INFORMAL MEETING BETWEEN PCPF AND DVS

In attendance: John Hearle,PCPF, Joint Chair
Richard Taylor, PCPF Committee Member
Mark Holmes, PCPF Member
Andy Baxendale, DVS

1. 2013 PREMISES COST DIRECTIONS

Andy Baxendale noted that as his clients were the Department of Health and they were in the process of preparing Guidelines for the 2013 Directions he was not in a position to discuss any matters revolving around the 2013 Directions. John Hearle noted that this was understood but that we wished to run through the four sub-headings just so that DVS were aware of the PCPF's concerns. None of these related to the required Policy of the Department but solely matters of valuation and its funding effect.

a. Double Parking
John Hearle made a point that whilst the new Directions wish to exclude any value attributed to double parking, this could cause problems in high value areas such as London where there was no choice other than double parking and where double parking had a high value.

b. The difficulty in determining the difference between improvements designed solely for reduced environmental impact (for example replacement windows) which now have to be excluded from CMR assessments, as opposed to general improvements which would normally be included in CMR assessments was discussed. Potential problems in deciding which improvements were to be so excluded was noted at the meeting. AJB was unable to comment.

c. Notional Rents to Exclude Alternate Use
John Hearle pointed out the difficulties here relating to historic properties which in high value residential areas may have been purchased based on high value residential prices and Notional Rents set on high value residential rents. To retrospectively reduce Notional Rents could render GPs in a position where loan commitments could not be met, funders trying to call in loans and ultimately GPs going bankrupt. It was hoped that the Guidance would cover this.

d. Lease Rent Reviews and Rent Review Memorandums
The 2013 Direction's requirements that before the NHS will instruct the District Valuer's Office to assess the rent for reimbursement purposes in respect of a lease rent review, the Rent Review Memorandum had to first be signed was discussed. Richard Taylor and Mark Holmes made the point that unless Doctors had some form of agreement whereby the lease rent would not exceed the rent reimbursement, the Doctors were simply not agreeing to sign. Doctors had enjoyed such protection for a number of years and certainly within the current uncertain times were not prepared to forego the protection that their predecessors has enjoyed.

John Hearle believed that whilst the Directions required a Rent Review Memoranda to be signed, that was not the real requirement of the NHS. The matter of the rent review memo could be sidestepped by various legal actions which were discussed. The real purpose was that the NHS wanted to see Doctors instruct their own surveyors and vigorously negotiate rents before they came to the NHS/District

Valuer to have such figures approved for reimbursement purposes. Having checked the Directions, the meeting concluded that there was nothing in the Directions that insisted on the rent being agreed by professional advisers. Andy Baxendale made the point that there was nothing stopping the lease rent being agreed at a different figure to reimbursement although of course the Doctors are unlikely to accept this. A scenario was discussed whereby normal lease terms required the full negotiation of the rent between the Landlord's Surveyor and Tenant's Surveyor resulting in a position with or without a Rent Review Memorandum being signed. In either case, if there was then a proviso that when the matter had been passed over to the NHS and gone through the full District Valuer Assessment and if necessary full Appeal Procedure, the lease could simply state that the results and CMR would then take place of the rent stated in the Memorandum. The question was put as to whether this was satisfactory provided of course the NHS could see clearly that a proper negotiation had taken place. AJB was unable to comment.

2. CMR AND INITIAL RENTS

a. Subsidised CMR on New Projects

This was the main point raised in the meeting between PCPF and DVS last year. The scenario was basically summarised and it was agreed between all parties that there were cases where the initial rent and initial level of reimbursement was not a market rent or full CMR for reimbursement purposes. Such a scenario would occur in a situation where the DV's Value for Money Appraisal had allowed a lower rent to be set in the lease and agreed for reimbursement purposes due to such things as large pharmacy premiums or land being transferred at below market price. It was noted that care must be taken as in some cases the items such as pharmacy rents just counteracted high value land meaning that rents were not subsidised but still at a proper CMR level. All parties agreed that the general principle should be recognised and properly recorded on the report issued by DVS.

3. THE INVESTMENT MARKET

a. IPD and PCPF Statistics

A general discussion took place and the following questions by Andy Baxendale and John Hearle confirmed that the statistics were a result of limited information on between 50 and 100 rent reviews analysed over a particular year. No details were looked into as to whether or not there was any particular unusual reason for either a high increase or indeed a low increase. Andy Baxendale pointed out that this made such information rather too general for valuation purposes. John Hearle confirmed that they were only initial statistical information and that where individual valuations were concerned, clearly further information and further analysis would be necessary. Nevertheless, both the PCPF and IPD statistics were of use to a valuer.

Andy Baxendale questioned the calculation of increase which did not appear to tie up with the figures shown on the 2010 PCPF results. Post meeting, JAH confirmed that the incorrect stats will be replaced by the new 2013 stats and agreed that a caution will be added to the website explaining that the stats are based on basic information reported by PCPF surveyor members and there may be some instances where the rent has been affected by exceptional matters causing an out of tone increase or decrease.

b. <u>2014/2015</u>
A general discussion ensued over firstly the delicacy of the investment market where falling rents could notably put off investors (reduced funding and therefore require increased yields). JH commented that the Department did not seem to realise that there was a long lead in time, often a number of years, required for these projects and that the tap could not simply be switched on and off when new premises were required. The point was that if the Department is not in a position to afford new development in 2013/2014 then it firstly should still be looking at urgent cases (where leases were running out etc) and also planning now for 2015 onwards.

4. NEW PRIMARY CARE PREMISES DEVELOPMENT

a. <u>Role of NHS England and NHS Property Services</u>
A brief discussion over the uncertainty of individual roles.

b. <u>Procedures and Guidance</u>
It was confirmed that DVS, in common with the private sector and indeed many NHS England teams, have not yet had sight of the finalised document detailing the new Procedures / Guidance for new premises development and are not yet aware of when they would be released. John Hearle updated all concerned on discussions he had had with Robert Gregory of the Department and the belief that such Procedures and Guidance should be released in August.*(post meeting note – the document has just been released, copy attached).*

The meeting closed with all parties agreeing that it was very useful to have such informal discussions and that we should look to another meeting in 6 months time.

<u>John Hearle</u>