



The ABC of general practice premises funding – abatements, business rates and cost of borrowing

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Independent contractors operating under a specific set of regulations provide most NHS primary care. Working with them on premises developments can be complex because they are responsible for securing suitable premises from which the PCT delivers primary healthcare for the local population. Furthermore, the operational issues, incentives and contractual levers for each of the primary care providers are quite distinct.

By April 2013, primary medical care service providers must be registered with the Care Quality Commission (CQC). It means registered providers will be legally obliged to comply with minimum requirements for quality and safety. This includes a requirement for people to receive care in, work in or visit safe surroundings that promote their wellbeing. PCTs will need to work closely with their providers and contractors to ensure they meet required quality and safety standards for premises.

This briefing is aimed at both PCT and general practice staff with a role or interest in premises funding.

The main source of information is the Premises Cost Directions 2004 and this briefing will focus on part 5 of the directions, which is recurrent funding.

Regulations and directions are not just for PCTs, while many clauses also appear as contractual clauses; there is still a requirement to understand regulations.

There are two main types of funding associated with general practice:

1. The practice is a tenant with a landlord (leased)
2. The practice owns the premises (owner/ occupier)

There are also a number of other areas where PCTs reimburse business expenses.

Leased premises

The practice is a tenant with a landlord

The landlord is a third party and should have a written lease with the practice. There are many types of lease that contain specific information regarding rent increases, who is responsible for repairs etc.

The PCT reviews their arrangements with the practice and reimburses the practice for the actual rent paid or the current market rent (CMR), whichever is the lower.

Where the PCT owns the premises, practices should still hold a lease agreement and even though it isn't necessary to make actual rental payments, which would then be reimbursed, it is important that the details are correctly recorded in the PCT accounts.

Owner-occupier premises

There are two forms of payment made to practices that own their own premises. Initially a practice would obtain a loan/mortgage to develop their premises; the sum borrowed would include professional fees and cost of the building.

The PCT, having agreed the scheme, would pay the practice the interest on its loan – ie the cost of borrowing. This would continue until the loan is paid off or, and this is the usual case, the practice elects to receive notional rent.

Practices that change their borrowing arrangements are required to inform the PCT.

Notional rent pays the practice as if it was the landlord and receiving rent from a tenant. In the absence of an actual lease agreement, terms are laid out to set an annual value payable.

PCTs are instructed to review notional rent every three years.

Notional rent may increase or decrease. This is a risk the practice takes; there is no option to return to the cost of borrowing arrangement.

The three-year cycle may only be brought forward under mutual agreement with the PCT if there is a further capital investment in the premises or if there is a change to the purpose of the premises.

Practices may decide to immediately opt for notional rent, usually where this is greater than any cost of borrowing reimbursements.

The PCT and practice must agree the notional rent. If agreement cannot be reached between the practice, or its agent, and the PCT, there is an NHS Litigation Authority (NHSLA) dispute resolution process, which involves the appointment of an independent expert to assess the value.

Rent abatements

Applicable to owner/occupiers, notional rent may be abated (ie the notional rent amount may be reduced) for three reasons.

1. If 'NHS money' is introduced to improve the premises, the calculation of the abatement is detailed in the directions and is limited to 10 years. Improvements that have not been agreed with the PCT, but which result in an increase in notional rent, may also be abated from the amount reimbursed.

NHS money covers various sources, including capital grants from a PCT (or deanery funding brokered through the PCT).

2. If the practice receives reimbursement for the total building area and rental income from other organisations using the premises, the rent received should be abated from the reimbursement, ie no double payment. If the other provider's services are not NHS services, the practice must charge a rent to the provider.

If other NHS services are being provided from the premises, there is no requirement to charge a rent for this and the practice may receive full rent.

3. Practices may use their premises to provide private (non NHS) services. Up to 10% of their total income is allowable without abatement. Private income from services provided from the premises over 10% is liable for rent abatement, and a table in the directions details the amount.

Business rates

Once a practice is receiving payments for its rent or cost of borrowing, it may also apply to receive payments in respect of its running costs.

Although technically discretionary, PCTs reimburse business rates, water and sewage rates and clinical waste disposal.

The PCT does not pay for fuel and electricity, insurance, internal or external repairs, building and grounds maintenance (including removal of trade waste). These are practice business expenses.

Service charges

Third party landlords (including where the PCT owns the premises) should levy a service charge to their tenant to cover non-reimbursable running costs.

Where an owner-occupier receives payments for the whole premises and provides accommodation for other providers, the practice may also levy a service charge for use of the accommodation. If the owner-occupier makes the premises available to accommodate other NHS services, it should not charge a rent to the service provider. This would be classed as a double benefit.

If the owner-occupier also makes the premises available to non-NHS services as previously stated, it must charge a rent to the provider. The rent amount should be deducted from the reimbursement made by the PCT, thereby disallowing double benefit.

Practices may claim that they incur additional costs for heating, lighting and so on, and seek to levy a service charge. The practice would need to justify this through transparent audited proof of such additional costs, to avoid unjustified income generation.

PCC will be holding a number of premises-related events in 2012. These will be focused on minimum standards and CQC essential standards for premises.

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