

A guide to GP practice premises

Practice Management spoke to Paul Conlan at GP Surveyors about the issues and challenges facing practice managers with premises leasing and the best ways to keep practices profitable

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Practice managers often have questions about premises and how to get the most out of them. These include enquiries about notional rent and NHS rental reimbursement, whether an owner occupied property or held under a lease; how to manage ownership issues and GP partnership change where disputes can arise; and advice on pharmacy installation, rent reviews and lease renewals. The role of practice managers is evolving at a significant pace. Some have a share in the practice and most are key influencers in the business, advising and supporting owners and partners on what they should consider with regard to premises.

What are the challenges for practice managers in maintaining and profiting from premises?

Practice managers are generally not qualified valuers and premises are covered only briefly in their training. A practice manager we represented in another matter (notional rent) had installed a pharmacy but came to us after the deal was agreed and this resulted in a reduction in notional rent that would have

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been avoidable had she taken appropriate specialist advice earlier.

NHS rental reimbursement letters advise practices to appoint a suitable surveyor, so understanding is increasing. With finances being squeezed, maximising the building to its best advantage is essential for most practices. We are seeing additional challenges in primary care with regards to recruitment, Care Quality Commission standards and clinical excellence. Practice managers do not come into the profession to be premises experts and there is training and support available from organisations such as the Royal College of GPs and the British Medical Association but this tends to be more of a clinical nature and practices require more support in relation to premises.

Is there a crisis facing GP premises?

There is always a need for investment in premises but the legal intricacies around NHS rental reimbursement and the NHS approvals process to carry out improvement works can be slow and difficult. Since the inception of NHS England and NHS Property Services in 2013 there has been a slowdown in new premises developments. That in itself is not necessarily an issue if the investment is being made into the existing premises stock. However, there can be a lack of a cohesive strategy as to need, value and where money would be best spent. Any building that is not suitable for ongoing care for more than five years needs a strategy in place now, setting out how it is going to be replaced or redeveloped to meet the patients needs for ongoing care. As GPs are separate contractors they need to be brought on board to the larger vision.



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Changes in the GP work profile, succession and a lack of GPs are all contributing to the crisis currently facing general practice. When we talk to GPs, one of their major concerns is taking on large loans for buying their share of the premises under the practice agreement.

Many incoming GPs also do not want to sign up to the commitment of a long lease and this, in time, may lead to a situation where the NHS starts leasing the buildings directly and subleasing them to the GP practice for a shorter term. Some GPs seem to want the benefits of occupying a building but not the corresponding liabilities that accompany the benefits. A typical case for us was where two partners who owned the building had retired and wanted to release their equity from their property. The incoming partners did not want to buy into the practice and were occupying the building under a business tenancy; thus, the solution was to create a mutually agreeable lease with NHS England approval. This allowed the retired GPs to release their equity and the occupying GPs to secure their NHS rental reimbursement for the duration of the lease being entered into. We see leases becoming more common year on year, and with press releases suggesting that a large proportion of the GP workforce want to retire in the next three to five years we expect this trend to continue.

The GP Forward View: What will this mean for premises?

Most problems in general practice relate to succession and having enough GPs to do the work. Some of the investment promised in the Forward View is great and will benefit practices once they have obtained it through what can be a notoriously difficult application process. Many investors are

willing to build new, state-of-the-art premises for doctors, but they require the support of clinical commissioning groups for service provision and NHS England for rights to receive recurring premises costs on the property whether owned or leased. The promised investment will help, but whether it goes far enough we are not yet sure. To attract improvement funds from the NHS, GP contractors must provide a building that is secured and the only way to do that is to own it or occupy it under a lease. If you are in a building that you do not own and you apply for NHS funds to improve the property you should fail the application criteria if you have not secured it for a five- 10- or 15-year term, as the NHS investment would need to be off set under the abatement calculation within the Premises Cost Directions.

Can you explain a bit about lease negotiation and renewal?

The most important aspect by a huge margin is that any lease must be approved by NHS England before it is completed and signed by the GP partners. The partners have an obligation to get any lease whether new or varied approved by NHS England. Satisfying this NHS England approval process secures an undertaking from NHS England to reimburse that practice under the terms of the lease for the duration of that lease. We would advise practice managers to seek suitable advice to ensure the NHS approval criteria is met and that the lease is value for money and contains no unusual landlord friendly terms.

What about notional rents and renegotiation?

Notional rents are based on a set of hypothetical lease term and are the district

valuer's opinion of what someone should pay in annual rent on a building based upon those terms. The contractor has the right to challenge the district valuer's opinion but will require a surveyor to provide the factual and evidential comparables that underpin the challenge. Your surveyor will negotiate with the district valuer on your behalf and should provide reasoned advice that is always in your best interest.

If discussions fail, an application for determination under a contract dispute can be made to the NHS Litigation Authority and an RICS expert will be brought in to advise the NHS Litigation Authority on matters of valuation before making an overall judgement. Applications for dispute resolution are still unusual and your surveyor should make best efforts to reach a local agreement.

What advice would you give about installing a pharmacy on the premises?

A pharmacy can be a hugely valuable income stream that will also boost the capital value of the building, as well as providing an additional rental income stream. Usually, a pharmacy will pay for itself very quickly – practices just need the capacity on site to make it a viable proposition.

Practice managers need an understanding that pharmacy operators will be looking for the best deal for them and not the GP partners, and that they need appropriate representation to ensure that they are protected and get the best deal possible. Many think they do not have enough internal space, which is not necessarily important, as there could be opportunities to build on the land adjacent to the property, for example. There are also tax and other value considerations depending upon how the deal is structured.

What are the benefits of sale and leaseback?

Sale and leaseback depends on the individual circumstances of the GPs in the practice. No surveyor should come in and say it is definitely the right strategy for you – as this is one option to be considered in certain circumstances and its suitability will depend upon the desires and needs of the individual GPs involved. There are benefits and liabilities with both owning a building or occupying one under a lease, they are just structured differently. If GPs do not want to buy in to

a property or other GPs want their money out, creating a lease can be a shared solution. Consideration should also be given to the partnership agreement as any departure would have to be universally agreed between the parties or a situation can be forced by any GP who is unhappy. Often the partnership agreement compels the outgoing partner to sell and the incoming partner to buy and thus agreeing to set up a lease instead (and then perhaps sell the building with a lease in place) must be agreed by all.

How can practice managers get the most from their premises?

It is important to seek advice from a specialist. Every building is different and practice managers need to make sure they have someone check their notional rent and get a specialist to do valuations for partnership change and retirement. Have a look at whether the building is fully utilised. Can an alternative use be put to some of the rooms; for example, can a secondary care service be brought in?

The NHS needs to be more accessible and the emphasis is on providing better care for patients, but there are issues around premises and regulations that can make new service provision difficult. Therefore, practices should seek advice as to how any premises changes will impact on NHS rental reimbursement and other income streams.

An issue currently receiving a lot of attention is economies of scale, collaboration, super practices, federations and mergers. If practice managers and partners are considering these options, the estate needs to be on the agenda from the start. For example, in a merger of five practices, each of the five buildings will have a different value and everyone will have different shares, loans and equity. In many cases, the merger is in name only and the whole does not become one equitable entity. We would recommend that mechanisms are put in place at the start to make everyone equal partners as we see this as the most likely route to a successful collaborative venture.

We receive lots of calls from people who should have taken steps earlier to equate shares and draw up a coordinated strategy to move forward as a collective to avoid conflict in the future. A surveyor can discuss the options available, and provide a plan to move forward, which can be hard for practices to do by themselves. **PM**