

Changes to the NHSPS Capital Charging Policy

Background

- Supplemental rent is charged to cover the costs of work that has been undertaken on NHS Property Services (NHSPS) properties such as refurbishments or reconfigurations of space and a market rent is charged on the development of new facilities.
- To better align with other parts of the NHS and improve affordability for customers, NHSPS has made an amendment to its Capital Charging Policy to simplify how supplemental rent is calculated.
- The amended policy will not be applicable to schemes where construction has already started or been completed.

What is changing?

For new builds, acquisitions or extensions

- The higher of 3.5% or the District Valuer (DV) rent will be charged on the initial capital and any opportunity cost of holding land. This will reduce the real rate return over the life of the project that NHSPS currently achieve. This market rent will be subject to normal rent reviews and will be charged during occupation. In addition, other benefits may be realised such as the removal of backlog maintenance and surplus estates could be disposed of.

For capital only refurbishment

- Supplemental rent will be renamed to capital improvement charge (CIC) to more accurately reflect the nature of the charge.
- NHSPS will charge a capital improvement charge on top of the existing market rent that will be levied at depreciation (based upon the shorter of the lease term or the useful life of the asset) plus 5% so that the capital is recovered.
- The capital improvement charge would be applied when capital works are requested by the customer and normally these works are treated as tenant improvements.

Why has this change been made?

- **Simplification of the policy** - customers will have a clearer understanding of how the charges are applied and what these charges are for.
- **Improved affordability** - the change in the policy will make schemes more affordable.