

Austerity era projects

David Rees discusses the impact on funding new GP surgeries post-Budget.

Well, we are where we are – the Emergency Budget made for uncomfortable listening yet the general mood afterward seemed to suggest that the country was ready to be told that big changes were coming. When major changes are happening around us, the hardest part is accepting a new reality: the certainties we relied upon are now gone and we cannot turn back the clock.

It is even stranger to look back on the pre-recession era and be told that it was a boom when for many people it probably did not feel like one. Standards of living did not seem to rocket upwards and while money is now no longer so freely available from lenders there did not seem to be a waterfall of cash then.

The real change that will frame the future for GPs is the depletion of public funds and an enduring shortage of cash to be injected into new surgery schemes. At the same time changes to the relative responsibilities for service provision with PCTs and the arrival of CQC assessments will further muddy the waters and present a challenging environment for practice development.

Dealing with uncertainty has always been part of the milieu of a vast system run on the basis of perceived social need and changing political dogma. So in a way the new realities of George Osborne's budget might even be slightly reassuring in that he has set out a fiscal framework with the tax rates for the next four years.



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● Could a refurbished staff kitchen qualify for Capital Allowances relief?

A better route perhaps than the year-on-year changes which have come to typify past budgets.

Where does this leave GP practices? Not everyone is lucky enough to be in one of the many comfortable new surgeries that have been built over the past decade. A vast stock of older converted buildings is still the predominant home for many practices. The onset of CQC assessments will raise many questions of how the section on premises is to be interpreted and more importantly, what action PCTs are likely to take in the many cases where they will probably be judged unsatisfactory.

More fundamentally, if we know that we are heading into a lengthy fiscal austerity period, then GPs who still have 10 to 20 years or more of their careers to run will do well to pause for a thought about their property options.

Capital Allowances

Prior to the Emergency Budget it was rumoured that the UK's system of tax reliefs on commercial buildings known as Capital Allowances might well be struck off the statute books as a way of reducing tax leakage. In the event the Chancellor commented that he had listened to the arguments and been persuaded that incentives to invest in property would be important and therefore the system would remain largely unaltered. Essentially the changes are a slowing down in the rate of claim and a reduction to the Annual Investment Allowance from April 2012. In essence in any construction project elements of the building and fit-out can qualify to be written down against tax by the person who incurred the cost. This is somewhat confusingly described as the 'fixed plant and machinery' content of the building – a term that tends to conjure up images of spinning lathes and heavy industry. It includes key systems such as heating and cooling, the electrical entirety and a wide range of fit-out items from kitchens and toilets, to shelves and cupboards.

For a new build surgery, it typically means around 30 per cent or more of the construction budget being reclaimed as tax relief by the partners underwriting the cost. Thus a £1.5m build programme produces £450K in tax reliefs and at the 40 per cent tax rate this equates to a personal tax saving of £180K.

Knowledge

A key problem surrounding Capital Allowances is lack of knowledge. In general tax relief is not well understood by many in the construction industry and over time has slipped downstream to become a post-project diligence matter picked up by some accountants. This might have been acceptable in an easier financial climate but today an awareness of the value of tax relief in a possible project can do a great deal to improve

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the viability of the financial models and bolster a partnership's confidence to going ahead. Early appraisals of the possible level of allowances in a building project are readily available from Capital Allowances consultancies and usually at no cost. A preliminary review will also help ensure that opportunities are maximised.

Greener buildings

This early awareness also ensures that the opportunity provided by the Enhanced Capital Allowances scheme is considered. In short, this is a first year 100 per cent tax relief for qualifying energy saving or low carbon equipment. In the main it will apply to heating, cooling, lighting and some water technologies. It is however, a comparatively new system of relief that is only now getting off the ground and in our experience, unless considered at the planning stage, it will usually be overlooked. This is unfortunate in that

other benefits beyond the accelerated tax relief are also lost. For instance, the latest energy saving equipment will help support efforts to achieve a BREEAM excellent rating and the associated running cost savings are a long term gain – and also help to 'future-proof' the building.

Refurbishment

Within a new build project a high proportion of the cost goes into the shell of the building, whereas in a refurbishment, as this is already in place, a much higher proportion of the cost is associated with renewal of the building systems and fit-out. This can often be as much as 75 per cent of the total budget. Thus £100K in improvements may mean £75K of tax relief equating to £30K in tax savings at the 40 per cent rate. The key benefit is plainly the level of cost reduction to be achieved – but more importantly, an early understanding of this can be crucial in making key decisions on budget and specification.

VAT recovery

Now going up to 20 per cent from January 4, 2011 and likely to stay there for a while, this is not a great incentive to build a new surgery if it is all lost to the Exchequer. However, a significant proportion of the VAT element is often recoverable. For instance, VAT can be added to the claim established for the 'plant and machinery' and therefore in a new surgery this might be around a third of the total VAT. Where the surgery also has a pharmacy element or other shared facilities then by a sophisticated apportionment a further significant tranche of the VAT can be recovered with the expert help of a specialist consultant in this narrow field.

Sometimes practices elect to go the route of establishing a company as the vehicle for development and ownership as a straightforward way of reclaiming VAT. This route needs careful consideration because a small ☺

Company has a tax rate that is half that of the personal 40 per cent rate – thereby halving the value of the tax savings produced by the Capital Allowances. Also, any monies such as rents that are passed through the company and then distributed will then suffer a second additional taxation as personal income.

Own or rent

The past decade has seen a blossoming of what have become known as ‘3PDs’ or Third Party Developers – essentially a specialist constructor who will provide a turnkey solution of a new surgery which is then leased to the partners. This is unquestionably the right solution where most of the partners are in the latter stages of their careers and a longer term property investment does not appeal, or where the practice sees a steady turnover of GPs and thus needs the simplest real estate solution. Some companies have evolved successful development and investment solutions that provide a no-fuss procurement process.

However, it is often the case that partnerships take what might appear the easier option of a 3PD scheme without a full understanding of the financial opportunities and the value of the Capital Allowances tax savings which they will receive by owning the building themselves – or potentially the longer term investment value of the property

asset. There is no shortage of private funds available from those who view a GP surgery – underwritten by the Government – as a particularly attractive investment. Sometimes it is only the GPs who fail to see the opportunity.

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Solutions

There is often a synergy between local GP surgery needs and other development schemes being undertaken nearby to be considered. Food retailers have for some time now been in close competition with each other to increase their penetration of urban areas with smaller supermarkets. Their problem is often gaining sufficient support to achieve planning consent. However, if the new store is combined with a new GP surgery above it then the likelihood of community support and getting planning permission might be significantly improved. This might provide another way of achieving a turnkey solution with a well set-up development partner but at the same time retaining the investment value.

Going forward

This article does not set out to cover the intricacies of dealing with PCTs for their support, or the issues of negotiating on notional rent with the district valuer, for which the services of a specialist surveyor are invaluable. However, a full understanding of the benefits of the available tax reliefs will mean that in many instances, even though there may be no capital injection to be had from the PCT – and none likely in the foreseeable future – a new surgery project can still be a very viable and valuable investment for a partnership. With the Government’s strategy being mapped out for the life of the parliament there is an argument for starting to make plans that look forward for the next decade. A full consideration of the options is the sensible way to ensure that a practice takes steps to ensure that it is located in the best buildings that it can afford for the sake of a more comfortable working life for GPs and a more agreeable environment for their patients. ■

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