Healthcare Property Matters

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Highlights

AITCHISON RAFFETY

Welcome

to the latest edition of Aitchison Raffety's healthcare magazine.

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The last year has continued to be busy for us, and we have grown our healthcare team both in number and geographical coverage with further growth planned for both. Exciting times for our already established team! We are all learning to live with a new normal as it appears that Covid-19 is here to stay, and whilst doing our best to keep our colleagues and loved ones safe, we are also seeing return to offices and resuming social and business activities.

There has been continued pressure on our NHS services and both short and longer term challenges remain for existing properties and service providers. Nevertheless, the primary healthcare market has continued to flourish and yields have remained at very low levels having been driven down by the strong demand coupled with the government backed income stream, with values having increased both as a result of rental growth and yield compression. We have however reached a point where the continued downwards yield shift of the last few years has stabilised. Given the recent increases in the Bank of England base rate, whilst there isn't yet any evidence to show an adverse effect on property values, this is going to be the most likely factor which will affect yields over the coming months.

Despite much change over the last couple of years, one thing that has still not materialised are the long awaited new Premises Costs Directions. These are expected to clarify issues that have arisen over recent years, since the 2013 Directions replaced the 2004 Guidance, and provide guidance in relation to rent reviews that will be helpful to not only owner-occupiers receiving reimbursement but Landlord and Tenants alike.

We hope that you will find the articles within our magazine interesting and informative, and if any of these raise further questions, our team are available to discuss these with you. Aitchison Raffety has 25 years' experience in the healthcare industry working with GPs and healthcare investors in relation to all their property requirements, from rent reimbursement and rent reviews, lease renewals and landlord and tenant issues, valuations, sales and acquisitions, grant funding, premises improvements etc. With close links to the Primary Care Premises Forum and established relationships with NHS England, we are in a very strong position to provide you with the best advice. We hope that our magazine will help to pass on some of our experience and knowledge in a way that will be useful to you and would be delighted to hear from you in relation to any questions or further topics of interest.

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Is it worth initiating a rent review on your surgery premises?

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Notional rent reimbursement for owner occupied premises and lease rents for tenanted properties generally follow a three yearly rent review pattern (sometimes five yearly). Aitchison Raffety is frequently asked by Landlords and GP Partners (owner-occupiers) whether a rent review is worth triggering or a Notional Rent appealing. Typically, the concern arises from whether the time taken to complete the review is worth potentially receiving a minimal increase on the rental income.

Our opinion is that you should always review the rental income at a property to ensure it is at the correct level. Furthermore, it should be noted that any upwards movement in rent not only increases the level of income received but in the majority of cases the capital value of the property is likely to increase as well. As a guide, an uplift of £1,000 per annum is likely to enhance the capital value of a medical centre in excess of £15,000. Alongside this, the higher the rental income, the more attractive a property is likely to become to investors.

In terms of the possible increase a property may achieve, it is dependent on a number of factors including whether there have been rental increases for similar properties in the local area, whether there have been improvements to the property and the rent review date. Other factors include the specific characteristics of a property such as the internal specification, usable floor area and age of the building.

It is also important to remember that the initial rental assessment from the NHS/CCG/District Valuer to a practice is an initial opinion and not negotiated. It is therefore prudent to have healthcare specialist surveyors review an initial assessment if Notional Rent, or the passing rent if there is a lease is in place. This will ensure that the rent is agreed or determined at the correct level in line with the market. Aitchison Raffety are able to assist in this respect.

If you have received an initial Notional Rent assessment, or have a lease which has an outstanding rent review, please feel free to contact us for a discussion and advice **FREE OF CHARGE** in the first instance.

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Cost Rent vs Notional Rent

A number of GP surgeries continue to be reimbursed by NHS England on a Cost Rent basis. This scheme was originally provided to GPs who own their premises and incurred costs such as paying off a mortgage or the cost of a loan for repairs. Cost Rent is no longer available in relation to new schemes but still applies to a number of existing practice premises.

Reimbursement under the Cost Rent Scheme was fixed at a figure specific to the Practice and was calculated based on borrowing costs.

What many practices do not realise is that the onus is on themselves to notify NHS England when their Cost Rent is due to expire. Failure to do so can and has resulted in having to pay back significant amounts of funding where the Practice were no longer eligible to receive reimbursement on this basis.

The conditions which require consideration are noted in the NHS Premises Cost Directions 2013 Part 5, however essentially the practice should inform NHS England and discuss with them if any of the following apply:

- the mortgage has been repaid
- there are any changes to the terms and conditions of the loan
- the original partnership is no longer in place
- other circumstances surrounding the practice or premises change

A GP practice will need to switch to Notional Rent when their Cost Rent is due to expire or alternatively they can choose to switch to Notional Rent reimbursement at any time before it is due to expire if it is beneficial to do so.

Notional Rent reimbursement is based on the Current Market Rent (CMR) as defined in the Premises Cost Directions and is determined by the District Valuer on behalf of NHS England and is linked directly to market rental levels. It is therefore also important to monitor the market to ensure whether Cost Rent is still appropriate.

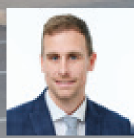
The right time to switch would usually be when the rent reimbursement level under market conditions falls at a higher level than the current fixed Cost Rent income. It is important to note that once transferred from Cost Rent to Notional Rent, the switch is permanent and therefore it is important to seek professional advice on the right time to do this.

Initially the assessment of Notional Rent reimbursement is determined by the District Valuer, and a professional adviser such as Aitchison Raffety can then advise if this falls at expected levels and progress an appeal to maximise the figure. Notional Rent can go up or down in line with market conditions, whereas Cost Rent is fixed. Most practices would therefore require some comfort that there is no risk of the Notional Rent falling below the previous Cost Rent level in the future. Historically a percentage excess of 10% was considered appropriate. These days with a strong healthcare market and continued rental increases over recent years, the percentage does not need to be quite as high as this, although ideally you would still want it to fall comfortably above the level of Cost Rent before switching from one scheme to the other. As commented on above, it is important to note that the initial District Valuer proposal is not always the best offer and can be appealed with the assistance of specialist advisers.

Alternatively, if you are required to switch from Cost Rent to Notional Rent for one of the reasons noted above, the Notional Rent figure may still fall substantially below that of the Cost Rent and an appeal can be undertaken to minimis the shortfall of income to the Practice.

If your practice would like to discuss the potential of moving from Cost Rent to Notional Rent reimbursement then please contact us to discuss. If NHS England are moving you to Notional Rent due to practice changes and you wish to discuss the initial District Valuer's proposal, then we would be more than happy to assist.

Advice for Landlords: How to initiate a Rent Review when there is a lease in place



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As a landlord of a medical centre / doctors surgery it is essential to consider whether the lease rent is at the correct level and if not whether the rent can be reviewed under the lease. The rent review clause will typically allow for rent reviews every 3 or 5 years which can be instigated by the Landlord to bring the rent up to the correct level. As well as increasing the income received, one of the additional benefits of completing a rent review is that it will also be likely to increase the value of your property.

There are generally two types of rent review, which are to Retail Price Index (RPI) or to Market Rent. If the rent review clause is to RPI then a calculation can normally be made in line with the review clause. If the review is to Market Rent the rental figure will generally need to be negotiated between the landlord's and tenant's representatives.

The lease and rent review clause will need to be looked at, which will detail how the rent review is to be initiated and how the rent is to be calculated. Time may be of the essence which means that a Rent Review Notice would need to be served in a defined period of time. If this time period is not met it can mean that the rent cannot be reviewed and will remain at the same level until the next periods. It is therefore essential to check the clause in advance of the review date.

If the review is to Market Rental levels, the details of the review clause will need to be considered to assess how the property is to be valued. A detailed review of the market evidence of similar properties in the local area will be needed and in some instances an inspection to assess the age, size and quality of the property. If the current rent is low, the landlord should consider instigating the rent review.

Landlord's will generally prefer upwards only review clauses, as they pose little risk to instigating the review. The rent cannot go down, making it worthwhile to implement even if only a small uplift is anticipated. Reviews can however be upwards and downwards, in which case it is essential to research in detail in advance, to ensure that a rent review is worth initiating from a landlord perspective.

A number of medical centre leases are to GP Tenant's who are likely to have the full amount of rent reimbursed by NHS England. There is consequently a process to go through working alongside the Tenant to ensure any increased level of rent continues to be reimbursed.   This will generally include requiring the rent review Notice or Memorandum to be sent over to the CCG/NHS, so that they cab instruct the District Valuer (or another representative) to complete their own assessment of rent. Modern leases often provide for a link between the rent and the rent reimbursement to protect the Tenant. The assessment can then usually be appealed by the Landlord's agent if it is lower than anticipated. In most cases the rent can be agreed at appeal but if not the lease should have a dispute resolution mechanism to have a 3rd party determine the rent.

Given the complexities involved in the rent review process in this sector it is essential that a specialist healthcare surveyor with the knowledge of the full process assists in completing these reviews, in order to secure the best possible outcome.

Sale and Leaseback - Future options for GP Partners looking to release funds from their surgery premises

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If you are a GP partner owning a healthcare property and have been contemplating the future options available to you such as retirement and releasing equity, or simply wish to remove the hassle of property maintenance and focus on optimising the performance of the practice, it could be an opportune time to take action. Many partners are now opting for a sale and leaseback arrangement that separates the property ownership from the practice, creating greater mobility for partners to come and go.

Primary Care assets have continued to perform well against a constantly changing backdrop, with yields having continued to strengthen underpinning strong healthcare values. In particular instances yields of sub 4% have been obtained for top quality well-located stock. Demand for good property investments remains strong and we are seeing consistent levels of interest from third party investors looking for healthcare assets, with a shortage of supply. This presents a good opportunity for owner occupying practices to realise their asset through sale and leaseback arrangements.

Sale and Leaseback is the simultaneous sale of your property and implementation of a lease which allows your GP Practice to remain in occupation of the property. It releases capital from the premises but retains the right to occupy by setting up a lease between your practice as the tenant and a new landlord, thus removing the responsibilities and risks of ownership.

Many practices have benefited from our expertise in forming sale and leaseback arrangements which can assist in partners releasing the funds tied up in property ownership, allowing them to focus on other things, whilst securing the future of their practice.

Aitchison Raffety is well placed to assist you in advising on maximising the value of your premises in preparation for Sale and Leaseback and taking you through the whole process from agreeing lease terms to marketing and sale, and would welcome a discussion with you on how we may be able to assist.

Healthcare is at the heart of what we do...

Our recognised Healthcare team specialises solely in the primary healthcare market and has done so for over 25 years, advising GP surgeries and larger medical centres on their premises requirements.

We pride ourselves on providing quality, thoughtful, innovative and tailor-made property solutions to our clients with the care and attention that each deserves.

In the last 12 months, we have:

- Worked with over 475 medical centres across the UK.
- Undertaken circa 122 surgery valuations for both lenders and partnership valuations.
- Involved with over 300 rent review cases of which 85 completed in 2021.
- Advised on numerous extension and development projects, lease restructures and Expert determinations.

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Property Considerations when GP surgeries close

To many the thought of a GP surgery closing is a highly unlikely occurrence, however the trend since 2013 indicates that closures have become increasingly common. According to figures produced by industry publication Pulse, there were 18 closures in 2013 across the UK increasing substantially to over 120 closures per year in 2016, 2017 and 2018. Closure rates for 2019 and 2020 declined to around 100 because of increased NHS funding and support available to surgeries and a growth in medical student numbers and increased capacity on general practice training schemes.

There are a variety of reasons why this has been happening, but the main reason cited is recruitment shortages with many older GPs retiring and practices unable to recruit new Partners. Other contributing reasons include declining list sizes; increasing workloads; poor financially viability; significant and potentially significant surgery liabilities; mergers of nearby practices into a larger group or an improved facility in the same town attracting patients away. In addition, for many medical centres the physical nature of a property and the practices inability to meet latest NHS/CCG standards or perform certain services forces closure.

The closure of a medical centre has a huge effect on the whole community from those involved with the business itself, to patients, to suppliers and to the wider primary care network in the area. However, it's the impact on the GP Partners concerned that is particularly challenging. A closure, or even the possible threat of a closure, is especially difficult for the Partners involved with the additional stress and worry surrounding patients, practice staff, finances, potential personal debt, possible litigation, dealing with premises, the NHS contract ... the list goes on. All whilst continuing the already difficult job of providing clinical care.

The first port of call for any practice in this position is to contact the relevant NHS body/CCG, and it might be they can support a solution through financing improvement works or facilitating a merger, or they may be able to assist with emergency staffing. It must be noted that the reasons and possible solutions for practices facing closure are numerous and complex, and unfortunately there is no one solution for each situation. Closure is however very much viewed as a last resort situation.

The purpose of this article, therefore, is to highlight some of the property aspects that should be considered when a practice is facing such a situation, which may help address some of the difficulties experienced by GPs and their practices when going through this process.

Leasehold Properties

For surgeries that occupy property as leasehold tenants, practices are urged to take advice from a healthcare property specialist, such as Aitchison Raffety, to establish their position with regards to their existing lease. Firstly, initial checks should be made with regards to the key points such as passing rent, lease term, date of expiry, the existence of any break clauses and which Partners are named on the lease. At the same time, it is important to understand the latest Partnership Agreement and its relationship to the lease. Very often both documents do not align with the current situation or existing Partners which can cause ambiguity in the situation. A more detailed examination of lease terms should consider the detail behind other important aspects such as the existence of any break clauses and the tenants repairing obligations. A break clause or an option to determine the lease at a certain time may be included, or not. Many surgery leases include an 'armageddon' style break clause allowing a practice to break the lease if the NHS contract is withdrawn, however this option may not apply if the practice itself decides to withdraw from the contract due to another reason. With regards to repairing obligations, it is important to understand if the property is held on internal or full repairing terms, the latter being more onerous and potentially more expensive for the Partners. Therefore, it is imperative that all leasehold tenants fully understand the terms of their occupation. It is not uncommon for practices to occupy period buildings (sometimes Listed) for the last 30-40 years on full repairing leases with minimal maintenance undertaken during their occupation, and the tenants will be liable for extensive repairs. Often this obligation falls to the last remaining Partners. Aitchison Raffety's Building Surveyors are experts in healthcare property and by seeking early advice from a surveyor, a practice can minimise the potential financial costs of a dilapidations claim from the landlord and can help guide a practice through the negotiation process.

Freehold Properties

For freehold owner-occupied property, it is unlikely the practice owns the building outright and a bank loan is in place. In this situation, it is important that practices understand their current loan obligations and repayment terms and have a strategic plan for the future of the property. It is unlikely for many surgeries that the property will be used as another medical centre, and therefore, the Partners will need to dispose of the asset to minimise their void holding costs. Aitchison Raffety's healthcare team can provide early advice to practices on the disposal options available and can help advise property owners on the various methods of disposal to maximise value and advise on taking into account potential alternate uses for the premises and associated planning requirements.

In addition to the above considerations, there are several other property related factors that practices need to deal with when faced with closure. Practices in this situation are advised to plan where possible for all aspects such as the removal/disposal of furniture and equipment; cancelling facilities contracts and returning hired in equipment; carrying out any emergency repairs; securing the premises upon closure (alarms, keyholders and regular inspections); draining down services and recording utilities information; notifying insurers and the Local Billing Authority regarding business rates.

News Brief

HealthInvestor Award Finalist

Our Healthcare team has once again been shortlisted in the HealthInvestor Awards 2022 in the Property Consultants of the Year, Property Services category. The Awards promote excellence and recognise outstanding performance in the independent healthcare sector. They acknowledge organisations and individuals that have made an outstanding contribution to healthcare across categories including advisory and finance, investment, property, social care and technology.

HealthInvestor Awards 2022 Finalist

Read our reviews on Practice Index

Would you like to hear about our recent successes and what our clients say about our Healthcare team?

Visit Practice Index (www.practiceindex.co.uk) where you can read more about our services and how we have worked with GPs and Practice Managers across the UK.

PRACTICE INDEX APPROVED SUPPLIER

Join us in Liverpool and Bristol

We are delighted to be joining this year's Management in Practice conferences on 7th July in Liverpool and 19th October in Bristol. For further details, visit www.managementinpractice.com and to book time with our Healthcare team to discuss premises requirements, call 01727 844 555.

Maximising the price of a property

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As more doctors are looking towards retiring, some earlier than anticipated due to the consequences of the pandemic, many GP partners are considering a sale & leaseback arrangement to allow themselves more mobility and flexibility with their finances.

The common concern surrounding sale & leaseback transactions is whether the GP partners are going to get the best price for the property they own. Similarly, any potential purchaser will be insistent that any risk surrounding the purchase of a property is minimised.

Below, we discuss five tips and advice in order to secure the best possible value for your property

1. Notional Rent

Typically, the first thing valuers will consider when valuing a property is the rental income, for most practices this comes in the form of a notional rent, distributed by NHS England. The notional rent at a practice should be reviewed every three years on a hypothetical lease basis, it is the practice's responsibility to trigger the rent review from the local CCG and provide necessary documents to request the District Valuer's updated opinion of the rent. This process is made significantly easier by instructing an independent specialist healthcare surveyor to advise and negotiate the review. Experienced healthcare surveyors will be able to assist with the preparation of the documents to trigger the rent review as well as negotiate with the District Valuer on their opinion of rent. It is important to remember that the proposal from the District Valuer Service is their opinion only and there is usually further flexibility within this figure as well as the potential for inaccuracies within the assessment. It is therefore important to seek independent advice from specialists such as Aitchison Raffety in relation to the proposal when it is received to see if an appeal is worthwhile. Carrying out regular rent reviews is seen as a positive factor by potential purchasers and will maximise the sale price of a property.

2. Third party occupiers

Practices throughout the UK frequently sublet their available space to third party occupiers to generate additional income, this can come in the form of physiotherapists, district nurses, dentists, or pharmacists among others. Typically, there will be a lease in place for any underlet areas, however if this is not the case then it is essential that this is agreed, reflecting appropriate terms and rents with the advice of specialist healthcare surveyors. Aitchison Raffety are experienced in the process of agreed terms and putting a lease in place, which has a positive effect on the desirability of a property and can significantly increase the value of the premises. If a lease is already in place, then it is prudent to trigger the relevant reviews to ensure you are maximising the rent and therefore maximising the price potential of your property.

3. State of repair of the building

When considering the purchase of a premises of investment, purchasers will consider the condition of the property as a priority. This will be both in terms of the internal specification of the premises as well as the condition of the fabric of the building itself. NHS England provide guidance in relation to infection control and building standards which indicate what the expectations are for a property providing primary care services. Ensuring this guidance is followed will help to maximise the value of the property, as well as making it easier for the practice to provide said services. Exceptions are typically made in respect of the guidance for older converted properties as they often do not have the facilities to meet NHS England's guidelines. With regards to the fabric of the building the advice of a building surveyor may be required as to any necessary works or repairs that may be expected prior to sale. Aitchison Raffety can advise on this and provide a Schedule of Condition in relation to the premises and assist in building in reasonable time frames into any new lease for these works to be undertaken.

4. Appropriate documentation

When a partner sells their share of the premises to the Practice rather than to an external investor/purchaser, or when allowing another partner to buy in, it is essential that a Partnership Deed is in place which clearly indicates how the property is to be valued. The lack of a Partnership Deed will result in confusion and possible conflict between partners when the time to sell arrives. When putting this document in place it is essential that factors such as how the property is to be valued and how a valuer should be appointed are considered. In doing so, this will maximise the potential value of the property as well as avoiding potential conflict when the time to sell arrives.

5. A competent Valuer

It is essential that an experienced valuer is instructed to value the property. A surveyor with experience in the Primary Care Industry such as Aitchison Raffety would be the most competent individual to carry out this instruction and will ensure that the correct valuation is applied to a building, as well as being able to properly advise on any issues arising as a result. This reduces the risk from an investor perspective and increases the likelihood of a successful sale. Aitchison Raffety have more than forty years' experience in the surveying industry and undertake valuations for partnerships, secured lending valuations for major lending companies and portfolio valuations for large investment companies. We have successfully provided hundreds of valuations for clients across the UK and have had great success advising on and resolving issues surrounding getting the maximum price for a healthcare premises.

New healthcare developments – six things to consider before making a planning application

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Obtaining planning permission for new healthcare developments is not always an easy process. However, having acted for clients on planning matters in respect of healthcare developments for over 25 years, we are well placed to guide you through the process. In my experience, taking the right approach at the beginning and doing your homework beforehand is the best way to achieve results, saving a lot of time and expense in the long run.

These are my top tips to avoid the pitfalls and maximise the chance of success:

1. Understand the planning policies and requirements

All planning applications are assessed in relation to their accordance with the local plan, which can comprise of several documents. Policies in emerging local plans can also carry weight depending on the stage reached in their preparation. It is vitally important to consider existing and emerging plan policies as well as the Council's other supplementary guidance, to ensure that all requirements are addressed. Any proposals that are contrary to the development plan need to be fully justified and that's when it can be most important to seek professional advice.

2. Take professional advice

While some planning issues are fairly straightforward, most applications involve arguments as to the interpretation of planning policies, and sometimes whether particular policies flagged up by the Council are actually relevant at all. All local authorities have areas where new development is more tightly controlled than others, including Conservation Areas and the Green Belt for example. If not handled properly, with appropriate evidence provided in support, these designations can affect development opportunities and having a planning consultant on your side can make the difference between a scheme being refused or approved.

3. Make use of the pre-application process

Early engagement with the Local Planning Authority can often be invaluable to the success of a project. Pre-application submissions can be used to gain support from the Local Planning Authority, as well as guidance on any specialist reports or information that will need to be submitted with the formal application. It can also be a good time to discuss and agree any financial contributions or other requirements that may apply to a scheme which could affect its viability.

4. Consult with your neighbours and the local community

Engaging with local communities and anyone who could be affected by the proposal is very important. This is particularly useful for schemes proposing changes to healthcare provision, as demonstrating local support and highlighting the benefits of a scheme can be successfully used in negotiating a consent.

Early consultation also provides an opportunity for issues to be addressed and changes made to a scheme to gain support.

5. Know what you can do without planning permission

The construction of new premises will always need planning permission, but many changes of use can now be undertaken without the need for planning consent. Health Centres and clinics now fall within Use Class E and it is possible to undertake a change of use to or from a wide variety of other uses without requiring a formal planning permission, including offices, shops and gyms. The ability to change the use of a building without planning permission is often used to help negotiate a consent.

6. Provide robust supporting information

For all applications we would prepare a detailed Planning Statement which demonstrates how the scheme complies with relevant local and national policies and guidance and sets out the arguments why it is acceptable in planning terms. We would provide advice on the information required to effectively support a planning application and the need for any specialist reports.

For further information and to discuss any development projects please contact James Holmes MRTPI, Director and Head of Planning, 01442 291785 james.holmes@argroup.co.uk

What are capital allowances?

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Capital allowances were first introduced in 1946 to support investment and development in Britain following the war. Capital allowances are amounts a UK business can deduct from its profits qualifying capital expenditure before calculating its overall corporation tax or income tax liability. Since depreciation isn't allowable for tax purposes, capital allowances compensate for this. This tax relief is available to any UK business including a GP practice. For GPs that are arranged as a partnership, the capital allowances will act to reduce the individuals income tax liability.

The ability to claim capital allowances for a significant proportion of business expenditure is often underestimated. Any GP surgery that has either acquired, built or spent money improving their premises can likely benefit from capital allowances and use them to unlock tax savings.

Whether fixtures and fittings are included in the construction or refurbishment of a healthcare premises or the acquisition of a completed building. significant tax savings are often overlooked. These fixtures can represent anywhere between 5% and 75% of the cost of a property. Examples of expenditure that qualifies includes:

- Office and computer equipment
- Welfare and sanitary fittings.
- X-ray rooms
- Installation of pharmacy dispensing equipment
- Plumbing and heating costs, electrical installations and date/telecoms equipment.

The government has been using capital allowances to entice businesses to invest in plant and machinery for many years, realising the crucial role that equipment plays in driving innovation and improving the nation's economic output.

The scenarios in which capital allowances can be claimed are wide reaching and may be available in the majority of commercial property related situations. These consist of;

- purchases of second hand buildings;
- purchases of newly constructed buildings from a developer;
- other construction projects;
- extensions, alterations or refurbishments of existing buildings; and
- fit-outs of property, including leasehold improvements.

Examples of how Capital Allowances have helped GP practices

Case Study 1 – Property refurbishment

GP practice carried out several building projects at their premises over a number of recent years including updating the patient waiting areas and adding new consulting rooms and administrative areas.

We carried out a review of the spend totalling £645k with c£390k reimbursement received via NHS grant funding. This included a visit to the surgery to better understand the works carried out. As a result we identified c£75k of plant and machinery allowances which at a 40% tax rate will provide c£30k of tax savings. The plant and machinery items included mechanical and electrical installations, a lift and furniture and fittings.

Case Study 2 Property refurbishment – Landlord

This was an extensive refurbishment and extension project of a surgery with the cost being in excess of £370k.

The works included an extension to the waiting room and first floor as well as the refurbishment of internal finishes, services and fixtures and fittings to the existing surgery treatment rooms, waiting area and staff welfare areas. The plant and machinery items included new air conditioning units and heating systems, new plumbing and sanitary installations and new furniture for the reception, waiting area and treatment rooms.

We identified c£185k of plant and machinery allowances which at a 40% tax rate will provide c£74k of tax savings. We also identified c£12k of repairs costs and the majority of the rest of the expenditure was eligible for Structures and Building Allowances. The overall result was generated tax relief on over 90% of the total capital expenditure.

Case Study 3 Property acquisition

A GP practice recently bought the surgery building where they have been a tenant for over twenty years. The acquisition price for the surgery was c£2m.

Several building projects have been carried out in recent years which have been funded in a variety of ways either by the landlord, by the GP practice themselves in their capacity as tenant and from NHS grant funding on a reimbursement basis.

We carried out historic investigation into the eligibility to claim capital allowance identified c£130k of plant and machinery allowances which at a 40% tax rate will provide c£50k of tax savings for the GP Partners.

What is the annual investment allowance and super-deduction?

In an attempt to boost the post-Covid recovery, the super deduction offers generous incentives for businesses to invest in new equipment and machinery. The benefit of the super-deduction is the accelerating of capital allowances available.

This compares favourably with the "default" capital allowances position;

- for capital allowance main pool items, with a year one super-deduction of 130 per cent, compared with a standard 18 per cent allowance; and
- for special rate pool items, with an initial SR allowance of 50 per cent, compared with a standard 6 per cent allowance.

Using a 19% corporation tax rate, the 30% increase for main pool items will result in a cash tax deduction worth 24.7% of the expenditure in year one.

For businesses that do not pay corporation tax (e.g. partnerships or sole trader individuals), the Annual Investment Allowance (AIA) is still available. This provides a 100% tax deduction for qualifying spend of up to £1m. For a GP partnership, the AIA could potentially save the partners a combined £400k in tax!

Any business that owns or occupies commercial premises, and has spent in excess of £300,000 on that property should consider reviewing their capital allowances position to see if they are maximising the tax relief available to them.

Entering into a Lease Agreement

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Any Practice considering entering into an agreement to lease will need to consider the early appointment of a monitoring surveyor to provide necessary technical advice.

The NHS (General Medical Services - Premises Costs) Direction 2013 define such a reimbursable professional role as a project manager but the services required more closely follows a project monitoring brief. It is essential that the monitoring surveyor has primary care experience and fully understands the particular requirements of their client in order to provide comprehensive, accurate, impartial and concise advice.

The appointment of a monitoring surveyor should be at the onset of the project so they can have an early involvement in the design development and shaping the Practice's initial brief. Many developments have suffered from design shortcomings which were not been picked up until later in the design phase and when a resolution was more problematic.

A monitoring surveyor needs to be fully articulate with design related matters as there is need for careful interpretation of NHS design guidance relevant to a primary care setting rather than secondary care.

The design process will be typically led by an architect and the monitoring surveyor will need to have an understanding of design related matters so they can ensure the Practice's brief is best incorporated.

This is even more important when a development is being undertaken by a developer and or professional team with limited primary care experience.
As well as design drawings a development agreement will include detailed specifications and room data sheets that will set out prescriptive and or performance based requirements for a development.

When reviewing and agreeing these, the monitoring surveyor will need to understand relevant NHS design guidance, Valuation Office Agency information requirements and statutory requirements. Primary care developments are unlike other commercial developments and a monitoring surveyor needs a broad experience of the primary care development marketplace.

The development phase of a project should only commence once the monitoring surveyor has advised the practice fully on the above matters together with other considerations that will typically form the monitoring surveyor's pre contract scope of service.

During the development phase the monitoring surveyor's role will include reviewing the detailed design and implementation to ensure it fulfils the requirements of the agreement.

As well as outcome and quality management they will advise on the programme and any necessary financial management related to the agreement.

An experienced primary care monitoring surveyor is almost certainly likely to make a valuable contribution to a primary care development and will greatly enhance a Practice's risk management.

John Clark BSc (Hons) MRICS is a Chartered Building Surveyor with over 20 years primary care monitoring, design and project management experience. He has advised many clients including Practices, CCGs, other health organisations and funders on more than 100 primary care developments.

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