

FOCUS ON....
PRACTICE PREMISES

This guidance note has been produced by the General Practitioners Committee to help GPs and Local Medical Committees with the premises aspects of the new GMS contract, and is one of a series of guidance notes on the new contract. The guidance will be updated as progress is made in premises implementation in all countries of the UK. We would advise all GPs to read the contract document and supporting documentation, available on the BMA website at www.bma.org.uk. The GPC has produced a list of frequently asked questions and answers which can also be found at the website address.

A number of new premises “flexibilities” have been introduced as part of the new contract. These are now in effect and the necessary changes to the SFA have been made. (One flexibility remains outstanding – the ability of PCOs to reimburse service charges and maintenance costs. This has been kept on hold, so that data can be collected and a methodology established, but should be in place by 1 April 2004.)

This section summarises the flexibilities and gives the relevant new SFA paragraphs. It should not be treated as a definitive guide to the flexibilities. More detail is given in the SFA amendments and background notes to those amendments which are available at

http://www.nhsestates.gov.uk/primary_care/index.asp

And for Scotland, NHS Circular PLS (M) 17 *Statement of Fees and Allowances: New Flexibilities to the Rent and Rates Scheme, Grants to meet mortgage deficit costs and the consequent arrangements*, which was issued on 18 September 2003 and is available at

<http://www.show.scot.nhs.uk/sehd>

It is important to note that these flexibilities are discretionary. The costs for GMS GPs will initially be met from existing GMS non-cash limited funds.

1. NEW PREMISES FLEXIBILITIES

1.1 Mortgage deficits and/or redemption penalties

Many practices, particularly those that bought properties in the property boom of the 1980s and in decaying inner-city areas, still have mortgage deficit costs (i.e. are in ‘negative equity’). Practices may also be faced with high mortgage redemption penalties for early repayment of their loans.

Both circumstances can make it financially unfeasible for the practice to move premises.

Flexibility

Practices with such “mortgage deficits” may now apply to the PCO for a grant to help cover these costs.

Conditions

The practice must

- agree to move to modern, PCO-approved leasehold premises
- apply for the grant in writing providing all reasonable information that the PCO might need
- provide details of the amount of the outstanding mortgage used to build and improve the property

The District Valuer will also be approached to provide advice on the extent to which all other solutions have been exhausted (such as loan re-negotiation and alternative use of the property) and on the process and timing of the move.

The full conditions are set out in SFA 53.1.

1.2 Revised arrangements for payment of notional rent

1.2.1 Enhanced notional rent factor for practices receiving cost rent

GPs receiving cost rent may make capital investments in their premises (in the form of modernisations or extensions) which are not reflected in higher cost rent payments.

Flexibility

New SFA 51.22 allows these practices to receive a notional rent in addition to the cost rent. This **enhanced notional rent factor** will be proportionate to the enhancements to the property value that these improvements create provided they result in a notional rent that is still lower than the cost rent. The payments will continue until the GP opts to move to a notional rent for the entire property.

The **enhanced notional rent factor** is calculated as

$$I \times (A+10)\%$$

where **I** is the current market rental value of the improvement (calculated as the difference between the current market rent before and after the improvement)

and **A** the capital provided by the practitioner as a proportion of the whole cost of the improvement (**I**) expressed as a percentage.

The 10% is added to cover normal landlord expenses.

1.2.2 Abatement of full notional rent to reflect NHS capital contributed to improvements

GPs receiving full notional rent (i.e. notional rent on the full value of their premises) may make improvements to their premises with capital contributions from the PCO. This will increase the value of the premises, and thus increase the notional rent which the GP continues to receive as income.

Flexibility

The notional rent will be abated (i.e. reduced) to reflect the level of NHS contribution to the capital cost of the enhancement. The formula used to calculate the abated notional rent is as follows.

$$I \times (A+10)\% + P$$

where **P** is the current market rent, as assessed by the District Valuer, of the property prior to the improvement, and **I** and **A** are as above.

A worked example is given in new schedule 5 to SFA 51.

1.3 Reimbursement of legal and other professional fees

GPs who want to develop new premises, improve existing premises, or move into new leasehold premises can face prohibitive legal and other professional fees.

Flexibility

Under new SFA 51.13 vii, GPs in these circumstances may be reimbursed the following costs, (provided they will be receiving notional rent on completion of developments);

Notional rented premises

- reasonable fees and legal costs arising from the purchase of the site upon which new premises are to be built
- professional fees associated with the construction of the building

Leasehold premises

- project manager costs to oversee the interests of and give advice to the practitioners who will occupy the premises
- reasonable legal costs and where applicable, VAT incurred by practitioners in agreeing the lease.

These are subject to the maxima set out in the SFA amendment.

1.4 Guaranteed minimum sale price for redundant GP-owned premises

A GP may want to move to new, modern premises, but is put off by the lack of certainty about the sale price of the old premises he owns.

Flexibility

Under new arrangements (SFA 51.13 viii), the GP may apply to the PCO for a written, guaranteed minimum sale price for the premises. The PCO will take the District Valuer's advice on a suitable sale price. The DV will take into account alternative uses for the property in its market value assessment.

Conditions

- The PCO must be convinced that the new premises will result in an improvement in the range and quality of services.
- The premises must be placed on the open market with active marketing to sell it at the maximum price achievable on a date to coincide with the practitioner's move to new premises.
- The property cannot be sold to a relative of the GP or to the GP's employer or to a relative of the GP's employer.

1.5 Uplifts to current market rents

In some deprived areas, current market rent levels may be too low to make it financially worthwhile for a GP to invest capital in premises.

Flexibility

The prevailing current market rent may be increased by applying an uplift factor held by the PCO as supplied by the District Valuer.

The development must satisfy the existing SFA 51.3.

The Scottish enhanced cost rent scheme for leasehold premises already allows enhanced reimbursement to be made in deprived areas, or in other areas such as rural ones where the property market is otherwise not supportive of such developments.

1.6 Reconversion of former residential property

GPs working from owner-occupied former residential properties that are no longer considered suitable for the delivery of primary care may be unable to move to new properties because of difficulties renting out their existing property.

Flexibility

Under new SFA 46.6.1 such doctors may receive assistance towards the costs of reconverting the property back to residential use.

Conditions

This assistance is conditional on the GP moving to more modern alternative premises. He must also rent out the converted premises either privately or through a registered social landlord, who may not be a relative of the doctor, nor the employer of the doctor, nor the employer of a relative of the doctor.

1.7 Allowing PCOs to review cost rent payment when GPs remortgage to lower interest rates

GPs receiving a fixed rate cost rent reimbursement may find they can renegotiate lower borrowing costs. From now on, they will need to notify the PCO of any such change. The cost rent reimbursement will then be recalculated to reflect the appropriate prescribed percentage prevailing on the date of the change.

GPs who repay their loan in full will have their cost rent reimbursement recalculated on a variable prescribed percentage basis from that date.

These changes are made under SFA 51.51.

1.8 Reimbursement of equipment leasing costs in new leasehold premises

New GPs or GPs moving to new leasehold premises from sub-standard premises may incur start-up costs for equipment, furniture and furnishings, which may act as a disincentive.

Flexibility

Under new SFA 51.13.ix, these costs may be reimbursed if they are included in an occupancy agreement through an appropriate uplift in the level of rent reimbursement.

Conditions

The nature and level of costs should be agreed in advance with the PCO, as should the period of time for which the reimbursement will be made.

1.9 PCOs taking an option to purchase land

In many areas, suitable sites for the development of GP premises become available infrequently. When a site does become available, there is usually a need to secure it quickly to ensure that it is not purchased by a third party for alternative use. PCOs have the powers to take an interest in land, including an option to purchase (i.e. a contract that gives one the right, without any obligation, to purchase a property within a certain period of time, subject to conditions). In such circumstances PCOs should work and provide a business case to regional office Heads of Estates & FM to secure an option-to-purchase on a site that otherwise would become a lost opportunity for practitioner/primary care premises development.

Normally, taking an option to purchase will involve making a small one-off payment to the landowner for the right to acquire the land at a fixed price to be set against the eventual purchase price. Once the option has been secured, the PCO should make arrangements, in consultation with the District Valuer, to obtain outline planning permission for a change of use, if required. Arrangements should also be made to advertise for expressions of interest from third party developers. Once selected, the option to purchase should be assigned to the approved developer who should then agree with the District Valuer the plans and costs for the proposed development.

This arrangement is not an SFA flexibility and PCOs will need to submit a suitable business case to demonstrate the need for new practitioner/PC premises to improve patient access to modern facilities and a better range of services to be provided.

2. PREMISES FUNDING

Under the new contract, there will be a single fund for premises in each country, which will operate alongside the global sum and the quality framework. In England, a lead PCO in each Strategic Health Authority will hold this fund on behalf of all PCOs within the StHA.

Existing premises expenditure and additional funds needed to support agreed new projects (i.e. those ready for occupation, under construction and others contractually agreed between the practice and the provider) will be guaranteed to PCOs as a baseline. This baseline will be updated annually for property cost inflation. Decisions on additional growth money needed to support, for example, the new premises flexibilities and premises developments contractually agreed after 30 September 2003 will be taken jointly by the PCOs and StHA. These decisions will be based on local priorities and PCO needs and capacity as set out in their Strategic Service Development Plans.

The existing SFA paragraphs on premises will be replaced in directions. Under new funding arrangements, PCOs will have greater flexibility in funding premises to allow, for example, investment in premises to allow delivery of an extended range of enhanced primary medical services.

Practitioners whose premises were approved for payment at 31 March 2004 need not seek confirmation of that approval in order to continue receiving payments calculated under the arrangements that existed to that date.

The contract contains an explicit commitment to equity of funding and return on investments between GPs and third party developers to provide stability for GPs as well as reassuring funders and landlords.

3. QUALITY STANDARDS

There will be a system of rules which set out minimum standards for new or refurbished buildings and guidance which offers support to PCOs on costs by setting benchmark costs rather than limits.

Subject to appropriate funding agreed between the PCO and the practice, premises will not be accepted unless the accommodation provided is deemed by the PCO, following a visit, as satisfying the minimum standards. These standards include;

- compliance with the Disability Discrimination Act (there is separate GPC guidance on this, which is available from the GPC office).
- a properly equipped treatment room, where provided, and a properly equipped consulting room for use by the practitioners with adequate arrangements to ensure privacy of consultations and personal privacy for patients when dressing and undressing.
- adequate lavatory and hand-washing arrangements for patients and staff, which meet current infection control standards.
- adequate internal waiting areas
- adequate standards of lighting, heating and ventilation
- adequate arrangements for storage and disposal of clinical waste
- adequate fire precautions
- adequate security for drugs, records, prescription pads etc
- where minor surgery or treatment of minor injuries is provided, a suitably equipped room in which to carry out these procedures.

4. BRANCH SURGERIES

4.1 Criteria for funding

The Carr-Hill formula cannot adequately pick up the increased infrastructure costs of split-site/branch surgeries. For a branch surgery to qualify as a second main/split-site it should meet the following criteria:

- be open for at least 20 hours a week for provision of medical services automatically entitling it to proper IT support
- meet the minimum standards set out in section 3 above
- provide essential and additional services

Branch surgeries that do not meet these criteria will not automatically be considered eligible for funding as a second main/split-site surgery.

Particular circumstances in parts of Scotland will require considerable flexibility with regard to opening hours, for example, and the prime consideration will be the provision of services to patients.

4.2 Closure of branch surgeries

A branch surgery can be closed subject to agreement between the PCO and the practice. A practice may give notice that it wishes to close a branch surgery. If the PCO does not agree, it can issue a counter-notice to allow for any required consultation, requiring the surgery to remain open until the issue is resolved. If the counter-notice is successful following the normal appeal procedures, the PCO is required to continue to fund it.

The following procedure will be used to determine whether premises are continuing to meet the relevant standards.

- LMCs will be consulted
- where shortcomings can be rectified, the practice will agree with PCO within a month how they can be rectified within a reasonable period of time

- if the shortcoming have not been rectified within six months (or a longer period if agreed) premises payments will cease or be abated until the shortcomings are put right
- a practice may appeal against the PCO decision.