**NHSPS Charging Policy 2016/17**

**Exec Summary**
Consistent with initiatives being introduced more widely in central government to improve value for money in property occupancy arrangements, properties held by NHS Property Services Ltd (NHSPS) are to be put onto market-based rental arrangements from 2016-17.

The purpose of this policy is to provide clarity to customers on the charges payable for occupation of NHSPS properties. The paper is relevant to customers with signed leases already in place and customers who are currently occupying premises on an undocumented historic basis.

On 1st April 2013 freehold and leasehold properties held by PCTs and SHAs transferred to NHSPS. A total of 1,793 properties with a total value of £3,418m were transferred and are now under NHSPS legal ownership. In addition leases for 1,929 properties at an annual cost of £165m were novated to NHSPS as head tenants.

From 2016/17, NHSPS’ properties will move from the previous cost recovery basis to a standard market rental approach.

Rental for freehold buildings will be charged on a market rental basis. Market rental will be determined by an external valuer applying market recognised valuation standards. Rental for leasehold buildings will be charged in line with the existing head lease rental charge plus a management fee. For efficiency the external valuer will be the DV in all cases where a GP occupier is involved.

Service charge invoicing will continue on a pass through basis and will include a fixed management fee to cover the cost of providing the services.

Optional facilities management services will be provided under the terms of separate facilities management contracts. Charges will apply in line with the relevant contract.

All charges will be calculated at building level and released in time for inclusion in the NHS budget process for 2016/17. It is recommended that commissioners negotiate budget adjustments with their providers to offset the impact of the resultant cost changes.

**Building Occupation**
Market rental values are calculated with reference to the net internal area (NIA) occupied by the tenant.

Service charges are monitored, controlled and accumulated at a building level. The service charge costs of each building are then charged to tenants in line with their percentage occupancy of the building.

Unless there is an agreement to the contrary, percentage occupancy will be based on the tenant’s share of the total NIA within the building.

Unless there is an agreement to the contrary, the market rental and service charges for common areas within buildings are charged to tenants in line with the percentage of the total NIA within the building that they occupy.

In some cases, tenants will have an agreement in place to allocate the costs of common areas in a specific way e.g. meeting rooms or designated reception areas. Where there is a written agreement in
place that is accepted by all relevant parties, the costs of common areas will be charged to tenants in line with that agreement.

Rental Costs

Leasehold Properties
Rental costs for NHSPS’s leasehold buildings will be charged on the basis of a pass through to sub-tenant occupiers of the existing head lease rental charge plus a management fee of 5%. The existing head lease rental charge is the market rental as determined at the time the original head lease was entered into, uplifted to reflect any subsequent rent reviews.

In some cases, NHSPS will have invested its own capital in, and own plant and equipment at a property or will have completed and funded capital enhancements and improvements to a property. The incremental impact of any such investment by NHSPS on rentals charged to its relevant sub-tenants will be agreed for these on a case by case basis.

Freehold Properties
Rental for freehold buildings will be charged on a market rental basis. Market rental will be determined by an external valuer applying market recognised valuation standards. Market rental values are calculated with reference to the net internal area occupied by the tenant. For efficiency the external valuer will be the DV in all cases where a GP occupier is involved.

Landlord Service Charge

General Service Charges
Service charges are levied to recover the cost of providing core landlord services to a property. These costs are recharged on an actual cost incurred basis. The costs incurred will include:

- Rates;
- Utilities;
- Security;
- Waste management;

Building Maintenance and Repairs
Service charges are levied to recover the NHSPS’s cost of operating the property. These costs are recharged on an actual cost incurred basis. The costs incurred will include:

- Compliance with statutory regulations;
- Health and safety;
- Refurbishment;
- Planned preventative maintenance;
- General maintenance and repairs;
- Quality assurance;
- Mechanical and engineering services;
- Other landlord services for premises with multiple occupiers, e.g. grounds maintenance;

Management Fee
A management fee of 10% will be added to the service charges to cover NHSPS’ costs in arranging and managing these services, the management fee will be reduced to 5% for any amount related to rates,
utilities or superior landlord service charge. This fee is to cover the cost of managing the property; and the cost of managing the services provided to the property.

**FM Services Provided at the Customer’s Option**
Facilities management services will be charged to tenants for the specific optional services provided to a property. Charges will apply in line with the separate individual facilities management contract between them and NHSPS. The services covered will include:

- Cleaning;
- Catering;
- Grounds maintenance for single occupier premises;
- Reception;
- Portering;
- Car park management;
- Pest control.

The prices charged by NHSPS for these services will be inclusive of any management cost incurred by NHSPS in their provision.

**Invoicing**
Each customer will receive separate invoices in respect of the part or parts of each property that they occupy. Invoices will be raised separately for each type of service provided:

- Rent
- Landlord service charge
- FM services

Invoices for rent and landlord service charges will typically be raised quarterly in advance. These invoices will be due for payment on the standard quarter days 25 March, 24 June, 29 September and 25 December. The quarterly invoiced amounts will be fixed for the year; charges and associated management fees will, at year end, then be adjusted to the actual cost of services provided via an additional invoice / credit note as a year end adjustment. Any significant changes in cost expectations will be communicated in a timely manner so occupiers have on-going clarity about potential cost pressures/savings likely at year end.

Invoices for FM service charges will typically be raised monthly in arrears. These invoices will be due for payment in line with the invoice date and customer credit terms.

In cases where there is a written agreement for one party to subsidise a tenant, the invoices will include a specific adjustment to reflect the giving / receiving of the subsidy.

**VAT**
Invoices will include VAT if they are related to a building that has been “opted to tax”. All FM services provided to buildings that do not belong to NHSPS will also include VAT.

No building that was not already “opted to tax” as at 1 April 2015 will be opted to tax without full involvement of DH and NHS England. This is to ensure that there will be no increase in the VAT burden to commissioners as a whole.
**Capital Improvements**
NHSPS self-fund all capital investment in order to maintain the condition of the estate; ensure continuity of service; and provide an estate that is operationally safe. Operationally safe includes, within acceptable timeframes, meeting all reasonable CQC compliance requirements that NHSPS is responsible for as a landlord.

The standard NHSPS lease terms include the ability to create a sinking fund to cover future maintenance and repair costs. NHSPS will provide an option of a sinking fund which will be separately funded and used to offset the costs of repairs and maintenance.

Capital investment on freehold premises is funded from NHSPS resources and may be supported by additional DH equity funding for larger schemes. These investments are accounted for as assets by NHSPS. The cost of the capital investment will increase the market rental value of the building and be recovered through increased rental charges. The cost of capital investment may be supported by capital grants on a case by case basis. Where a capital grant has been received, the grant funding is used to offset the increased rental cost.

Capital investment on leasehold premises are generally funded by the owner of the property and recovered through increased rental charges. NHSPS will continue to provide customers with an option of NHSPS funded leasehold improvements. The cost of the capital investment will be recovered through a charge in addition to the rental, the charge to be calculated with reference to the lower of the life of the asset and the time to the next lease break. Any remaining balance will be chargeable at the end of the occupancy.

**Other Property Related Activities**

**Vacant Space**
Refer to separate vacant space policy 2016/17.

**Dilapidations**
The cost of dilapidations is the responsibility of the tenant and will become payable at the end of each occupancy. Where dilapidations are covered by a specific agreement such as a lease or MoU, then this agreement will apply.

Dilapidations costs for leases granted by NHSPS in respect of its freehold premises will be calculated by NHSPS at the end of the occupancy. Dilapidations costs for leasehold premises will be mitigated and negotiated by NHSPS at the end of the sub-tenant’s occupancy. In all cases the dilapidations costs will be agreed with the tenant on a case by case basis applying established market practice.

NHS England, Commissioning Support Units and Primary Care Support Services have specific agreements in the MoU / MoO which determine the apportionment of dilapidation costs between these bodies and NHSPS. For these organisations dilapidations payment means:

\[ \frac{Y}{X} \times D = DP \]

Where:
DP = dilapidations payment
X = the period from and including the date of the lease held by NHSPS (or its statutory predecessor) in respect of the relevant property until the date the occupier ceases to occupy the relevant property expressed in days.

Y = the period from and including 1st April 2013 until the date occupier ceases to occupy the relevant property expressed in days.

D = the total dilapidations cost.

Clinical commissioning groups will be responsible only for the dilapidations that they have directly caused or that have arisen during their period of occupancy.

**Changes Compared to 2015/16 Policy**

For freehold buildings the rental will be charged on a market rental basis. In 2015/16 costs were charged on a cost recovery basis.

For leasehold buildings the management fee will be a fixed 5%. In 2015/16 the management fee was the NHSPS national organisation costs allocated to buildings in the same proportion as the gross costs of operating the building in question bore to the aggregate gross costs of operating all NHSPS buildings that year.

The landlord service charge will include a management fee equal to 10% of the landlord services charges, reduced to 5% for any amount related to rates, utilities or superior landlord service charge. In 2015/16 the management fee was the NHSPS area and region overhead costs allocated to buildings in the same proportion as the gross costs of operating the building in question bore to the aggregate gross costs of operating all NHSPS buildings in the same area or region (as the case may be) that year.

Facilities management services will be provided under the terms of the facilities management contracts. In 2015/16 costs were charged on a cost recovery basis.

Capital investment on freehold premises will increase the market rental value of the building and be recovered through increased rental charges. In 2015/16 capital investment increased the depreciation charge which was then recovered through the cost recovery based charges.

A new vacant space trading model will apply, for details refer to the vacant space policy 2016/17. In 2015/16 void costs were charged to the most relevant CCG / NHS England body until the space was sold, lease terminated, surrendered or sub-let.