

Surplus NHS land; a best value alternative

1. Introduction

The need for more and better housing is widely recognised. Around 80% of the public believe there's a housing crisis in Britain and that the Government should do something about it¹. In fact, we know that we are currently building only half of the 245,000 homes we need each year. This crisis has arisen over decades and it will take decades to fix.

Government must be bold and, importantly, look beyond the lifetime of the next parliament. That is why the National Housing Federation, as part of the Homes for Britain coalition, is calling for all political parties to commit to end the housing crisis within a generation. We want the next government to publish a long-term plan within a year of taking office that sets out how it will achieve this.

An important part of that plan will be measures to increase the supply of land for housing, and releasing surplus or underused public land could play a major role. Public land belonging to central government, the Greater London Authority (GLA), the NHS and local authorities could help deliver as many as two million new homes, according to Savills analysis². Cabinet Office figures show the public estate held by central and local government in England is worth £370 billion.

The NHS is one of the largest public land owners in the UK, with total assets valued at more than £31 billion³. It has well established ways of disposing of surplus land, most of which require

selling at open market price. Selling underutilised land and buildings could bring in up to £7.5 billion as a one-off capital gain⁴, and given the increasing financial pressures on the NHS, selling land is appealing and actively encouraged by the Treasury, Monitor and the Trust Development Authority (TDA).

The Department of Health set up the £100 million Growth and Efficiency Fund to incentivise and support NHS organisations to make savings by releasing land for housing by 31 March 2015. In the Autumn Statement in December 2014, the Government increased its ambition for public sector land, confirming it aims to release land with the capacity for up to 150,000 homes between 2015 and 2020⁵. Savills⁶ estimates that 300,000 additional homes could be delivered through the reconfiguration and intensification of operational sites in the NHS estate, generating revenue for Trusts and providing much-needed homes for the country.

¹ Ipsos MORI: Property Snakes and Ladders, 2013

² Savills, Spotlight Public Land: unearthing potential, 2014

³ The Department of Health, Health Building Note 00-08 Part A: Strategic framework for the efficient management of healthcare estates and facilities, 2014

⁴ Monitor, Closing the NHS Funding Gap: How to Get Better Value Health Care For Patients, 2013

⁵ HM Treasury, Autumn Statement, 2014 Savills Spotlight Public Land: unearthing potential, 2014

⁶ The King's Fund, The NHS Productivity Challenge: Experience from the Front Line, 2014

This paper sets out alternatives to the NHS's traditional and well-established approach to disposing of land, which today usually involves selling it at market price. Working with housing associations, this new approach would offer an ongoing revenue stream from the NHS estate through the development of affordable housing, rather than a one-off capital gain, achieving even greater financial returns over the medium to long term. This approach has been adopted successfully by a number of public landowners, including some innovative local authorities, and has demonstrated how it is possible to maximise the value of these assets. Being creative with land use could also help the NHS galvanise the required transformation in health and social care over the coming years. For example, by working in partnership with housing associations, the NHS could use the profits from its estate to cross-subsidise the building of high quality supported housing schemes for patients recovering from mental health problems.

While current approaches to NHS land disposal may maximise the one-off cash sum received through a quick sale, they also limit the potential to be creative and achieve a greater financial return in the long run through affordable housing.

2. How surplus land can reduce NHS deficit

Real spending on the NHS in England has almost doubled since 1999/2000, with investment in expanding the workforce and a focus on delivering more care to more people more quickly⁷. But this will not continue in the coming decade: NHS budget is likely to remain flat in real terms or, at best, increase in line with growth in the wider economy. At the same time, demand for NHS health care is expected to rise as people live longer and develop more complex health problems, requiring increasingly advanced treatments. These trends will mean further pressure on the NHS purse and are likely to result in a sizeable funding gap. Recent projections from the Nuffield Trust and NHS England suggest we could see an annual shortfall of £30 billion by 2021⁸.

⁷ The King's Fund, *The NHS Productivity Challenge: Experience from the Front Line*, 2014

⁸ The Nuffield Trust, *Into the red? The state of NHS' finances 2010-2014*, 2014

Demand on NHS hospital resources has increased dramatically over the past 10 years with a 35% increase in emergency hospital admissions, yet there are a third fewer general and acute beds than 25 years ago. It is recognised that this is partly due to improvements in care and clinical models of delivery but it is inevitable that this is putting pressure on NHS resources and budgets⁹. Because the NHS is free at the point of use, NHS trusts have limited ability to manage demand for urgent and emergency care. To have a chance of closing the expected funding gap, the NHS will need to achieve more for less at a higher rate than ever before. Even then, to prevent the gap from simply re-opening after 2021, it will need to continue improving productivity by at least the same rate as the rest of the economy, year on year.

Releasing NHS estate is an important way for current NHS Trusts to raise additional revenue to fund existing health provision or invest in service models that reduce unplanned admissions and support recovery in the community. Better use of land will also drive efficiency savings through reducing running costs associated with land declared surplus by commissioners.

Currently, NHS land is released in a way that aims to maximise short term income. Once land has been declared surplus by commissioners, it is placed on the government's register for 40 days so other public sector organisations can express an interest. After this, surplus land goes on the open market for the highest bid to enable the NHS to meet the requirements of best value from Monitor and the TDA¹⁰.

But although Monitor states that the disposal of NHS estate could yield a one off gain of £7.5 billion for the acute and mental health sectors, it acknowledges that this would not keep the funding gap closed in the long-term¹¹. It may remain a sensible business decision for some NHS Trusts, but it should be considered as just one of many options available to generate short and long-term revenue from surplus land¹².

⁹ Imison C, Poteliakhoff E, Thompson J. *Older people and emergency bed use. Exploring variation*. London: King's Fund, 2012.

¹⁰ HM Treasury, *Green Book*, 2013; Department of Health, *The Capital Investment Manual*, 1994; Department of Health, *NHS Estates Code*, 2014; NHS England, *Business Case Approval Process (Capital Investment, Property, Equipment and ICT)*, 2013

¹¹ Monitor, *Closing the NHS Funding Gap: how to Get Better Value Health Care For Patients*, 2013

¹² The National Housing Federation, *Creative Use of NHS Land*, 2014

There is no doubt the NHS could get more from its estate through better coordination of planning and development. If local authorities had more control over the coordination and release of land, it would help ensure enough comes forward at the right price to meet local housing need. Coordinating and pooling public land will help maximise its use for delivering both housing and joined-up services that meet wider outcomes, including health and wellbeing. This more strategic and joined up approach to land release and planning at a local level will provide greater certainty for developers and land owners, and will ensure developers compete on the quality of the development, rather than simply on the amount they are able to pay.

Applying these principles to the NHS, Trusts could work with local authorities and other service providers to coordinate how NHS land is used to provide housing and wider services. This could include unused NHS land and buildings, taking a fuller view of what is available, what can be delivered, and how best it can be used to generate revenue or be disposed of. Only by taking a strategic coordinated approach in partnership with others can this be achieved to the best effect.

3. The housing association offer

Housing associations are highly effective social enterprises, which between them own and manage two and a half million homes for more than five million people. They are not part of the public sector, but neither are they driven by the need to return profit to shareholders. The assets of housing associations are held in trust to deliver social purpose and their boards protect their reputation and ensure the long-term viability of their organisations. Developing new homes and investing in local communities and neighbourhood activities means housing associations help drive sustainable economic growth and rebalance the economy. Between 2011 and 2015, housing associations built in excess of 160,000 new affordable homes, which we estimate will have generated £16.6 billion in the economy, supporting 344,000 jobs¹³.

This ethos and neighbourhood focus chimes with the NHS's own mission, as housing associations reinvest their surpluses in the provision of services for social purpose. Many housing associations also

provide homes for sale and market rent alongside affordable homes to help meet a wide range of local housing needs.

Building more homes

According to household projections and recent housing supply rates, England will face a shortfall of 2.5 million homes by 2031¹⁴. Housing associations have an ambition to tackle this issue, aiming to own or manage nearly six million homes and housing over 12 million people by 2033. Nearly one in five people in England would be accommodated in good quality homes across different types and tenures, including new towns and communities¹⁵. This would more than double the number of homes housing associations currently own and manage as a sector. In practical terms it would add two and a half million homes as new supply, and would mean acquiring over one million existing homes from other sources. Housing associations already use a variety of mechanisms to raise private finance to build a range of homes, including new affordable housing and supported housing. As public grant for affordable housing has fallen since the 2010 spending review, housing associations are increasingly funding development through their own resources – with finance they have raised privately and surpluses they have generated and reinvested. However their ambition and ability to supply new affordable homes is significantly constrained by the availability and affordability of suitable land.

A recent report by EC Harris puts this into the context of NHS estate, identifying 77,000 homes that could be built in London alone by refurbishing current NHS buildings and adding residential units above¹⁶.

Health and wellbeing

Research shows investment in affordable housing supports multiple health benefits, including improvements to individual health and wellbeing outcomes¹⁷. For example, an elderly couple moving from a cold, poorly-insulated private sector home to a good quality, well-insulated affordable home would be less at risk of suffering from excess cold and related illness.

¹³ National Housing Federation, An Ambition to Deliver, 2014

¹⁴ Household projections by Holmans, A. – New estimates of housing need and demand in England 2011-2031 TCPA (London); Housing completions based on three-year average (2011/12-2013/14) projected forwards to 2031 – DCLG Live Table 253

¹⁵ National Housing Federation, An Ambition to Deliver, 2014

¹⁶ EC Harris, Shaped for the future: Reforming NHS estate, 2014

¹⁷ Frontier Economics, Affordable Housing Report, 2014

This could save the NHS an estimated £8,000 per patient per year. Similarly, providing an affordable house for a homeless person could result in less time spent in hospital and reduced demand for mental health services¹⁸, saving the NHS £3,000 a year.

Other health benefits associated with improved housing include reduced problems with self-care and lower levels of anxiety and depression. In a recent study, tenants also reported fewer GP visits following the move to improved affordable housing, suggesting there may be considerable savings in health service expenditure from improved housing¹⁹.

‘The recent Smith Institute report suggests the NHS could make indicative savings of around £6 billion over a 25 year period by using surplus land for supported housing.’

Housing associations also work with partners to reduce vulnerability, creating resilient communities and helping to deliver diverse local economies. They provide a range of neighbourhood services, including care and support, health and wellbeing services, financial services and help with finding employment and training. Many provide supported and specialist housing and a whole range of other services to vulnerable client groups who may have experienced difficulty in accessing traditional health and care services.

Supported and specialist housing has been shown to save the Treasury £639 million per year, by reducing demand for health and social care services and easing the burden on the NHS²⁰. The recent Smith Institute report on NHS land suggests the NHS could make indicative savings of around £6 billion over a 25 year period by using surplus land for supported housing²¹. This approach can result in a better service and a financial saving, while also delivering public assets that strengthen the balance sheets of NHS Trusts for the long term.

¹⁸ EC Harris, NHS Services and efficiency report: Seizing the opportunity, 2014

¹⁹ Frontier Economics, Affordable Housing Report, 2014

²⁰ Frontier Economics, Affordable Housing Report, 2014

²¹ The Smith Institute, NHS Surplus Land for Supported Housing, 2014

4. Getting best value from the NHS estate

Housing providers can offer a range of alternative options for how the NHS estate can be used, other than direct disposal, which fit well with the current definition of best value. However, too often best value is interpreted as achieving the maximum upfront price for land. This contributes to wider problems in our land market, where housing providers have to overpay for land, reducing the amount that can be directly invested in affordable house building.

The Federation believes that best value should be quantified in terms of wider social, economic and environmental value, not simply price, and has been urging Government to broaden the definition of best value along these lines. Land could still be sold at a fair market price, but with housing providers bidding on the quality of the scheme to be developed, including tenure mix and community benefit.

Housing associations in particular can offer a number of different approaches to land use, which allow the NHS to retain some control over what is built, as well as returning sustainable income through an independent revenue stream (rather than a one-off capital gain).

A variety of examples of successful joint ventures between house builders and public land owners are outlined below.

A. Retained freehold model

Under this approach, an NHS Trust would release land on a leasehold basis to be developed and managed by a housing association or developer. The Trust could expect to receive an income during the term of the lease, the size of which will depend on the tenure mix of the homes and the terms of the agreement. After a set number of years, the lease will expire and the site will be returned to the Trust.

This approach allows the Trust to retain ownership of the site, providing long-term benefits such as rising land values and borrowing advantages from better asset coverage. By retaining the assets, the Trust is also able to re-use the estate over the medium to long-term and can, therefore, maintain a pool of land which could be used in the future for responding to changing health needs. In addition, it allows the NHS to influence the type of homes and tenure mix on the site, for example by including supported housing.

Different lease terms will be appropriate for different kinds of development. In general, longer leases are better for housing development, as this makes it attractive for residents and developers. That said, shorter terms could be more appropriate if flexibility is needed because the use of the site is likely to change again over the medium term.

Case study A

London Borough of Barking and Dagenham

In the London Borough of Barking and Dagenham, the council has retained the freehold in the area's Reside development. It is providing the land on a 60 year basis and with an institutional investor on board. A total of 477 homes will be built on the site. 20% of these will be let at 50% of market rent values, a small number at 65%, and around 75% of the homes will be at 80% of market rent. All will be managed by the local authority.

B. Joint ventures for Foundation Trusts

By contributing land, NHS Foundation Trusts can form joint ventures to deliver sites – a tried and tested approach to land release which comes in various forms. Potential partners include private developers, housing associations and institutional investors. The NHS can then influence the planning gain under Section 106, have a share in the profit and land value (around 20% on average), and can receive an annual rental income from market rented homes. The joint venture approach requires the development of a relationship with a potential housing partner, rather than running a procurement process.

Case study B

London Borough of Hammersmith and Fulham

The London Borough of Hammersmith and Fulham has recently teamed up with private developer Stanhope, agreeing a 15-year joint venture to redevelop two of its sites. This will see 300 homes built, 40% of which will be affordable. The local authority will benefit from private sector expertise whilst maintaining control over what the land is used for and restricting land banking by the developer. Any profits made will be reinvested in affordable housing delivery.

C. Deferred payment

In this model, an NHS Trust gives a housing provider access to build on its land, agreeing an eventual land sale at a discounted or nominal value. The housing provider develops the site, and retains the affordable or supported homes. Private units are sold on the open market with revenues used to repay the cost of the land and any remaining surpluses are split between the NHS and the housing provider. The advantage for the NHS in this model is the ability to share uplift in values on the private units. This model could also potentially work for the development of supported units.

Case study C

London Borough of Lewisham

The deferred payment model has been used successfully by the Greater London Authority (GLA) in its public land initiative. In Lewisham, the development of 589 homes on the Catford Greyhound Stadium site was achieved through a deferred payment scheme. The site is to be developed by Barratt, with the 113 affordable homes managed by Gallions Housing Association. The scheme was started in 2014 and is expected to complete during 2017. Similarly at the Greenwich Square, 645 homes are being developed by Hadley Property Group, with 314 affordable homes being delivered by L&Q.

D. Combined model

Elements of all three of these models – deferred payment, joint venture and retained freehold – are present in the One Housing Group service model presented by the Smith Institute²². In this instance, the NHS would be able to use land for the delivery of supported housing alongside private units. The NHS can either pay for the development of each supported unit, recouping the outlay with future savings delivered by a more efficient care pathway, or have the supported units cross-subsidised by the sale of private units. The housing provider can both develop the units and provide the care and support services. The model assumes that the land will be given free upfront, with the leasehold retained by the Trust. This has several advantages over outright sale: the development of supported housing creates savings; the asset is retained for the NHS; some units are developed for sale providing a revenue stream; and the NHS benefits from any uplift in the value of the land after development.

Case study D

One Housing Group and Camden and Islington NHS Foundation Trust

One Housing Group forged a joint venture with the Camden and Islington NHS Foundation Trust and the London Borough of Camden for the Tile House development at King's Cross. Both clinical and support staff provide a service to 15 people with complex mental health needs, who may otherwise be in hospital wards or expensive out of borough placements. A shared approach to risk-taking, governance, protocols and policies means they can manage incidents quickly, carrying out medication reviews and Care Programme Approaches on site. One Housing Group estimates this model could make over £1 billion in efficiency savings for the NHS per year.

5. Understanding the barriers to more creative use of NHS land

The Government has said it wishes to see publicly owned land released for housing development as a way of stimulating growth, and has increased its ambition, aiming to release public sector land with the capacity for up to 150,000 homes between 2015 and 2020²³. The Growth and Efficiency Fund, launched in January 2014²⁴, has been designed to incentivise the disposal of NHS land through providing revenue-based contributions to trusts that speed up land sales; offering access to capital loans to finance the process. Similarly, NHS Property Services also has targets to dispose of land for housing development.

However, this risks losing out on the wider, long term potential value of the NHS estate. When an NHS organisation decides it has land or buildings that it no longer needs for its own services, it declares the estate to be 'surplus to requirements'. Once an organisation has declared a site surplus it is lodged with the register of surplus public sector land. The Capital Investment Manual and the Department of Health Building Note (formerly the NHS Estate code)²⁵ provides clear recommendations in exploring opportunities to avoid declaring land 'surplus', in favour of developing a long term strategic approach to land use, but this requires NHS institutions to take a long term view from the outset.

NHS Foundation Trusts are subject to the same requirement to deliver best value from their assets when it comes to owning property and sub-contracting to third parties, but they have considerable freedoms that are not available to other Trusts. Non-Foundation Trusts are not entitled to retain and reinvest land sale proceeds of over £5 million from a disposal transaction. The Trust Development Authority has to approve capital business cases up to a £50 million limit.

²² Frontier Economics, Affordable Housing Report , 2014

²³ HM Treasury, Autumn Statement, 2014

²⁴ Department of Health, Monitor and Trust Development, Joint Letter on Surplus Land 2014

²⁵ The Department of Health, Health Building Note 00-08 Part A: Strategic framework for the efficient management of healthcare estates and facilities, 2014

Any business cases over that limit, where the proceeds are needed for reinvestment, require a further stage of approval by the Department of Health before submission to the Treasury. Any proposal over £10 million requires a Strategic Outline Case. An Outline Business case and a Full Business case can take up to 12 months to get through these stages. This can make for a lengthy disposal process, with limited opportunity for innovation in how the land is used.

Other barriers include the often complex arrangements around who owns and manages the site in question. Aside from the different disposal rules for Trusts and Foundation Trusts, surplus land that has been transferred from former Primary Care Trusts (PCTs) to NHS Property Services Ltd must ideally be disposed of in partnership with NHS England and local Clinical Commissioning Groups (CCGs). Put simply, the NHS is fragmented in its approach to land use.

These complexities are not insurmountable. In a number of areas, Community Health Partnerships and NHS Property Services are taking a strategic system-wide approach to planning the primary and community estate. The Department for Communities and Local Government has put in place various schemes to increase housing supply by removing unnecessarily complex regulations and financing for 'stuck' projects through the 'Get Britain Building' scheme and the Builders Finance Fund. It recognises the need for land release to support housing delivery and has begun the Strategic Land and Property Review (SLPR) to identify surplus government-owned land for release post 2015. While this includes land held by the Department of Health, it does not include land held by the NHS which may not fall within the Department of Health portfolio.

Despite the barriers, there is potential for strong and fruitful partnerships between NHS Trusts and housing associations to use land differently. The challenge is to shape a culture which embraces innovation, social entrepreneurship and collaboration; developing alternative models of disposal to maximise public assets and improve health outcomes.

6. Conclusions and recommendations to stakeholders

There are compelling arguments for the NHS to work with housing associations to ease both the housing crisis and the financial pressures on the NHS. Income and capital can be shared between partners based on a clear and costed basis, linked to their shared values and interests. However, it is important to develop a new dialogue about how underutilised and surplus land should be used strategically and efficiently. The following recommendations would enable the NHS to make the most of its assets with support from housing associations.

1. Housing associations redesigning care pathways

The One Public Estate Programme²⁶ enables local councils, central government and local agencies to work together to release land and property for stimulating economic growth, regeneration, new housing and jobs. In the 2014 Autumn Statement, the Government announced plans to roll out The One Public Estate to all local authority areas beyond the next Parliament²⁷. We believe the Cabinet Office should extend the programme to include NHS land and clarify the specific models for using NHS estate for either affordable housing or more efficient care pathways through supported housing.

By establishing an NHS pathfinder programme, working with NHS England Area Teams, Clinical Commissioning Groups, NHS providers, local authorities, NHS Property Services, and Community Health Partnerships, the One Public Estate Programme could demonstrate in real terms how this would benefit the NHS. At a national level, the Department of Health can then better facilitate and incentivise new models of creative land use, drawing on the findings from the Dalton Review²⁸.

²⁶ Local Government Association and the Cabinet Office, One Public Estate: Transforming Property and Services, 2014

²⁷ HM Treasury and The Cabinet Office, Efficiency and Reform in the next Parliament, 2014

²⁸ Department of Health, Dalton review: options for providers of NHS care, 2014

2. Interpretation of the Five Case Model

The Five Case Model is the approach used by NHS Trusts for developing business cases for capital and major investment recommended by the Treasury²⁹. By having an agreed, standardised approach to achieve best value that is followed by all, it reduces the time and cost required to develop and approve programmes and projects, as all developers know what is expected and required as their schemes progress through the planning process. However, in order for NHS surplus estate to be considered for affordable housing, a new assessment process is needed that takes into account value to the community, as well as sale value on the open market.

In essence this would amount to a 'sixth case' to the Treasury five-case business planning model, which prioritises the proposal's overall value for the local community. This could be accompanied by a set of standards for how local communities and local organisations contribute to this. The Social Value Act 2012 provides additional consideration for councils to take local need into account when awarding contracts and the process of achieving best value could follow a similar principle.

3. Governance structures of NHS Trusts

Foundation Trusts are in a strong position to enter into corporate joint ventures, but other NHS Trusts that do not have this status do not have the same freedoms. Only Foundation Trusts own their own assets and can reinvest the income from the sale. More clarity and guidance is required from the Department of Health and the Trusts Development Authority for non-Foundation Trusts to enter into joint venture arrangements, so that they too have the opportunity to maximise their estates and achieve valuable efficiency savings.

4. Increasing the role of commissioners in determining land use

NHS England, CCGs and local authority commissioners have an important role in exploring how underutilised land can be used to help reduce hospital admissions, provide cost savings and deliver quality services to patients and service users. The Department of Health should produce guidance for NHS Area Teams and CCGs so they can be more proactive around the use of land, and to question whether services are being delivered in the right place. Guidance should also look at how the running costs of unused NHS estate are being met. This could support the role of housing associations as an important partner in the delivery and commissioning of health and care services, where an innovative approach is required in using NHS estates more effectively.

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