

## **Chapter 44**

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### **Development of Primary Care Centres**



## Development of Primary Care Centres

44.1 As outlined in Chapter 43, it is planned that area-based Primary Care Teams (PCTs) will be established across the country. A key HSE objective for PCTs is that the full team – general practitioner (GP) practices and HSE primary care and support staff – be co-located or in reasonably close proximity. The main perceived benefits of co-location are that it

- provides easier access for patients and carers to the range of services they require
- facilitates team consultation and communication, thus ensuring more holistic and efficient treatment
- has the potential to deliver savings and increased efficiency.

44.2 When the concept of development of PCTs was formally proposed in 2001, it was envisaged that the capital costs of accommodating teams would be in the range €1 billion to €1.5 billion (in 2001 prices) – around €2.5 million for each team. This was a broad projection of costs, in the context of a plan to provide accommodation for 400 to 600 PCTs by 2011, serving two thirds of the population of the State. Use of public private partnership (PPP) was flagged as one of the options for providing the required accommodation.

44.3 There was little progress in the development of centres to accommodate PCTs by 2007. Proposals for a programme to develop a network of primary care centres were included in the National Development Plan (NDP) 2007-2013. This indicated that capital funding for the primary care centres would be provided according to local circumstances and service needs and a range of approaches to the provision of the required new infrastructure would be taken. The options included

- 100% State-funded facilities
- joint projects with other interests involving a lesser degree of State contribution
- the HSE becoming a tenant in a third-party owned facility with no requirement for State capital investment.

44.4 In December 2007, the HSE advertised for expressions of interest by private developers for the provision of primary care centre accommodation in 131 locations on a lease basis. Ten pilot locations<sup>349</sup> were initially selected for development of primary care centres under lease arrangements. In July 2008, the HSE published another advertisement seeking expressions of interest for further locations, bringing the total of advertised target locations to 259.<sup>350</sup> The HSE has indicated that traditional procurement means may be used in certain circumstances – for example, for small rural centres – but its preferred means of procurement of primary care centre accommodation is through leasing.

<sup>349</sup> The selected pilot locations were: Letterkenny, Trim, Kinsale, Kilkenny, Newtownmountkennedy, Portllington, Adamstown, Roscommon town, Ballina and Galway city East.

<sup>350</sup> Some locations appeared on both the 2007 and 2008 lists, because the first invitation did not result in suitable proposals being submitted.

44.5 The HSE currently distinguishes between a core PCT and an extended PCT. These are comprised as follows

- core teams include GPs, public health nurses, registered general nurses, physiotherapists, occupational therapists and home helps
- extended teams include additional practitioners as required to meet the needs of the target population, and could include members such as a chiroprapist and a community pharmacist, as well as specialists such as dieticians, dentists and orthodontists.<sup>351</sup> Community mental health services are being included in extended teams in certain centres.

44.6 PCTs have reported that, in many cases, community health needs assessments were not carried out in advance to identify locations where extended PCT teams were needed.

## Chapter Focus

This chapter examines

- the progress made to date in accommodating PCTs
- how the options for provision of accommodation were evaluated by the HSE
- the administration of the preferred option, which was leasing of accommodation.

## Accommodating Primary Care Teams

44.7 Achieving the aims of the primary care centre development programme would involve accommodating primary care service delivery in a way that facilitated patient access and efficient team-based delivery.

44.8 The primary care centre programme was developed in a context where the existing arrangements for accommodation of primary care services were varied.

- In general, GP practices provided their own accommodation in premises they selected. The GPs were responsible for payment of all the costs of that accommodation.
- In a small number of cases, GP practices occupied accommodation provided by the HSE, mostly without a formal contract being in place between the HSE and the practices concerned.
- HSE staff involved in the delivery of primary care services and supports in specific geographic areas were located in premises, either owned by the HSE or occupied under a variety of lease agreements.

44.9 By end 2010, a total of 24 primary care centres were operational (see Figure 175). A further 33 centres were in the course of construction. The HSE expects 20 of these to be completed and operational by end 2011 i.e. a total of 44 centres.

<sup>351</sup> Specialist practitioners could serve a number of PCTs in an area, including PCTs at separate locations.

**Figure 175 Development of Primary Care Centres at end December 2010**

Status of primary care centre	Developed by HSE	Developed under lease	Total
Operational	10 <sup>a</sup>	14 <sup>b</sup>	24
Under construction/agreement to lease	3	30	33
Being planned/letter of intent issued	—	83	83
<b>Total active projects</b>	<b>13</b>	<b>127</b>	<b>140</b>
Negotiations commenced	—	88	88

Source: HSE Estates

Notes: a Three centres were purpose built. The others were existing HSE facilities that required limited adaptation for use as primary care centres.

b Includes three properties leased prior to the current leasing programme.

44.10 The NDP 2007-2013 envisaged investment in accommodation for 500 PCTs by the end of 2011. By the end of 2010, a total of 29 PCTs had been accommodated in the 24 operational primary care centres. The HSE currently expects that a total of 59 PCTs will be operating from 44 primary care centres by the end of 2011. If all active projects are completed as planned, there will be 140 centres accommodating around 200 PCTs.

44.11 The lead times for delivery of four centres being leased were examined. All four projects received HSE Board approval in September 2008 or in the first quarter of 2009. Two had opened by end 2010. A third centre was due for occupation by July 2011. In the fourth case, the project reached 'agreement for lease' stage in October 2010, with an agreed target opening date at end 2011. The agreement provided for a planning application to be submitted in November 2010, and for additional design documents to be provided in December 2010, but both deadlines were missed. The HSE has stated that construction work is now underway and that it expects the premises will open by end 2011.

44.12 The HSE has stated that the expected elapsed time from signing of the agreement for lease to completion of a centre (and lease term commencement) was around 30 months. This allowed for planning (12 months), procurement (about three months), construction (12 months) and a time contingency of three months. In practice, ongoing constraints around the availability of funding for developers have typically added a further six to nine months to the elapsed time to completion i.e. 36 to 39 months from signing of the agreement to lease. This is in addition to the time required to negotiate the deal, prior to signing.

### ***Progress in Co-Location of Services***

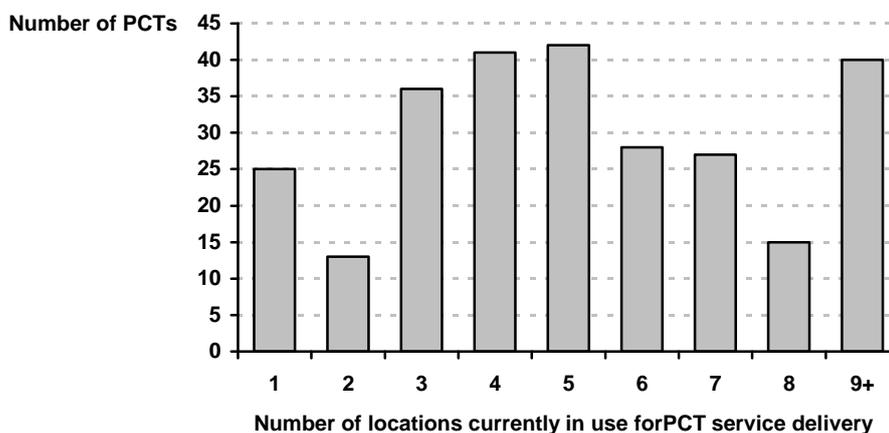
44.13 Co-location of PCT services has been a key objective of the HSE's since the inception of the PCT strategy, in line with international best practice for primary care delivery<sup>352</sup>.

44.14 In practice, PCTs are being formed in advance of single-location centres being provided. While developments in information and communications technology (ICT) have provided opportunities for better integration and exchange of information between team members at separate locations, the location of services remains a key factor in the access by patients to services and in facilitating team-based delivery.

<sup>352</sup> However, the HSE has stated that a patient registered with a GP practice in one PCT may receive certain services (e.g. home help) from another PCT, where service delivery is based on the patient's place of residence.

44.15 Figure 176 shows the number of PCTs that report operating out of multiple locations at end 2010. Only 25 (9%) said they were currently providing services from a single location. 193 PCTs (72%) reported they were working from more than three locations currently.

**Figure 176 Number of Locations used by PCTs for Delivery of Primary Care Services, end 2010**



Source: Survey by Office of the Comptroller and Auditor General (267 responses)

### Conclusion – PCT Accommodation

The development of primary care centres and the co-location of PCT staff is lagging well behind schedule.

While it is accepted that there can be situations where a PCT will operate from a number of locations – for example, where the target population is widely dispersed over a large geographic area – the very large number of locations currently in use for delivery of primary care means that the planned centralisation of PCT services in the communities they serve has substantially not yet been achieved.

### Appraisal of Accommodation Provision Options

44.16 Department of Finance guidelines require comprehensive economic analysis to be carried out in advance of commitments being made on major capital projects or programmes. This analysis should assess the policy options in a balanced way, including an evaluation of whether the proposed investment is socially and/or economically worthwhile and if so, what is the most economically advantageous way of carrying it out.

44.17 The HSE Estates Unit carried out an appraisal of the options for development of primary care centres, which was completed in August 2008. The report on the appraisal was submitted for consideration by the HSE Board in September 2008, along with proposals for approval of lease offers in 38 locations.

## **Options Considered**

44.18 The appraisal report outlined five options for delivery of accommodation for a single PCT. These were

- do nothing or do the minimum – under this option, services would continue to be provided in the existing facilities (option 1)
- replace existing HSE health centre accommodation – accommodating only HSE services and staff, with GPs continuing to provide their own accommodation elsewhere (option 2)
- construct a new primary care centre, including provision of accommodation for the GP practice, rent free (option 3)
- construct a new primary care centre, including provision of accommodation for the GP practice at full market rent rates (option 4)
- leasing of the space required by the HSE in a privately developed primary care centre (option 5).

44.19 The appraisal sought to simultaneously weigh up a number of procurement and operational elements. These included

- the cost effectiveness of alternative methods of procuring a (centralised) primary care centre
- the benefits of centralising PCT-based primary care for a community into a single centre, compared to continuing with a dispersed delivery model
- whether or not to charge GPs for their practices' accommodation in HSE-owned centres.

44.20 This combination of operational and policy issues made it difficult to separate out the implications of the accommodation procurement options for expected benefits and for HSE costs. Despite the range of issues covered, the options analysed in the evaluation report did not capture some key procurement and service configurations that have emerged in practice.

- The option of combining a number of primary care centres into bundles for procurement – whether by direct HSE procurement, through a lease or a PPP – was not considered in the appraisal. The HSE has stated that this was discussed but was not considered a feasible option due to the complexities of dealing with different groups of GPs in different locations.
- The relative costs and benefits of co-locating a number of PCTs in single primary care centres were not assessed, even though it was expected that some centres would accommodate two or three PCTs.
- There was no assessment in the appraisal report of the likely impacts on cost or benefits of different service configurations — core versus extended teams, or different combinations of services e.g. whether or not to incorporate mental health services.

## **Appraisal Methodology**

44.21 The procurement options identified in the appraisal were scored based on an assessment of the relative benefits they were expected to deliver under six headings: clinical effectiveness, clinical efficiency, quality of facilities, patient accessibility, information management and technology, and speed of delivery of infrastructure. Under each heading, options were assessed broadly as to the expected level of benefits they would deliver<sup>353</sup>.

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<sup>353</sup> Integer scores on a scale of 0 to 6 reflected assessments of benefit achievement as follows: none, some, less than half, half, all with some risk of failure, all with no risk of failure.

44.22 The appraisal report presented the projected costs of each of the options using a 25-year discounted cashflow model. For options where new accommodation was to be provided, the costing model assumed that HSE staff and services would require 990 m<sup>2</sup> of space and that the related GP practice would require 505 m<sup>2</sup>. This implied a total primary care centre size of 1,495 m<sup>2</sup>.

### **Outcome of the Appraisal**

44.23 The appraisal report concluded that, in terms of the potential health and service benefits, the optimum strategy for delivery of PCT accommodation would be for the HSE to build all primary care centres across the country, and to provide free accommodation to GPs. However, the cost of this strategy was identified in the report as being over €1 billion more than a strategy of leasing the primary care centre space the HSE required from the private sector – identified in the report as GPs and/or developers. Because the private sector/leasing approach was assessed as delivering almost the same benefits as the HSE-build option but at lower cost, it was recommended for adoption by the HSE Board.

### **Review of the Appraisal**

44.24 The assessment of the benefits did not quantify the expected impacts of the various accommodation options on the operation of the PCT and on the service users. For example, impacts on patient travel time, numbers treated, patient waiting times or medical outcomes were not quantified.

44.25 The cashflow analysis was presented without building in inflation. This was not consistent with the discount rate used<sup>354</sup>. As a result, it favoured the lease option over other options where most of the costs would be front-loaded.

44.26 It was assumed that the operating costs of the PCT would be the same for all the identified options, and consequently, they were not factored into the analysis. In practice, the nature and timing of costs borne by the HSE in respect of the PCTs' operations are likely to be different depending on the way accommodation is provided. As a result, it is not clear that the cost analysis properly differentiated between the procurement options.

44.27 The costing model also assumed that, under option 5, leased premises would be available to the HSE at a market rent of €258 per m<sup>2</sup> but with a discount of 18% i.e. €212 per m<sup>2</sup>.<sup>355</sup> It was assumed under option 1 that the HSE would pay rent at the rate of €258 per m<sup>2</sup>, and under option 4 that GP practices would pay rent to the HSE at the same rate.

44.28 It was assumed in the appraisal that the HSE's cost of construction of a primary care centre would be around €4,520 per m<sup>2</sup> (excluding VAT) but no details were given of the composition of that rate. The report stated that the rate was derived from information presented in tender proposals received by the HSE for construction of primary care centres or similar facilities procured directly. Based on this assumption, the total cost of construction of a one-PCT primary care centre would be €6.76 million.<sup>356</sup>

44.29 The HSE's appraisal included a test of the sensitivity of the projected costs of options to lower construction costs (€3,165 per m<sup>2</sup>) and to a lower discount rate. It concluded that the results of the analysis were robust, since there was '*little alteration to the ranking of the options*'. However, the cost differences between the options were much narrower, which means that the policy choices to be made were less clear cut, and the reversal of the option rankings that occurred in one scenario was not explored.

<sup>354</sup> The selected discount rate — 4.6% — was based on long-term German Government bond rates in mid-2008. At that time, the spread between the Irish and German bonds was around 0.4%.

<sup>355</sup> These rates were stated in the evaluation report to have been derived from the deals agreed in the pilot locations.

<sup>356</sup> Site costs were assumed to be €1 million, which brought the projected cost for the centre to a total of €7.76 million.

44.30 The HSE's analysis of the cost of the various options also assumed that HSE-built accommodation would have no residual value at the end of 25 years, on the basis that refurbishment of the primary care centre at around year 15 would not be carried out. Given the assumed high construction cost, this was unrealistic. The cost of refurbishment at year 10 was included in the projected cost of option 1.

44.31 Apart from the 2001 projection of a ten-year programme costing €1 billion to €1.5 billion (in 2001 prices), the HSE has not published any estimates of the overall costs of the primary care centre programme. Based on its assumed cost of construction of HSE-owned centres (€7.76 million), the full capital cost of a primary care centre network of 350 to 400 centres<sup>357</sup> would be in the region of €2.7 billion to €3.1 billion. The appraisal report did not scale up the costs of the delivery options to project the overall cost of the primary care centre programme, and no consideration was given in the appraisal report to the affordability of the programme, or the expected impact on HSE budgets.

### **Conclusion – Appraisal of Provision Options**

A detailed economic appraisal should have been carried out by the HSE before it launched its leasing programme. In the event, it was completed after leasing proposals had been invited from developers for 259 locations, but before letters of intent to take up lease offers were issued.

The HSE's evaluation of the options for procurement of primary care centres was deficient in a number of respects.

- The assessment of benefits did not quantify the expected impacts of the various accommodation options on service users or on the operation of PCTs.
- The assumptions used in projecting costs were not adequately substantiated.
- Some options for provision, such as procurement of centres as bundled PPP projects, were not explored.
- The scale of cost of the programme, and its likely affordability in the context of the HSE's overall budget, were not addressed in the evaluation.

Overall, these deficiencies would indicate that the appraisal carried out fell short of what would be required to guide decision-making in relation to a capital programme worth substantially in excess of €1 billion.

### **Leasing of Primary Care Centres**

44.32 The process developed by the HSE's Estates Unit for procuring a primary care centre through a leasing arrangement involved several stages. The key stages planned were

- public invitation of proposals for the provision of leased accommodation in specified locations (usually towns or specific suburbs of cities)
- evaluation of the proposals received in response to the invitation to submit expressions of interest to identify a preferred proposal (if any)
- the issue by the HSE of a letter of intent to the developer of the preferred proposal on indicative costs terms, allowing negotiation on and planning for a centre to proceed

<sup>357</sup> Because some centres accommodate more than one PCT, a total of around 350 to 400 centres could accommodate the national target of a network of 500 PCTs.

- signing of an agreement for lease, which commits the HSE to proceed with a proposal on agreed rental and service charge terms, subject to delivery according to agreed specification and stated conditions
- signing of lease, when the centre is ready to begin operation.

44.33 Under the leasing model, it was envisaged that the HSE would lease space for its own staff and services, and that the GP practices involved in the related PCTs would separately lease adjacent space for themselves. Accordingly, where a lease proposal was found to meet the HSE's criteria, the HSE required the relevant developer to secure signed declarations of interest from a minimum of three GPs registered with the General Medical Service (GMS) who were interested in co-locating with the centre. However, the declarations were not binding on the GPs or practices that signed them. Furthermore, the same GP or practice could provide declarations to a number of developers. A developer unable to provide signed GP declarations of interest was eliminated from the process.

44.34 Over 900 expressions of interest were received centrally by the Estates Unit in response to the two invitations of expressions of interest in December 2007 and July 2008. The proposals received were reviewed by the Unit to establish that certain specified criteria were met, including the suitability of the proposed location for the centre.

### **Rental Rates**

44.35 The HSE's 2008 guidelines for primary care centre leases outlined certain proposed commercial terms for the leases, which influence the likely rent to be paid. These included

- a lease term of 15 to 35 years, with an option to renew at the end of the lease – in practice, the standard lease term agreed is 25 years
- no break clause during the term of the lease (other than the HSE having an option to break the lease if GMS GP practices cease to be accommodated at the centre)
- rent levels at a significant discount to market rates
- rent reviews based on a link to the consumer price index (CPI) rather than market rents<sup>358</sup>
- a service charge payment to the developer, in addition to the rent, to cover routine maintenance, energy supply, cleaning, security (if necessary) and other identified services.

### **Market Benchmarking of Rents**

44.36 The Estates Unit commissioned an estate agency firm in 2008 to advise on the market rates for 'shell and core' office accommodation that prevailed in each of the locations where developers' proposals were being assessed. While internal fitting-out requirements for primary care centres would be somewhat different from those required for standard modern offices, the basic building type and related building services is similar.

44.37 The Estates Unit estimated that the additional cost of fitting out the shell and core accommodation to suit primary care centre needs would cost around €75 per m<sup>2</sup>. In addition to normal fitting out costs, this includes requirements such as additional partitioning for separate offices, treatment areas and public waiting areas, and installation of water/waste water in treatment areas. The allowance for fitting out was added to the market rate advised by the estate agents to arrive at HSE assessed benchmark rents.

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<sup>358</sup> In many of the target locations for primary care centres, there may be only a very limited market for commercial property and therefore little information about market rate upon which to base a rent review. A link to the CPI is a more certain basis for review.

44.38 The Unit submitted spending proposals in relation to lease offers for HSE Board approval on eight occasions between July 2008 and July 2010. The assessed benchmarks shown for each batch of proposals tended to be within relatively narrow bands, with some outliers in individual cases. As Figure 177 indicates, higher rates generally were assessed for Dublin locations when compared to provincial locations. The spread of assessed rents between the different location types represents a lower rate of variance than is typical of the property market.

44.39 The HSE's assessed benchmark rates declined from their peak by around 22% for Dublin locations and by around 32% for provincial locations.<sup>359</sup> Based on published benchmarks, market rental rates for shell and core office property declined by 25% to 33% over the period.<sup>360</sup>

**Figure 177 HSE Benchmarks for Primary Care Centre Rents, 2008 to 2010**

Date of submission to HSE Board	Number of locations assessed	HSE assessed benchmarks <sup>a</sup> (per m <sup>2</sup> )	
		Greater Dublin locations	Provincial locations
July 2008	4	None	€226 to €242
September 2008	38	€253 to €291	€253 to €258
January 2009	44	€258 to €269	€237 to €258
February 2009	41	€242	€242 – €255
March 2009	17	€237 to €269	€237
June 2009	13	€235	€221
November 2009	18	€215 to €258	€205 to €215
July 2010	28	€188 to €238	€161 to €188

Source: Estates Unit submissions to HSE Board

Note: a Some of the ranges shown exclude a small number of untypical/outlier values.

### *Rent Discounts*

44.40 Market rate analysis of property rentals distinguishes between 'headline' rates – in effect, the landlord/property owner's asking price and achieved (or effective) rent levels, which often involve discounts on the asking prices. The level of discount and the manner of its application may vary – frequently, it is given as a rent holiday at the start of the lease period, so as to preserve the nominal rent amount in the lease. The discounts that may be provided typically depend on factors such as local supply and demand, duration of lease and size of property.

44.41 Because achieved rent levels emerge from negotiations and are usually not published, they are more difficult to identify than headline rates. However, a reputable market analysis report stated that the level of inducement increasingly available for prime Dublin offices in mid-2008 was six months rent free at the start of a five-year lease – effectively a 10% discount up front<sup>361</sup>. Following significant weakening in market demand for office property by mid-2010, inducements in the prime Dublin market had reportedly increased to two months per year of the certain term of a lease – an effective discount of around 17%. Such incentives were reported also to be available in the Dublin suburban office market.

<sup>359</sup> Changes in rates are calculated using mid points of ranges.

<sup>360</sup> See for example, DTZ Sherry Fitzgerald periodic property market bulletins.

<sup>361</sup> Higher discount rates could be expected for longer leases.

44.42 The HSE's 2008 guidelines for development of primary care centres specified that developers' cost proposals must reflect a significant discount on local market rates for each location. Internally, a target minimum of 18% discount was specified. This was applied to the HSE's assessed benchmark rates reported above, to generate a ceiling for the rent level in each location, which was then approved by the HSE Board. In general, the rents agreed for individual leases were under the ceiling values set by the Board.

44.43 In January 2011, the HSE Board approved a proposal from the Estates Unit to reduce the discount level applied in setting the ceiling rent for individual locations from 18% to 5% 'in light of the current market conditions'. This represented an increase of around 16% in the level of rents the HSE was willing to pay for rent of centres, and reversed a significant part of the decline in benchmark rents, which had been tracking commercial rents in the market.

44.44 The HSE has stated that the reduction in the discount sought was necessary because the commercial rental market is at rock bottom and office shell and core accommodation can now be leased at well below cost. It considers the market is also skewed by a large stock of available office accommodation in business parks in locations which are of little value for primary care centres. It stated that most proposed primary care centres are new developments which can not be delivered for the market rate for office accommodation.

### *Rent and Service Charge Agreements*

44.45 Many of the lease deals currently in negotiation were approved by the HSE Board in 2008 or 2009, based on assessed rent levels at that time. For this reason, rent and service charge levels agreed may overcompensate developers for the costs of construction, which have fallen significantly since 2008. However, developers' costs of finance for projects may have increased.

44.46 The audit examined the rent agreements in four locations to establish how the lease rental costs compared to the benchmark market rates. The outturn is presented in Figure 178.

**Figure 178 Benchmark and Achieved Rent and Service Charges Rates, Selected Centres**

Primary care centre	Shell and core market rates <sup>a</sup> per m <sup>2</sup>	HSE assessed benchmark <sup>b</sup> per m <sup>2</sup>	Achieved rent		Service charge per m <sup>2</sup>
			per m <sup>2</sup>	implied discount <sup>c</sup>	
Ballyogan	€150 to €194	€269	€237	12%	€55
Carlow	€161 to €172	€242	€199	18%	€50
Gorey	€140 to €161	€253	€207	18%	€44
Mulhuddart	€172 to €215	€258	€207	20%	€54

Notes: a Assessments by Savills (commissioned by HSE). Rates relate to late 2008/early 2009.

b Includes allowance for fitting out.

c Percentage difference between achieved rent and HSE assessed benchmark.

44.47 In most cases, the agreements with landlords on service charges are based on a set rate per m<sup>2</sup> (subject to increases in line with CPI). In the cases examined, the rate agreed or achieved for service charges equates in broad terms to 20% to 26% of the rent level (see Figure 178).

44.48 The HSE acknowledges that the initial service charge rates may be high relative to market rates. However, it states that by agreeing on set rates per m<sup>2</sup>, rather than variable rates reflecting management company costs, the amounts payable will not be subject to fluctuation e.g. where high cost maintenance such as lift replacement is required. It also expects not to be liable for charges in respect of dilapidations at the end of the lease term.

### *Rate Increases*

44.49 Three of the four leases examined provide for rent review every five years by reference to the CPI. Under the fourth lease – in respect of which negotiations commenced prior to the lease programme being advertised – the review is related to market rents. In three cases, the review is upward only. In one case, rent levels will adjust up or down in line with CPI movement.

44.50 The HSE has stated that prior to the prohibition of upward only rent reviews with effect from 1 March 2010, agreements to lease generally provided for upward-only rent reviews. Accordingly, the related leases kept this condition, even when they were signed after 1 March 2010. The HSE also stated that lease review by reference to CPI will save money, since the adjustment is technical and will not require professional evaluation and/or mediation.

### *GP Rents*

44.51 The contractual requirement for developers of primary care centres to ensure that PCT GPs are operating from the same premises potentially gives GPs considerable bargaining power in agreeing the terms of their own leases. Because these are third party arrangements, no information is available about the level of rents and/or service charges being paid by GP practices for space they occupy in primary care centres adjacent to HSE premises.

### *Overall Cost of Leases*

44.52 The rental commitment for the primary care centres operational at 31 December 2010 is €2.76 million a year (excluding VAT)<sup>362</sup>. Upon completion of 30 further facilities for which an agreement for lease has been signed, the annual lease cost will rise to €9.9 million a year (excluding VAT). This implies an average lease cost per centre of around €230,000. Including service charges (also based on floor area), the average cost is in the region of €276,000 per centre per year.

### *VAT on Leases*

44.53 In addition to the rent payments, the HSE has paid lump sums at the commencement of certain primary care centre leases in respect of VAT. The HSE sought legal advice on the issue following changes in the VAT regime with effect from 1 July 2008 that affected the charging of rent on property leases. The advice received outlined the situation as follows.

- Following the changes, landlords have the option of applying VAT to rents. This is generally done in the case of commercial leases. Accordingly, the landlord recovers VAT on his/her expenditure, and charges VAT on the rent due. Commercial tenants can recover VAT so VAT paid on the rent does not represent a cost.
- Like most public bodies, the HSE cannot recover VAT. Consequently, VAT charged on rent would represent a cost to the HSE.

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<sup>362</sup> This figure excludes the lease cost of the Ballymun Healthcare Facility for which the HSE agreed a finance lease prior to the current lease programme. The Facility accommodates other HSE staff in addition to the PCT.

- Since VAT on rent is charged at a rate of 21.5% (from 1 December 2008) and VAT on subcontractor's services provided to developers is 13.5%, it would usually be more economical for the HSE to agree with the landlord that VAT would not be charged on rent, and instead to compensate the landlord for the irrecoverable VAT. This compensation could be paid through an up-front once-off payment or through payment of a higher rent over the term of the lease (or a combination of both).
- Tax implications for the landlord (depending on the payment method used) and/or exercising a break option during the term of the lease would complicate the calculation of the optimal approach.

44.54 In two of the cases examined, the HSE agreed to pay a lump sum to the landlords in respect of VAT refund foregone. In one case, the payment was €230,000, in another, the amount was €203,000. This reflects the cost of construction of the accommodation being leased.

### ***Norms for Space Procurement***

44.55 The HSE's 2008 guidelines for developers of leased centres indicated the approximate space to be provided for the HSE's own services in each primary care centre by reference to the number of associated PCTs (see Figure 179). GP practices were to acquire their own space in the development under separate arrangements with the developer. The HSE and the GP practice(s) were expected to share the costs of common areas such as reception, children's play room, lobbies, toilets, stairs, lifts and stores.

**Figure 179 HSE Space Requirement Guideline for Primary Care Centres (2008)**

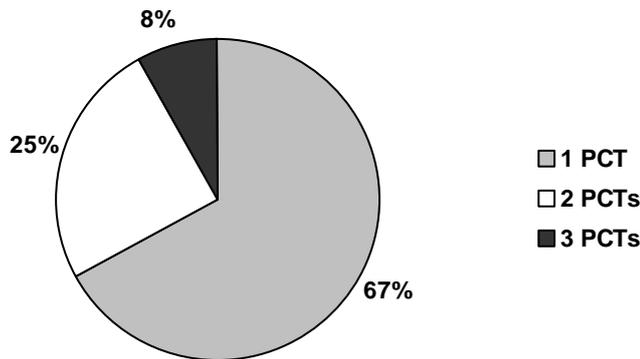
<b>Number of collocated PCTs</b>	<b>Space for HSE services</b>	<b>Shared space<sup>a</sup></b>
1	546 to 670 m <sup>2</sup>	364 to 536 m <sup>2</sup>
2	739 to 836 m <sup>2</sup>	466 to 605 m <sup>2</sup>
3	1,030 to 1,128 m <sup>2</sup>	518 to 647 m <sup>2</sup>

Source: HSE Guidance Document for Primary Care Developments (July 2008)

Note: a HSE liability for costs of shared space based on a proportionate share of the overall area, including GP accommodation.

44.56 Figure 180 indicates that of the primary care centres operating or in planning at end 2010, two thirds were expected to accommodate only one PCT. A quarter of the centres were expected to provide for co-location of two PCTs. One in twelve of the centres were expected to accommodate three PCTs together.

**Figure 180 Primary Care Centres in Operation or in Planning at end 2010, by Number of PCTs Co-located**



Source: HSE Estates database of primary care centres (228 centres)

44.57 While PCTs with extended teams would require additional space relative to core-team PCTs, the HSE did not indicate the number or kind of team that were to be accommodated in the locations advertised. However, the ranges in the space guidelines allow for different HSE team sizes and service configurations. They also reflect expected greater economy in the use of space in centres accommodating two or three co-located PCTs.

44.58 The HSE's current policy is that each PCT will serve an area with a population in the range 7,000 to 10,000.<sup>363</sup> The range takes account of the primary care needs of the population in a particular area, which vary depending on factors such as age profile, relative affluence/deprivation, etc.

44.59 The HSE has estimated the population to be served by each primary care centre using 2006 population data.<sup>364</sup> This indicates that, taking account of multiple PCTs in some centres, the catchment population is within the planned range of 7,000 to 10,000 in 44% of cases. In 36% of cases, the catchment population is less than 7,000. In around 20% of locations, the catchment population exceeds the upper end of the target range.

44.60 Figure 181 indicates the space and population served for four primary care centres reviewed as part of the audit. The salient features are

- The catchment population for the Ballyogan PCT, at just under 14,000, is almost twice the average for the other PCTs.
- The premises leased in Carlow is planned to accommodate three PCTs. The HSE's 2008 guidelines suggest that the maximum space required for a centre accommodating three PCTs is 1,128 m<sup>2</sup> for the HSE's own space and a proportionate share of common spaces (say 325 m<sup>2</sup>, assuming a 50% share). On that basis, the expected maximum leased space requirement for a three-PCT centre would be around 1,450 m<sup>2</sup>. The space leased in Carlow (1,800 m<sup>2</sup>) is 24% more.

<sup>363</sup> The original target set in 2001 was one PCT for an area with a population of 3,000 to 7,000. This was subsequently revised to one PCT for an area with a population 7,000 to 10,000. Some HSE documentation refers to a ratio of one PCT per 8,000 to 12,000 population.

<sup>364</sup> The HSE's analysis (completed September 2010) will require revision in light of the population growth and redistribution revealed in the 2011 census.

**Figure 181 Space Leased<sup>a</sup> and Target Population for Selected Primary Care Centres, end 2010**

Primary care centre	Number of PCTs	Leased space (m <sup>2</sup> )	Catchment population	
			Total	per PCT
Ballyogan	1	683	13,939	13,939
Carlow	3 <sup>b</sup>	1,800	23,990	7,999
Gorey	1 (of 3) <sup>c</sup>	651	23,742	7,914
Mulhuddart	1	748	7,856	7,856

- Notes:
- a Space leased includes HSE occupied space and a proportion of shared space
  - b Two PCTs serving the Carlow area, and one serving East Kilkenny/South Carlow
  - c Three PCTs are planned for Gorey, in three separate locations in the town. The leased space relates only to the centre where a lease is currently in place.

44.61 The HSE has stated that the Carlow primary care centre will accommodate up to 43 HSE staff members. The services to be delivered from the premises will include public health nursing, occupational therapy, physiotherapy, speech and language therapy, home help staff, dieticians and psychology. It also includes consulting/clinical rooms for outreach hospital consultant clinics, mental health clinics and specialist nurses.

## Conclusion – Leasing

The cost of accommodation procured under lease arrangements depends on the agreed rental and service charge costs and the size of the premises leased.

The rents agreed for leases were set by reference to benchmarks assessed by the HSE. Those benchmarks were based on independently-assessed market rents, with the addition by the HSE of an additional amount for fitting out costs. The HSE then applied a target discount rate to arrive at location-specific ceiling rates for negotiations for approval by the HSE Board. In general, deals were agreed within the ceiling levels approved by the Board in 2008 and 2009.

The HSE's benchmark levels for rents reduced broadly in line with commercial market rents between 2008 and 2010. However, because it concluded that deals could not be finalised on leases at the ceiling rates set in July 2010, the Board agreed in January 2011 to increase the level of rents it was willing to pay by around 16%.

The HSE set norms for the size of primary care centres it was willing to lease. Of four lease properties reviewed, three were within the specified norm, while one was about 24% more than the expected maximum space. The HSE has stated that in the latter case, an extended range of services will be provided from the centre.

Of the centres examined, three had catchment populations within the target range of 7,000 to 10,000. In the remaining case, the catchment population exceeded the upper end of the range by almost 4,000. These estimated catchment populations were based on the 2006 population figures. The catchment populations of all centres will require reassessment in the light of the results of the 2011 census. This may have implications for the location of some planned centres.

## Conclusion

The HSE is engaged in a substantial programme for development of a national network of centres for the delivery of primary care. While no recent projections of the cost of the programme have been published, it is evident, based on the stated targets, that the capital cost of the centres is likely to be significantly in excess of €1 billion.

The development of the care centres is lagging significantly behind the targets set in the National Development Plan 2007-2013. While the Plan envisaged the provision of accommodation for 500 PCTs by 2011, only 24 centres catering for 29 PCTs had commenced operation by end 2010. Given the number of centres in construction, only 44 centres catering for 59 PCTs are expected to be operational by the end of 2011. This would represent about 12% of the original NDP target for end 2011.

The HSE has cited difficulties being experienced by developers in securing funding as a factor in the delays. While the HSE reduced the level of rent it was willing to pay in line with the drop in commercial rents up to mid-2010, it decided in January 2011 to increase its ceiling rates by around 16%.

The HSE has chosen to procure the centres through leasing, which has many of the characteristics of a public private partnership. The key difference is that at the end of the (typically) 25-year lease term, the HSE will not acquire property. It will instead have the option to renew the leases on renegotiated terms, or to seek alternative accommodation.

A detailed appraisal should have been carried out before the HSE launched a large-scale leasing programme. The appraisal of the options for procurement of primary care centres carried out later was deficient in a number of significant respects. In particular, the likely impacts of the accommodation options on service users and on the operation of PCTs were not quantified, and the basis for projection of costs was not adequately substantiated. The scale of cost of the programme, and its likely affordability in the context of the HSE's overall budget, were also not addressed. Overall, the deficiencies would indicate that the appraisal fell short of what would be required to guide decision-making in relation to a major capital programme.

Legal commitments have been entered into for a substantial number of projects yet to be delivered based on prices prevailing in 2008 and 2009. So much has changed in the property development market since the commencement of the leasing programme that a mid-term review of the programme objectives and procurement approach may now be warranted so as to ensure that best value for money will be achieved.

Such a review should assess the extent to which accommodation options are likely to deliver the benefits expected for community-based primary care centres i.e. easier access for patients and carers to required services, more effective and efficient treatment as a result of improved communication between service deliverers and increased efficiency and lower running costs for primary care.

Overall, in order to ensure there is coherence between the primary care centre programme and the development of PCTs, the HSE should review how team-based delivery can be promoted while centres are being developed, and draw up a specific change management programme with defined objectives and provision for verification. Chapter 43 reviews this further.

