



Department
of Health

Quarry House
Quarry Hill
Leeds LS2 7UE

18 April 2013

To: Chief Executives and Directors of Finance –
NHS Property Services Ltd, Community Health
Partnerships and NHS England;
Accountable Officers of Clinical Commissioning
Groups;
NHS Trust, Foundation Trust CEs and Directors
of Finance;

Dear Colleague

**Funding arrangements for the costs of properties transferring to NHS
Property Services Ltd and Community Health Partnerships Ltd in 2013-14**

As you will already be aware, when PCTs were abolished with effect from 00:01 on 01 April 2013, their properties, property-related staff and contracts transferred to successor bodies with the majority going to two DH-owned property companies, NHS Property Services Limited and Community Health Partnerships Limited.

I am writing now to inform you of the arrangements that have been agreed between NHS England, the Department of Health and the two Companies for funding the costs to them of operating this portfolio from 01 April 2013.

The key underpinning principle is that NHS bodies funded these holding and operating costs during 2012 -13 and earlier years, and they will continue to do so.

Charges to occupiers of buildings

Many of the buildings will be occupied by GPs and others for the provision of NHS services. Many of these occupancies will already involve charges to occupiers for rentals and associated costs. It is recognised that the existing charging arrangements will be reflected in those occupiers' plans, and the transfer to the new companies will not give rise to changes to those charging arrangements.

In many cases, the current charges for occupancy do not reflect the full costs of providing the accommodation, and in some cases the charges are minimal, or there are no charges. However, given that these arrangements too will be reflected in occupiers' 2013-14 financial plans, these charges will not be altered, except where rental costs or other costs that are passed through are affected by volume changes or inflationary changes that are contractually driven, such as the periodic rent-review provisions that are often specified in rental contracts, or by efficiency savings.

Charges for office accommodation:

Under the transfer arrangements, PCTs' and SHAs' office accommodation will generally have passed on to NHS Property Services Limited.

The costs of providing this office accommodation will need to be passed on to the new occupiers, generally CCGs, GP's and NHS England.

Where more than one such organisation is in occupation in a building, the rental charge will be apportioned using the information that PCTs provided through the recent PCT data refresh exercise.

Under-recovered costs:

As noted above, a proportion of the accommodation that is used for the provision of services has not been subject to full-cost recovering rentals and charges to occupiers.

In these instances, PCTs have met the shortfalls from their allocations, rather than funding these service providers so that they can in turn meet the rental and other occupancy costs.

As we do not intend that the basis of occupiers' charges should be altered in 2013-14 (other than where agreed with an occupier), commissioners of these occupiers' services will continue to meet the shortfalls in 2013-14.

There are also incidences of unrecovered costs where buildings or areas within buildings are vacant. The costs of these areas too were met from the commissioning budgets that funded these accommodation costs in 2012-13 and they will continue to be met by the successor bodies for these budgets.

The costs of managing property provision

PCTs generally also met the costs of the staff that were engaged in managing property provision from their budgets, as well as related costs, such as the costs of externally procured professional advice, and staffing overheads, rather than charging these to occupiers.

From April, these costs too will be borne in the first instance by the two Companies, but will need to be funded from the budgets of commissioners, including NHS England. These will be apportioned among commissioners (including NHS England) according to their relative shares of the total 'gross' estates provision cost.

Billing arrangements

Commissioners, including NHS England, will be notified shortly of the costs of both Companies that are not recovered from occupiers and therefore fall to be recovered from commissioners' budgets.

CCGs were notified of their allocations in December 2012, in a letter from Paul Baumann, the Chief Finance Officer of NHS England. This letter indicated amounts that CCGs should set aside for property-related charges, that were based on the July 2012 PCT Baseline Data-Collection.

A further data-collection was commissioned in early 2013 to refine these estimates, and the charges to be notified shortly will be based on these later estimates.

The amounts notified will be for the first quarter. Formal invoices will follow the notifications at the end of April. The notification will be accompanied by further information including the arrangements for managing the charging process, Frequently Asked Questions and important contact details.

Commissioners will receive a further invoice based on estimated costs for the second quarter. Charges for the third and fourth quarters will be based on actual recorded cost information, and will include a reconciliation to adjust the first two quarters' charges to "actuals".

Occupiers will receive their first invoices for the rentals and associated charges that they are to pay in May. As stated above, these will reflect the existing charging arrangements.

The future direction of travel

The arrangements described above, whereby commissioners (NHS England (National, Area and Regional Teams) and CCGs) will make up any shortfalls between the full cost of property provision to the Companies and rentals and other amounts charged to occupiers, will operate in 2013-14. However, it is intended that subsidised occupiers of property will move to full cost recovery rentals as soon as practical during 2013-14 and 2014-15.

This will in many instances necessitate a circular flow into the occupiers' service contracts. It will be a priority to ensure this does not have unintended consequences, particularly for more financially vulnerable partner organisations.

A key objective of the transfer of PCTs' and SHAs' property interests into companies that will specialise in property provision is the provision of a high quality property service and the achievement of significant efficiency savings.

Any future funding arrangements for the company will support this aim, with any changes from the 2013-14 arrangements implemented in a way that is fair and equitable to occupiers and commissioners, and that reflects existing occupancy rights.

Yours sincerely

A handwritten signature in black ink that reads "Ben Masterson". The signature is written in a cursive style with a large initial 'B' and a long, sweeping underline.

Ben Masterson
Acting Deputy Director
Procurement, Investment & Commercial Division

CC

Regional and Area Directors of Finance in the three organisations