

25 May 2017

Senior Partner/Practice Manager
For Practices Occupying NHS LIFT Premises

Dear Tenant/Occupant,

Charges for the Occupation of NHS LIFT Premises 2017/18

Please find enclosed what I trust is a self-explanatory guide to your tenancy charges for 2017/18. In addition, there are some important developments that I want to bring to your attention so please read the rest of this letter carefully.

CHP and NHS England are both aware that the premises financial regime established in 2013 created non-reimbursable cost pressures for some Practices which have resulted in disputed charges, unresolved debt and a lack of willingness to commit to leases where they are not already agreed. There are a number of components to this problem, but the following three are the most common and I have set out how these will now be addressed

1. Subsidised Occupation

Where Practices agreed leases with the former Primary Care Trusts, it is common to find clauses (or side letters) which result in the full cost of occupation not being charged to the Practice, and in such cases the balance is charged to the relevant commissioner.

Other Practices were offered similar incentives (or subsidies) by the former PCTs but, for one reason or another, they do not appear to be documented. ***If you are able to provide documentary evidence (signed by both parties) in the form of a contract, side letter or some other agreement CHP will, even at this stage, honour those historic commitments.*** If you have no such documentary evidence but still believe you should be receiving financial support, it is important that you formally raise the matter with your commissioner.

As CHP's property division works on a simple cost recovery basis, we don't have any financial resources to support your occupation and must recover our costs in full so ***it is vitally important that you work with the commissioner(s) that provide your funding to resolve such issues.*** My team and I are always happy to assist you wherever we can in putting forward your case, as long as your account with us is in good order.

2. Value Added Tax (VAT)

Because of its tax status (agreed with Government), CHP is obliged to add VAT to tenant charges. The ability of NHS organisations to reclaim the VAT means that for many tenants there is no net financial impact, but General Practices are, of course, not NHS bodies and with the majority not being VAT registered, the VAT cannot be reclaimed. In simple terms, Practices have seen an increase

of approximately 20% in non-reimbursable property costs. I am aware that a number of Practices have been able to meet these costs, sometimes with support from their commissioners locally, but many have not and this too has meant escalating levels of debt and a reluctance to commit to leases.

I am therefore pleased to announce that the Board of CHP, with the support of its sole shareholder the Department of Health, has agreed to use investment income to meet the VAT on your non-reimbursable charges from April 2017 onwards.

Tax regulations mean that it is still necessary to include the VAT charge on your invoice but, if you have a lease and your account with CHP is in good order, the VAT will be credited to your account on a six-monthly basis.

I appreciate that many Practices have outstanding debt relating to the VAT element of charges from prior years, and I have been working with NHS England nationally to consider how this problem can be solved. NHS England colleagues are sympathetic to the position that Practices find themselves in and have identified some non-recurrent funding which could be used to address this issue. There are two preconditions to the release of such funding. Firstly, that there needs to be a recurrent solution in place – this has been addressed by CHP's commitment to fund the VAT cost. Secondly, that Practices should have agreed an under lease with CHP and have an account that is otherwise in good order. I am hoping to soon confirm a scheme with NHS England to take this forward and I will be writing to you again with details.

3. Management Charges

It is probably an understatement to say that management charges have been another area of contention, again resulting in disputed charges, debt, and a lack of willingness to commit to under leases. As explained previously CHP's management charge, at approximately 2% of total occupation costs, is low in industry terms and only recovers the actual cost of services provided to tenants. However, I fully recognise that such costs were previously absorbed by the former PCTs and that no funding was passed to Practices in 2013 resulting in a cost pressure for many.

Again, NHS England nationally understands this problem and I know that in some parts of the country arrangements have been made to ensure the management charge is applied to the rent meaning that it becomes reimbursable and therefore not a cost pressure for individual Practices. It is not tenable to continue with this differential approach and therefore for 2017/18 (and subsequently), we will apply the management charge to the rent meaning that it will be classified as a reimbursable for all Practices.

I'm afraid that it is not possible to apply this approach retrospectively, which means that outstanding amounts remain payable and I will continue to pursue payment.

Reimbursable Property Expenses

In the vast majority of cases, Practices are content with the reimbursable element of property charges but many of you are as frustrated as me when it comes to the mechanisms employed locally to ensure you have the funding to meet your obligations. For Practices, the payments can present cash flow challenges and there is a considerable administrative burden managing the flow of funds on a monthly basis.

I am pleased to say that NHS England is committed to working with CHP to find a way to streamline and speed up the process based on CHP sharing charging schedules directly with it and the CCGs. This means you should receive the funding on a regular monthly basis to allow you to plan accordingly. Further details will follow soon.

Although I appreciate that a good deal of frustration has built up over the last four years I feel that, taken together, these initiatives are an enormous step forward which offer the potential for us finally get our tenant landlord relationship on the kind of footing that we all want. If you want to take advantage of these initiatives, please speak to your Property Manager in the first instance and he or she will be happy to facilitate.

It is important to keep your account with CHP in good order as we work through these issues, so my request is that you continue to pay those items which are not disputed promptly and encourage your commissioner to adopt direct payments as rapidly as possible

Yours faithfully,

A handwritten signature in black ink, appearing to read 'M. Day', with a long horizontal flourish extending to the right.

Mark Day
Chief Financial Officer