Funding for practice premises

With increasing pressure on primary care, many GP practices are finding that their current premises are too small or simply not fit for purpose, says Andrew Pow

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Moving to new leased or owned premises, or developing existing premises, gives rise to several funding issues.

Managing negative equity when moving to a new leased surgery

One of the barriers to moving premises is that old buildings may be worth less than outstanding loans held by GP partners. While, in theory, the NHS premises rules allow for the possibility of negative equity to be funded by grants, tight budgets mean this is rarely applied.

Practices should identify the level of negative equity early in the process and discuss this with the developer of their new leased premises. If it is likely to be a deal-breaker, the developer may consider buying the existing premises from the practice. While this represents cost and hassle for the developer, they can factor this into their investment returns because they are investing over the long term.

If this is not an option, practices should discuss alternative uses for their existing surgeries (for example, conversion to residential or retail premises) with estate agents who have knowledge of the local area.

'With money in the NHS in short supply, maximising the use of space in a building is critical'

The premises rules refer to the possibility of funding for conversions but again, in practice, this rarely happens.

Tax savings on new investments

New build costs can bring tax savings that need to be factored into costings. There are many expenses on which tax relief is available, such as heating and equipment. To claim capital allowances on these expenses a breakdown of the build costs will need to be obtained.

Where practices are upgrading existing premises, the costs will need to be reviewed. The tax treatment varies depending on whether they are deemed as new enhanced items or simply replacing what you have already.

If expenses are deemed tax allowable, they will, in addition, be deemed as expenses for the purposes of working out superannuable profits. So not only could they reduce tax, but they could also reduce superannuation payments. While this is positive for improving cash flow, the GP partners need to be mindful of the long-term impact of reducing their pensionable income. Finally, consideration needs to be given to whether any grants from the NHS allow for tax claims to be made. In many cases they will not.

This is a complex area. Before any decisions are made, practices should discuss the tax and pension issues surrounding investments in the surgery premises with a specialist medical accountant.

Other funding streams

Increasingly, the traditional notional rent reimbursement is not the only source of

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income a practice can look for when funding developments. Pharmacies have long been a big investor in buildings through enhanced rental payments and many will pay an upfront premium to locate in a GP building.

As we start to see an increase in secondary care services moving into the community, practices also need to start negotiating with hospital and community trusts who will need space in new buildings. With money in the NHS in short supply, maximising the use of space in a building is critical.

At an early stage in planning a development, practices should discuss with other providers what their potential needs are. They are more likely to get the investment they need where they can show that they are making steps to integrate services. This should not just be limited to the health sector – the social care sector needs consideration too.

Leases – what to watch for in the short term

The *General Practice Forward View* for England refers to a short-term window until 30 September 2017 to agree leases with NHS Property Services where they currently do not exist. NHS England will fund reasonable legal costs and stamp duty.[1]

A model lease contract has now been negotiated between the NHS and the British Medical Association (BMA). It includes break clauses where contracts are lost, rent reviews linked to reimbursements, transparency on service charges as well as many other clauses. This should not replace the need to obtain legal and accountancy advice – but it should give a more robust framework under which to negotiate leases on new premises. At present it relates to NHS Property Services premises only and it will be interesting to see if this is used as the model when agreeing leases with other landlords.

How to keep service charges under control

The costs of running new buildings can be significant and are often outside the control of practices that previously have been able to run a tight ship on expenses. It is essential that practices agree what will be included in the service charge up front, and also be involved in the decision-making process around suppliers of services to ensure costs do not become excessive.

The NHS premises rules allow for partial reimbursement for charges over and above that which is currently being paid on old premises. We have seen some success in this being applied and are aware that it is an area that is being reviewed as part of the *General Practice Forward View* to apply consistency across the country.[1] Practices should, therefore, push hard to ensure they have protection over service charge increases within their agreements. Early highlighting of this problem with the NHS and the CCG may stop problems occurring down the line, which may delay projects happening. **PM**

Reference

1. NHS England (2016) *General Practice Forward View April 2016*. NHS England, London