

Doctors' orders

■ Government adviser Lord Darzi's NHS reforms will make doctors surgeries part of integrated polyclinics. **Aditi Shah** reports

THE NATIONAL HEALTH SERVICE IS HAEMORRHAGING money. Last year, it spent more than £86bn on the health and social needs of the UK's population, including £7.7bn on primary care.

The government will have to increase this budget if it is to meet the reforms in the healthcare sector suggested by Lord Ara Darzi, parliamentary under secretary of state at the Department of Health (see box, overleaf).

To meet these capital inputs, the government is encouraging public-private partnerships (PPPs) to carry out Darzi's reforms, which were launched on 3 July. They include the development of 150 new polyclinics – 'super-sized' doctors surgeries that will consolidate primary and secondary healthcare services.

However, developers and investors have been slow to react to the opportunity because of the unclear policies governing the development of polyclinics and the rising cost of raw materials.

Also uncertain is the future use of the NHS properties that will be left vacant as a result of the consolidation of services.

Darzi's report predicts that the development of polyclinics – which will cost £20m apiece – will bring services such as GP surgeries, diagnostics, minor surgery and pharmacies under one roof. The NHS and the government are looking at a PPP model to fund these developments, which has caught the attention of developers and investors.

CONVERTED TO THE CAUSE

CareCapital Group, an AIM-listed developer of purpose-built medical centres in the UK and Germany, has a portfolio of healthcare properties worth £39.9m. The company's rental income was £2.12m this financial year – a 58% increase on last year. Around 81.8% of this comes from medical practitioners.

Paul Stacey, chief executive of CareCapital, says, 'Polyclinics are being advertised as service contracts rather than property development projects to encourage GPs and primary care trusts [PCTs] to build these centres. Therefore, the first roll-out of polyclinics will largely be conversions of existing NHS space and, if they gain popularity, there will be more development in the future.'

The developer is keen on building polyclinics but, as a policy, steers away from managing or operating them. It has been approached by healthcare service providers such as Virgin Health, which want purpose-built centres.

However, one of the issues faced by the developer is the lack of clarity on the development and funding structure of polyclinics.



Super-size spree: clinics are planned for Wirral (above) and Heswall, both in Merseyside



Michael Sinclair, chairman of CareCapital, says, 'The definition of a polyclinic is the provision of all primary, diagnostic and specialist care under one roof. What is being proposed in the UK is the provision of primary and diagnostic care, but only minimal specialist care.'

Julian Evans, head of healthcare at Knight Frank, says, 'There are a few things missing in the report: the implementation of the structure of polyclinics is unclear and capital expenditure has not been quantified correctly.' →

THE IMPLEMENTATION OF POLYCLINICS IS UNCLEAR AND THE CAPITAL HAS NOT BEEN QUANTIFIED

**JULIAN EVANS
KNIGHT FRANK**

← This view is echoed in a report by Colliers CRE that says the availability of government funding seems uncertain and that there is pressure on PCTs, which spent £437m last year on property.

The report says a shift in government policy has left the future of funding and ownership of polyclinics uncertain. Also, the scale of development is so large that pose a challenge for the NHS to fund.

Despite this lack of funds, ING is looking at healthcare as a secure investment because of government-backed rents and attractive yields.

Adam Dalglish, fund manager at ING, says: 'The NHS and PCTs are looking at ways to offload the ownership and management of the premises to a third party. This will be interesting for the private sector, which is more efficient at managing assets.'

'But the problem of funding still exists and, while the government will eventually contribute, funding by investors will not be the same as it was in the past.'

The reason for the slowdown, Dalglish believes, is because of the divergence between what investors want - long-term, index-linked rental income - and what the NHS wants - shorter contracts with the service providers.

'No one wants to take a 25-year lease on a building when the service contract between the NHS and the operator is only three to five years,' says Dalglish.

James Orr, partner at Gerald Eve, says that the introduction of polyclinics is better news for the 30-odd companies that develop and operate Local Improvement Finance Trusts (LIFTs).

'The development of polyclinics follows on from the LIFT project, and the possibility of new developments puts LIFT operators in a good position to bid for them,' says Orr.

Since 2001, more than 50 LIFT schemes have been introduced in the UK, representing an investment of £1bn.

RISING RENTS

Another hurdle facing both developers and the government is rising rents (graph 1). Although section 106 makes it easier for developers to acquire land and obtain planning permission for polyclinics, high rents could make signing an operator problematic.

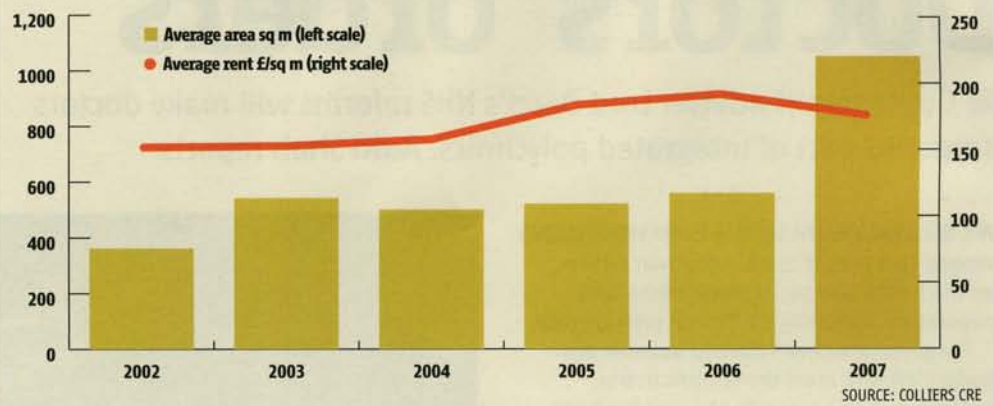
Sinclair says that the development margin on medical buildings is between 4% and 7.5%, and rents account for 70% of the revenue.

'Only 40% of the floor area is occupied by doctors on most of our developments. The rest is rented by local authorities,' he adds.

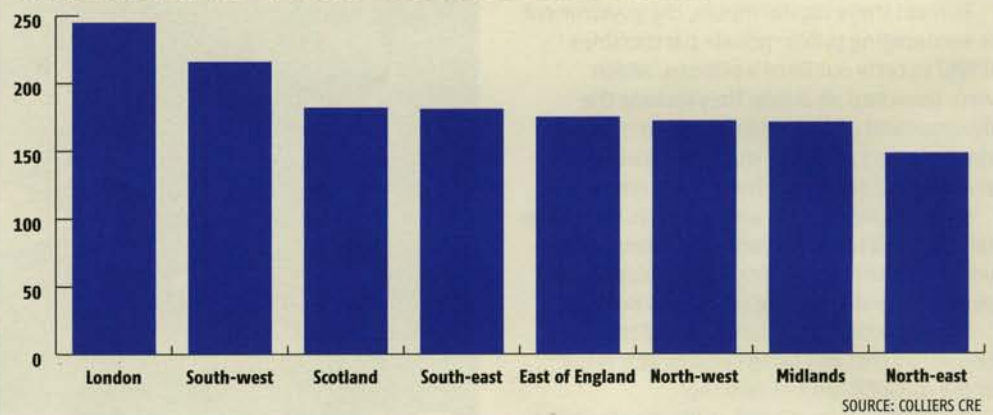
Rent is related to build cost, so the rising cost of raw materials is expected to push up rents for polyclinics. On average, the government already pays GPs' rents of £130/sq m to £300/sq m, depending on the area (graph 2).

Besides facing higher rents, the NHS will also have to put up with holding or selling surplus property - a result of the consolidation of primary and secondary care - at lower

1 AVERAGE RENT AND LOT SIZE FOR UK GP SURGERIES 2002-07



2 AVERAGE RENT FOR GP SURGERIES BY REGION 2006-07 (£/sq m)



prices because of the market downturn.

Earlier this year, the Department of Health revealed that it expects to earn £286m from sales of surplus property this year, compared with its earning of £515m last year. The total assets are worth £36bn.

Martin West, partner of strategic consulting at Drivers Jonas, says: 'The areas most likely to yield surplus property are those where the NHS provides secondary care, which will now be consolidated with primary care.'

'Several NHS trusts are going through a programme of disposing of surplus peripheral property in places such as Winchester and Eastleigh, and there will be similar cases across the country,' says West, who acts for several NHS trusts, including Newham Primary Care Trust, Sutton and Merton Primary Care Trust and Epsom and Helier NHS Trust.

However, the Darzi report does not confirm how many existing GP surgeries will be disposed of and how many will be retained within a newly created polyclinic.

The lack of clarity about the opportunities and risks in developing polyclinics, the policies on their development and the financial woes of the government and private sector all need to be overcome before Darzi's vision of a world-class UK health service is realised. ■

WHAT LORD DARZI SUGGESTS

- 150 new GP-led polyclinics in the UK within nine months, and 100 new 12-hour health centres
- Each polyclinic to house primary care doctors, opticians, dentists and pharmacies, and to provide antenatal and prenatal care, minor surgery, diagnostics, healthy-living classes and urgent care
- Each polyclinic is expected to cost £20m and serve a population of between 25,000 and 50,000
- The development can be executed in three ways: by providing common services to existing practices without relocating them; consolidating some practices and providing satellite service to the others; or combining all existing practices in an area
- Hospitals will have more space to provide other services once outpatient activities are moved to polyclinics.