

Dear Colleague

**GP PREMISES SUSTAINABILITY LOAN SCHEME
2018-19
VALUATIONS AND FURTHER ADVICE ON LOAN
SCHEME**

Summary

1. I enclose a schedule of valuations of the GP owned practice premises in your Health Board area. These valuations have been estimated by District Valuer Services (“DVS”) on the basis of information already held by them without an additional visit to the premises. The valuations have been calculated on an “Existing Use” basis. This is the market value of the premises in use as a surgery. A more detailed explanation of “Existing Use” basis is set-out below.

2. I would be grateful if you forwarded a copy of this letter to each GP contractor who owns and occupies their practice premises in your area. Please only provide each GP contractor with the information in the schedule which is relevant to its practice premises. No GP contractor should be sent the valuation details for any other GP contractor.

3. The values in the schedule will be used in the GP Premises Sustainability Loan Scheme for two purposes and these are set-out below. The valuations provided with this letter may not be used or relied on for any other purpose.

Existing Use basis of valuation (i.e Surgery Value)

4. The values estimated by DVS for each owner-occupied surgery are based on the market value of the practice premises, but subject to a “Special Assumption” that the premises are restricted to continued GP use only and that there is one willing GP buyer for the premises. Surveyors often refer to this type of valuation as an “Existing Use” valuation but it may be easier to think of the valuation as representing the practice premises ‘Surgery Value’.

DL (2018) 15

19 July 2018

Addresses

For action

NHS Board Premises Sustainability
Loan Co-ordinators

For information

NHS Board Primary Care Leads
NHS Board Heads of Estate
Lead Co-ordinator, Practice
Manager Network
Chair, BMA SGPC

Enquiries to:

Phillip McLean
Primary Care Division
St Andrew’s House
E-mail: GPPremisesFund@gov.scot

5. To clarify what is meant by “Existing Use” basis valuations, in this context the surveyor ignores any alternative use that a surgery may have. An alternative use valuation may result in a higher or lower valuation. For example, residential will often be considered as a potential alternative use where the practice premises being valued is a converted residential property. The valuations estimated by DVS and provided with this letter do not reflect alternative use values.

6. The Existing Use/Surgery Value for this scheme is calculated on the assumption that there is one willing GP buyer for the practice premises. Therefore, there is less variation in the value of GP premises from one area to the other than there is in the general residential or commercial property market.

Purpose 1 – calculation of loan amount

7. The values in the schedule will be used to calculate the amount that each GP contractor (i.e. each GP practice) who successfully applies for a GP Sustainability Loan is entitled to receive. Each GP contractor is entitled to receive 20% of the value of its premises.

8. It is not open to GP contractors to challenge the values in the schedule. The Scottish Government will use 20% of the DVS estimate of the Existing Use/Surgery Value of the premises to calculate the amount of the loans. This is to provide both GP contractors and the Scottish Government with a degree of certainty for budgetary purposes. This will help ensure that the Scottish Government’s financial commitment remains affordable.

9. GP contractors may receive more than 20% of the DVS estimate of the Existing Use/Surgery Value of their premises only in exceptional circumstances. However, a view that the premises are worth more than the DVS estimate of their Existing Use/Surgery Value does not constitute exceptional circumstances. More details on exceptional circumstances are given below.

Exceptional circumstances

10. The loan amount may only be more than 20% of the DVS estimate of the Existing Use/Surgery Value of the premises in exceptional circumstances. The following are not exceptional circumstances in and of themselves:

- The GP contractor thinks its premises have a higher value
- The GP contractor is in negative equity
- The GP contractor needs to raise more than 20% of the Existing Use/Surgery Value of the premises to release equity to pay out a retiring or former partner.

11. To qualify as “exceptional circumstances”, the circumstances faced by the GP contractor must be significantly different than those which GP contractors commonly find themselves in.

12. GP Sustainability Loans are designed to allow GP contractors to continue to access the commercial mortgage market. GP contractors are expected to use the resources available to them, including commercial mortgages, to meet the premises related challenges which they face.

13. If a GP contractor believes that its circumstances are exceptional and can only be resolved with a loan greater than 20% of the estimated Existing Use/Surgery Value of the premises, it should inform its Health Board and Integration Authority at the earliest possible opportunity. It is not necessary to wait until the application process opens to do so.

14. The GP contractor will be required to provide sufficient evidence, to the satisfaction of its Health Board, to justify its view that its circumstances are exceptional.

15. The decision on whether to provide a loan of more than 20% will be made by the Health Board, the Integration Authority and the Scottish Government collectively in consultation with the BMA.

16. Even where exceptional circumstances are established, there is no intention that GP contractors will enter negative equity as a result of taking a GP Sustainability Loan. In those circumstances, GP contractors would be obliged to make repayments to its existing lender to bring its total borrowings down to a level which is equal to or less than the value of the practice premises.

Purpose 2 – calculation of equity

17. The values in the schedule will be used for calculating whether the GP contractor has equity in its premises or not. This will help decide how the loan is to be used.

18. If the GP contractor has sums outstanding on an existing mortgage which are greater than the value of its practice premises, it will be considered to be in negative equity and will be required to pay the full amount of the GP Sustainability Loan to its existing lender.

19. If the GP contractor has sums outstanding on an existing mortgage which are equal to the value of its practice premises, it will be required to pay the full amount of the loan to its existing lender, meaning that the total sums owed by the GP contractor to its existing lender and the Scottish Ministers will not exceed the value of its practice premises. It is not intended that a GP contractor will enter negative equity as a result of taking a GP Sustainability Loan.

20. If the GP contractor has sums outstanding on an existing mortgage which are between 80-100% of the value of its practice premises, and it receives a loan of 20% of the value of its practice premises, it will be required to pay such proportion of the loan to its existing lender in order to bring the sums due to its existing lender down to 80% of the value of its practice premises.

21. For example, if a GP contractor owes sums equivalent to 90% of the property valuation, and receives a GP Sustainability Loan of 20% of the property valuation, it will be required to pay 50% of the GP Sustainability Loan (i.e. 10% of the value of its

practice premises) to its existing lender. It is not intended that a GP contractor will enter negative equity as a result of taking a GP Sustainability Loan.

22. If the GP contractor has an existing mortgage which is 80% or less of the value of its practice premises, and it receives a GP Sustainability Loan of 20% of the value of its practice premises, it is not required to pay any of it to its existing lender (although it may choose to do so).

23. Where a GP contractor is required to pay all or any part of the GP Sustainability Loan to its existing lender, the Health Board will make payment of the relevant part of the GP Sustainability Loan direct to the existing lender.

24. This paragraph and the following one apply only to those GP contractors who own and occupy practice premises which have a possible alternative use (a use other than as a surgery). If the GP contractor:

a) believes that its practice premises have a higher alternative use value than the DVS estimate of its Existing Use/ Surgery Value, and

b) wishes the higher alternative use to be used for the purposes of calculating the level of equity in the practice premises (for the purpose of establishing the permitted use of the GP Sustainability Loan i.e. Purpose 2),

the GP contractor may, with the prior approval of the Health Board, instruct a full valuation survey to be carried out by a Member or Fellow, who is also a Registered Valuer, of the Royal Institution of Chartered Surveyors acting as an independent valuer. The GP contractor will be required to meet the cost of this survey in full and to ensure that the valuation report is either addressed to the Scottish Ministers or that they can otherwise rely on the valuation report.

25. The Health Board will take this valuation into consideration but it is not obliged to base its calculation of the amount of equity in the premises on the higher figure.

Future funding cycles and early repayment charges

26. The first five year funding cycle of GP Sustainability Loans is scheduled to be completed by March 2023.

27. There may be GP contractors who would incur significant early repayment charges under the terms of their existing mortgage if they received a GP Sustainability Loan before 2023 and were obliged to pay back part of its existing mortgage with it (as set out at paragraphs 18 to 22 above).

28. It is anticipated that any GP contractor who chose not to apply for a GP Sustainability Loan in the first funding cycle would (subject to Ministerial decision) be able to apply for a 40% loan in the second funding cycle (which is currently planned to begin April 2023).

29. GP contractors may choose to apply for a loan of less than 20% of the estimated Existing Use/Surgery Value of the premises. It is possible in some cases that a GP

contractor could make a smaller repayment on its existing mortgage without incurring early repayment charges.

30. GP contractors should consider whether they will incur early repayment charges under the terms of their existing mortgage before applying for a GP Sustainability Loan at this point, bearing in mind their obligations to repay existing borrowing set out at paragraphs 18-22 above).

Partnerships, ownership and valuation of medical practices

31. GP Sustainability Loans are intended to address issues relating to the ownership of practice premises by GP contractors. In many cases, a building will be the most valuable single asset of a medical practice and the mortgage secured against that building will be the single largest liability. GP contractors should consider the following when considering applying for a GP Sustainability Loan.

Partnerships – changes in membership

32. As a general rule, partners are all jointly and severally liable for the debts of the partnership. This should be taken into account when a new partner joins the practice or an existing partner wishes to leave the partnership as the partnership's debts may reduce the value of a partner's share. GP contractors who are partnerships should take legal and accountancy advice when they are considering a change in the membership of the partnership.

Partnerships - ownership of practice premises

33. To be eligible for a GP Sustainability Loan, the practice premises must be owned by (or held in trust by one or more of the current partners for all of) the current Partners of the practice (as at the date of drawdown of the GP Sustainability Loan). If that is not the current position, the GP contractor will be responsible for engaging a solicitor and incurring the costs in rectifying the ownership position. The owners of the practice premises will be obliged to grant a standard security (mortgage) over the practice premises to the Scottish Ministers. Transfer of ownership and drawdown of the GP Sustainability Loan can happen simultaneously on the date of drawdown.

Sale of goodwill

34. GP contractors are reminded that they are prohibited by regulation 3 of the Primary Medical Services (Sale of Goodwill and Restrictions on Sub-contracting) (Scotland) Regulations 2004 from selling the goodwill in their medical practice in any circumstances. As a result they are restricted to selling the physical assets of their medical practice. The physical assets may include such things as practice premises, equipment and stock.

Valuation of medical practice

35. The valuation of the net value of a medical practice should include a valuation of its physical assets as well as a valuation of its liabilities. GP contractors should take legal and accountancy advice when assessing the net value of their medical practice.

The Royal Institution of Chartered Surveyors has prepared guidance on the valuation of medical centres and surgery premises:

http://www.rics.org/Global/valuation_of_medical_centre_and_surgery_premises_2nd_edition_PGguidance_2017.pdf .

Further information

36. The Scottish Government, the BMA and Health Boards are continuing to work on the details of the loan arrangements. Further information on the scheme, including the date on which the application process opens, will be provided in due course.

YOURS FAITHFULLY

A handwritten signature in black ink, reading "Richard Foggo". The signature is written in a cursive style with a large initial 'R' and a long, sweeping tail on the 'o'.

RICHARD FOGGO
Deputy Director, Primary Care Division