

Frequently asked questions: GP Property Developments

Q. How do we go about establishing whether it is feasible and affordable to develop a new premises or upgrade/extend our existing property ?

There are a number of steps that need to be taken to reliably fulfil this with certainty, each of which have significant importance to the other. Namely;

- Establish your needs by a schedule of required service lead accommodation
- Sufficient land/space to develop on
- Indicative cost appraisal taking account of every connected cost, including legal and finance
- Test affordability and serviceability by modelling how the proposed total debt requirement can be met by the related income from the NHS and other tenants.
- Obtain written support from an initial submission of an appropriately worded business case to the appointed NHS body, clearly laying out the benefits, case for change, and value for money

Q. How do we establish how large the development should be ?

The building should be an appropriate size to house a range of services to meet the registered population needs both now and in the future, by means of projected population growth. This should also recognise movement in population, proposed housing growth, the potential to merge or jointly occupy premises with other neighbouring practices (providing added value for money for the NHS), and patient demographics.

There are current guidance procedures in use by NHS that assist them determining the supportable size of the building by way of rent reimbursement. It is therefore imperative to understand which applies to your development

Consideration should be given to other appropriate services that may wish to be housed within the building as a tenant. Notably; pharmacy, dentistry, optician, nursery, physiotherapy etc.

Q. How do we go about arranging funding for a scheme ?

Talk with a lender at the start of the scheme having established that it is viable and supported by the appropriate NHS body. However, the lender will only formally be able to provide a credit sign off to allow the build to commence when in receipt of the following:

- Completed and agreed final business case
- Letter from the appropriate NHS body confirming the agreed rent reimbursement, and copy of the District Valuer's report
- A finance model demonstrating viability and serviceability
- Agreements to Lease signed by the various tenants, as appropriate.
- Copy of planning consent
- Copy of confirmed build tenders

It is important to understand the above and what is required and when. All lenders will demonstrate their willingness to support a project. However, it is key to ensure you have established a contact that really understands this specialist sector of the market.

Typically, these projects need to be funded with a high loan to value ratio (upwards of 90% of the gross developed valuation) and not all lenders will be able to support this. The key is to model and evaluate the strength of the projected lease income from the NHS and other tenants and demonstrate serviceability of the loan.

The specialist lenders recognise and understand the nature of the income and will be prepared to support and fund these schemes. It must be understood, however, that the NHS income alone on day 1 may not fully service the debt.

The difference maybe picked up by the additional tenants or by the practice(s)/participants. This maybe by signing an additional lease to cover an income shortfall until future rent rises negate the need, or by initial capital investment at the outset to lower the overall level of borrowing.

Generally, if there are costs prior to the start on site a lender will provide a sufficient overdraft. Given this maybe unsecured the practice(s)/participants would be expected to personally guarantee. The required level for this pre-start stage can be approximately 5% of the overall project cost. It is important to assess this requirement early on so as not to place undue pressure on existing lending facilities

Once the build has commenced and is within the development stage the practice(s)/ participants will also be expected to provide a cost overrun guarantee (again this could be around 5% of the project value). It is important that both from an individual and lenders perspective to point out this represents the 'true risk' period of the project. It is therefore key that only experienced architects, project managers and building contractors are requested to tender your build. In terms of your cost overrun guarantee the build contract terms should provide a fixed price to you, therefore, the price would generally only rise if the practice(s)/participants start to change the build design in any way part way through.

Q. How do you achieve the most competitive cost for your development without effecting the quality and reliability of the project ?

- Ensure the project is tightly co-ordinated and managed. Use an experienced project manager
- Ensure the team of appointed professionals all have previous experience on similar GP build projects
- Only tender to architects, quality surveyors, mechanical & electrical engineers, structural engineers, building contractors, and legal advisors that have a proven experienced successful track record of these types of projects
- Ideally appoint a legal representative that is also appointed by the lenders, in order that they then understand the requirements the bank will have in respect of building warranties etc
- Vat is a crucial element to a GP lead development given the restrictions that may apply. It is therefore imperative that a dedicated specialist is introduced to provide certainty to the potential level of Vat recovery. This can vastly effect the viability of the scheme and does need attention
- Capital allowance specialists will also need to be appointed at some stage as a maximum eligible claim here will save on future tax liabilities, and are therefore an important component to assessing debt serviceability
- Cap fees where the ability arises

Has the Practice(s) considered end-ownership of the development ?

It may not be right for everyone and as a group it is important early on to openly discuss the issues and benefits, compared to the alternatives of a 3rd party developer/owner.

Pro's :

- Long term investment asset
- Transferable
- The NHS via the GMS contract will fund the GMS areas
- The risk is the same for GP owned as it is if 3rd Party ownership as a lease would be entered into and provides the inherent security on any borrowings
- Compares favourably to other alternatives when measured as Value for Money by the NHS
- Control over building is held within the practice – noting future expansion/service needs etc

Cons :

- GP risk during development phase for abortive costs or cost over-run
- The pressure of project managing themselves
- Gaining bank support for lending
- The high value of costs involved and risks of borrowing such large sums
- Knowing where to start and who to approach to assist them

Q. What business entity should the building be placed ?

There is no clear right or wrong answer to this question as it will be based on individual circumstances

- Who is/ is not to be involved within the GP practice

- What are the long term plans or future exit strategies
- What are the options: Partnership , LLP, Limited Company
- What are the risks associated with each option
- Are there any superannuation issues to consider
- What are the taxation implications to each option both in terms of income/profit and capital gain on sale
- How does this effect the ability to repay the loan

The important factor is to discuss the above fully with both your accountants and legal advisors as appropriate to ensure everyone understands the issues and can therefore make an informed decision