is in draft format and may not reflect the organisation’s final decision.

9. Recommendation

It is recommended that the Audit Committee support the decision made in 2018 to continue with a single site basis for estate valuation and to retain St James’s as the single site for that purpose.

Marie Dearman
Assistant Director of Finance
13th December 2023