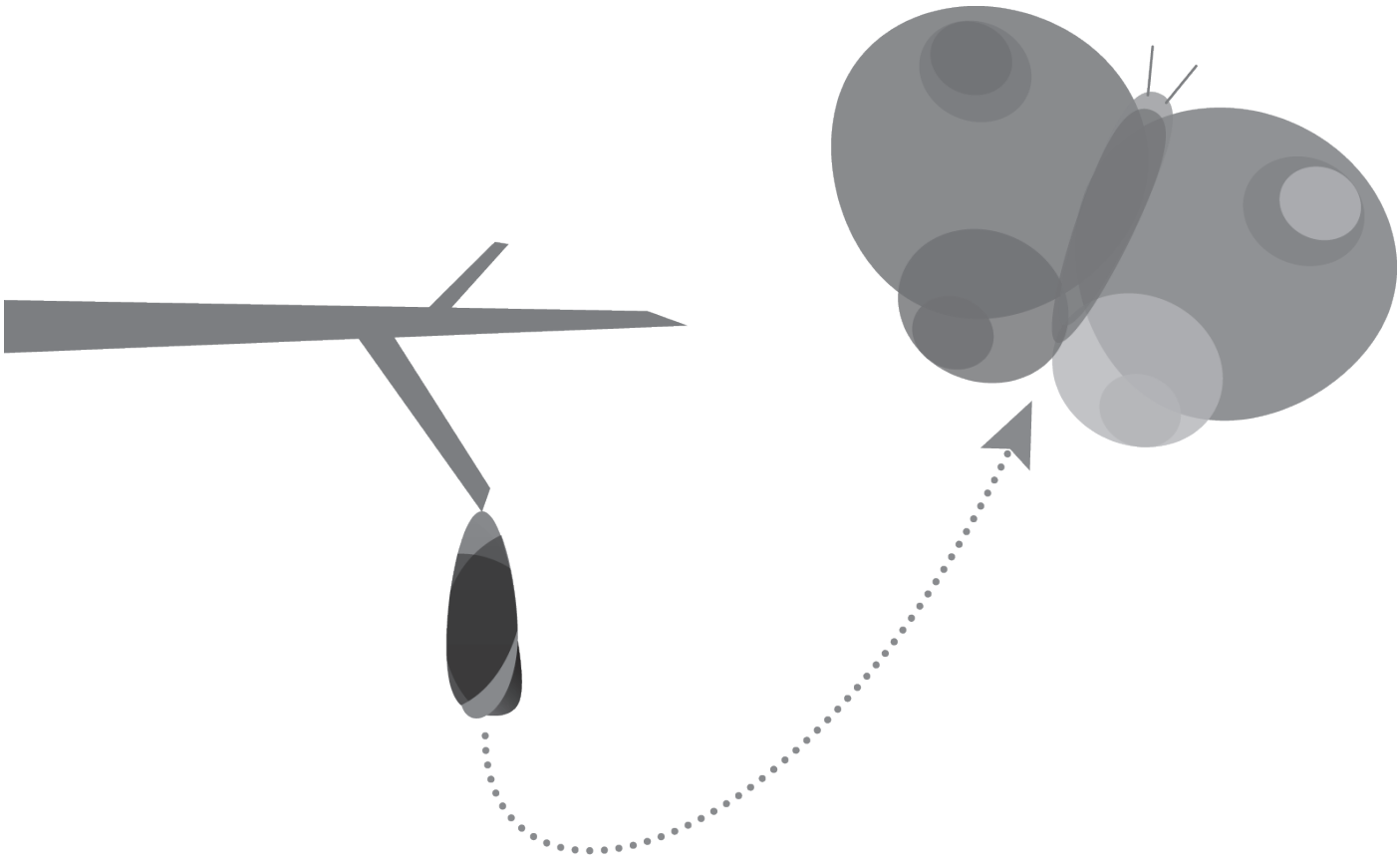
The King's Fund

The Health Foundation

Making change possible: a Transformation Fund for the NHS

Appendix 3: Using surplus NHS estate to resource the Transformation Fund



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The appendix was produced as part of the work by the Health Foundation and The King's Fund on the report *Making change possible: a Transformation Fund for the NHS*.

For more details, see **www.health.org.uk/makingchangepossible** and **www.kingsfund.org.uk/makingchangepossible**

Using surplus NHS estate to resource the Transformation Fund

The King's Fund and the Health Foundation both support the concept of a Transformation Fund for the NHS in England. The two organisations came together to undertake a programme of work detailing the key aspects of such a fund.

This appendix gives details of the work done to consider how surplus NHS estate could contribute to the resources available to the Fund.

Introduction

As explained in *Making change possible: a Transformation Fund for the NHS,* it is likely that a Transformation Fund for the NHS in England would incorporate existing provisions for transformation. However, it is clear that some additional funding would be required. As part of our work, we explored the question of whether surplus NHS estate, often cited as a potential source of additional funding for the NHS, could provide the extra resources required.

Our work in this area involved desk-based research and a review of publicly available data,* as well as some informal discussions with experts in this area. This appendix sets out our main findings. It provides an estimate of the scale and value of surplus NHS estate, identifies the factors that may limit its use and summarises the issues to consider regarding using NHS estate to support transformation.

Overview of the NHS estate

Estimates for 2013/14 suggest that the total floor area of buildings across the NHS is approximately 26m m^2, and the total land area (buildings and grounds) is 6,400 hectares. Consistent with the trend in recent years, this represents a reduction from the 2012/13 position (of 4.4% and 4.8% respectively), resulting from efforts to restructure and rationalise the estate.[1] The vast majority of the NHS estate in England is owned by NHS trusts and foundation trusts, with approximately 10% held by NHS Property Services.

* Based on most recent data available at the time of our research.

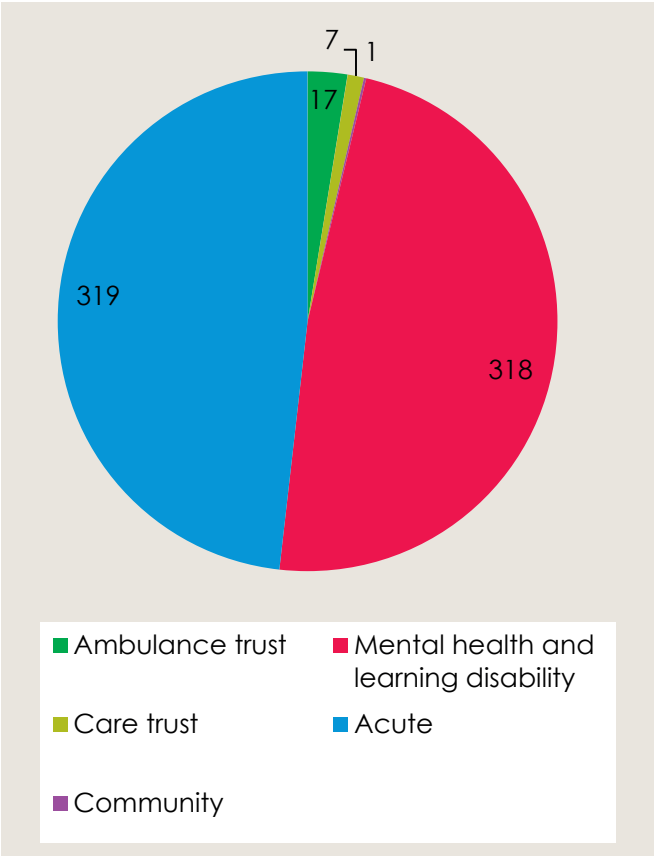
Surplus estate

As part of their annual estates data return, NHS organisations are required to submit details of land that is no longer required or likely to be needed for health service purposes in future. According to the 2014 data collection, approximately 662 hectares of the NHS estate in England (excluding land owned by NHS Property Services) is surplus.

Of the 245 organisations that submitted responses (representing a 100% response rate), 134 declared at least one parcel of surplus or potentially surplus land.[2] As shown in figures 1 and 2 below, nearly two-thirds of this surplus land is held by foundation trusts, the vast majority of which belongs to acute trusts and mental health and learning disability providers.

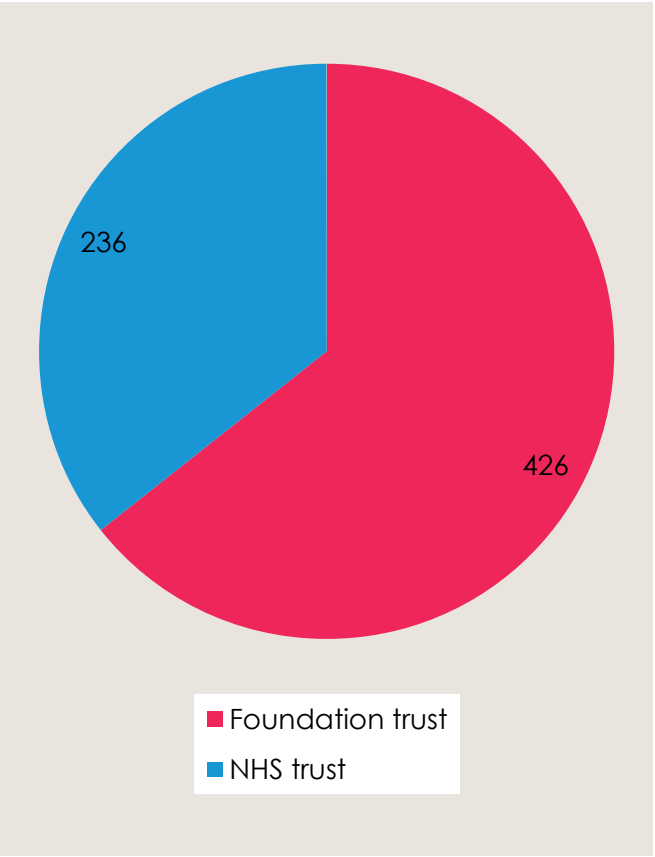
The proportion of land and buildings within NHS Property Services' estate that is surplus is not known. However, at the end of 2014 there were 59 sites on its list for disposal.

Figure 1: Total surplus land by provider type (hectares)



Source: Department of Health, 2014 surplus land data collection

Figure 2: Total surplus land – FT/NHS trust (hectares)



Source: Department of Health, 2014 surplus land data collection

Releasing value from surplus estate

Building and land sales

The most common means of releasing value from surplus estate is through sale. When an NHS organisation declares land or a building surplus, the site is logged with the Public Land Registry, and other public bodies have a specified period of time in which to declare an interest. If a public body comes forward, the site will be transferred at net present value (NPV). If not, the site is put to the open market and sold to the highest bidder.[3]

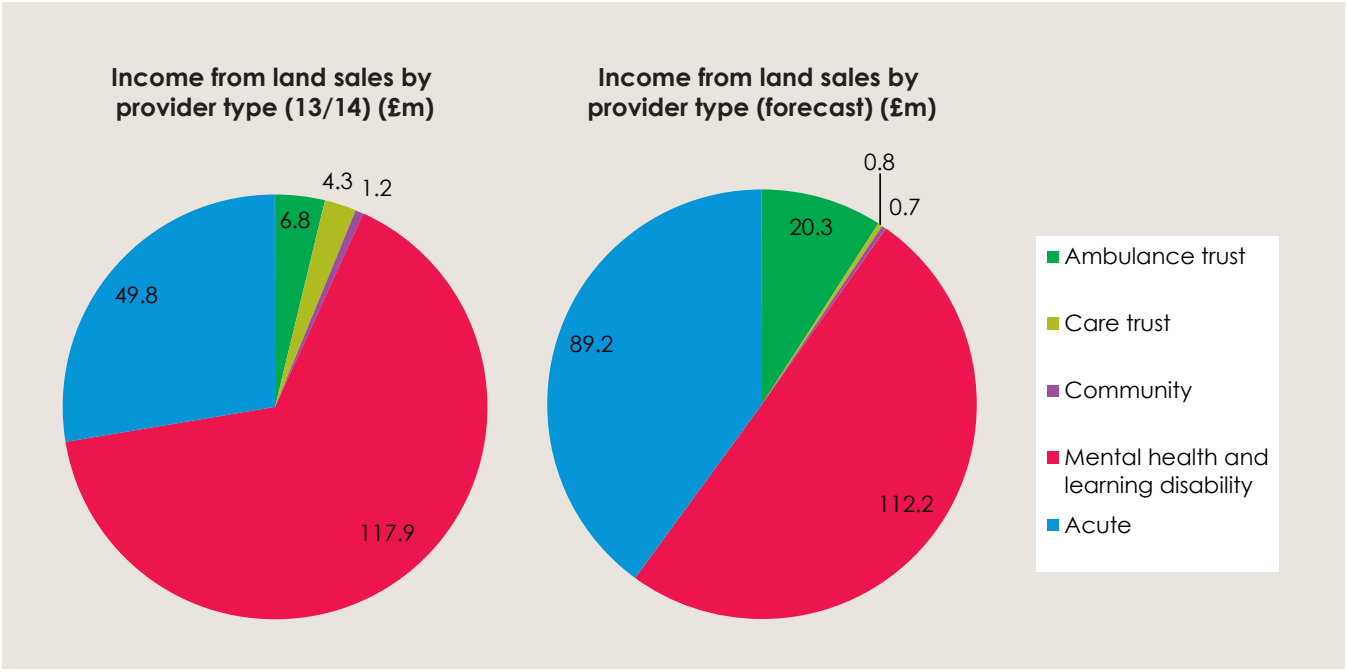
Under the current system, NHS trusts and foundation trusts are entitled to keep capital receipts generated through the sale of surplus land that belongs to them, and to use this to reinvest in services (although there is a cap on how much can be retained by NHS trusts, see below). In general, capital receipts can be used to meet capital costs but not cover revenue costs. In the case of land and buildings held by NHS Property Services, capital receipts generated through sales are returned to the Department of Health for reinvestment in services.[4]

NHS trusts and foundation trusts

Data from the ERIC (Estates Return Information Collection) suggest that in 2013/14, 185 hectares (ha) of land were sold by NHS trusts and foundation trusts at a value of £180m. Forecasts for land and buildings to be sold by NHS organisations in 2014/15 suggest that a further £223m would be generated through the sale of 234ha.*

Figures 3 and 4 provide a breakdown of income in 2013/14 and forecast income in 2014/15 by provider type. These suggest that the largest proportion of income is produced by the sale of mental health and learning disability provider estate (approximately £118m in 2013/14 and £112m forecast for 2014/15), followed by acute provider estate.

Figures 3 and 4: Income from land sales by provider type – 2013/14 and forecast



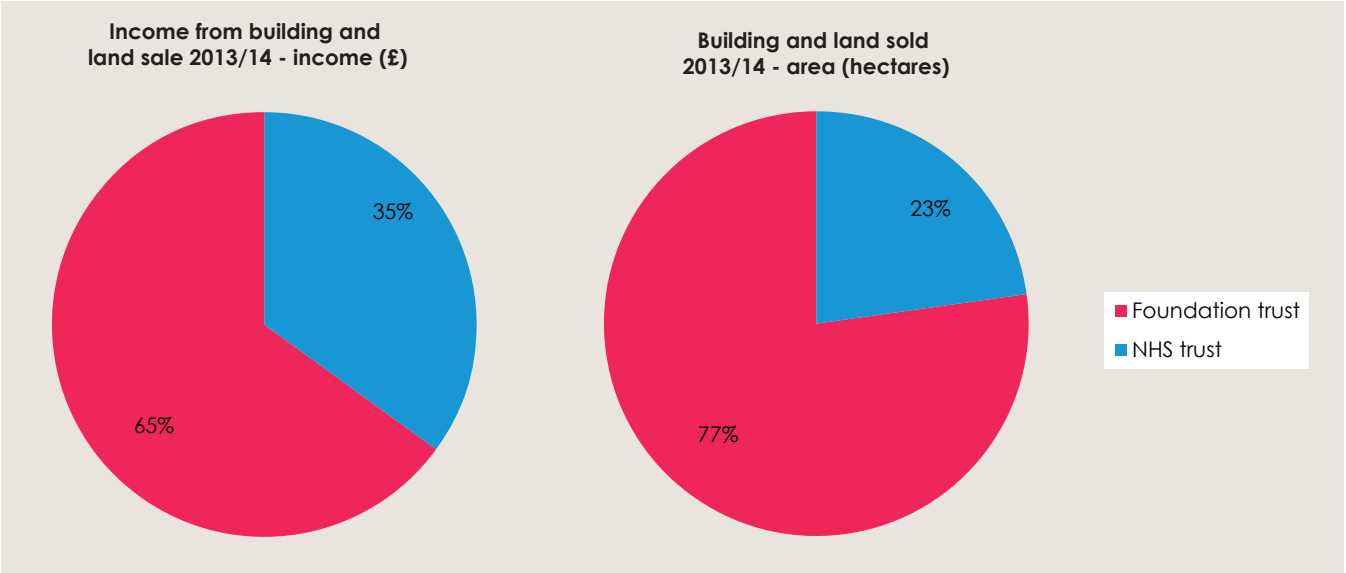
Source: Health and Social Care Information Centre, ERIC (Estates Return Information Collection) 2013/14

* The Health and Social Care Information Centre (HSCIC) collects the ERIC (Estates Return Information Collection) on behalf of the Department of Health. The data collection goes back to 1999/2000 and presents the data as provided by the participating trusts. http://hefs.hscic.gov.uk/ERIC.asp

When broken down by NHS trust and foundation trust (below), the data show that the majority of land sales relate to land owned by foundation trusts. This may be explained by the greater freedom foundation trusts have to retain capital receipts, providing an increased incentive to identify and sell surplus land and buildings.

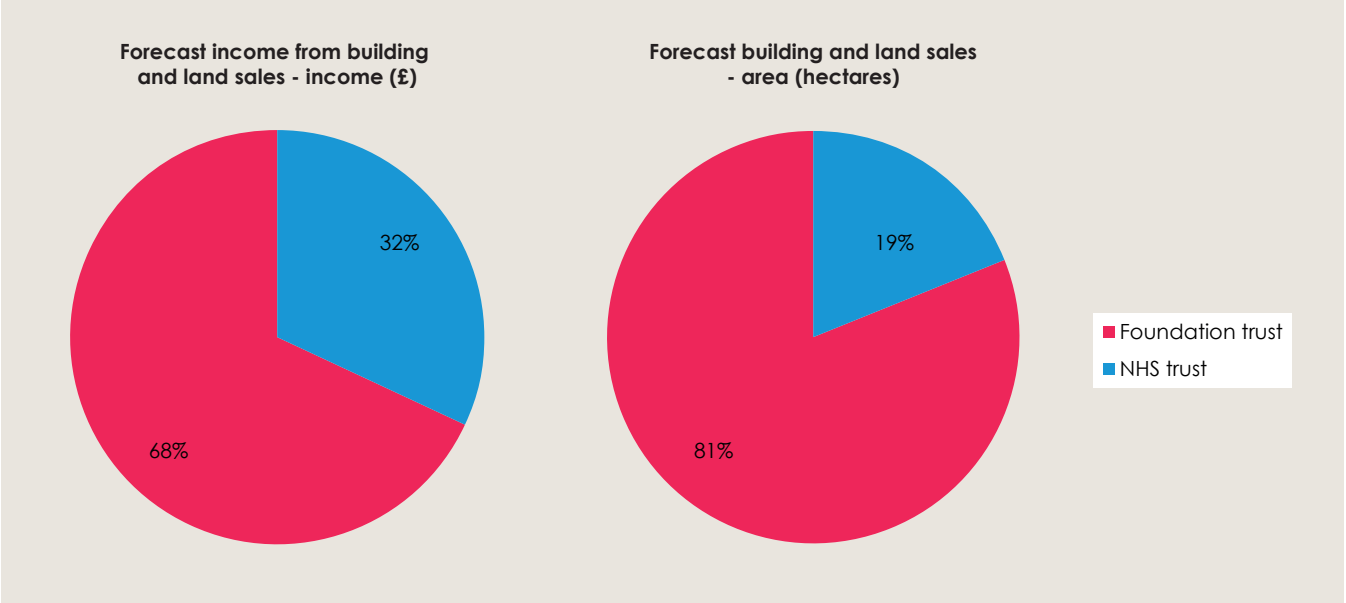
The data also point to a difference in the average value per hectare of foundation trust and NHS trust land, with the latter appearing to generate more income than the former (approx. £1.5m per ha compared with £826,000 per ha in 2013/14). This is illustrated in figures 5 and 6 below, which show that NHS trust land sales account for a larger proportion of total income than total area. This applies to both 2013/14 figures and to forecasts for 2014/15.

Figure 5: Income from building and land sales 2013/14 and hectares sold



Source: Health and Social Care Information Centre, ERIC (Estates Return Information Collection) 2013/14

Figure 6: Forecast income from building and land sales (2014/15) and hectares sold



Source: Health and Social Care Information Centre, ERIC (Estates Return Information Collection) 2013/14

NHS Property Services

Between April 2013 and the end of 2014, NHS Property Services sold 124 surplus properties, generating approximately £58.3m in capital receipts. As already noted, its list for disposal in 2014/15 included 59 properties.

Although this list incorporates all properties that have been declared vacant, it does not include properties that are vacant but have not yet been declared as such. Nor does it include a third category of vacant property, described as 'aggregate' vacant space, made up of a large number of individual parcels of land/areas within buildings. The size (and value) of these latter two types of estate is not known. NHS Property Services indicated that up to 80% of its estate is not fully documented, although it is currently undertaking a process to address this.

Alternative uses of surplus estate

Another approach to releasing value from surplus NHS estate is to identify opportunities for development and income generation. Although this is still a comparatively immature area, there are some examples of NHS organisations doing this – for example, by leasing their land to housing developers in return for a share of the rental income generated. Another example we heard about involved the development of supported housing within a mental health trust estate, with the trust providing the necessary clinical services.

NHS Property Services is beginning to take on a role in strategic projects at a local level that seek to link estate development with improved health outcomes. For example, in one area, the foundation trust and local authority have offered to help fund the development of a vacant NHS estate to enable the expansion of an urgent care centre and new housing, on the basis that this will help meet their respective goals of a reduction in accident and emergency (A&E) attendees and better public health outcomes. NHS Property Services owns the land and is acting as an independent broker.

It may be possible to take forward this and other more innovative approaches at a national level. A new approach could be for the Department of Health to enter into a partnership or joint venture with a private sector developer, offering shares in the NHS estate in return for equity. This would provide funding for the development of NHS estate, either for social housing or commercial purposes, thereby generating an ongoing revenue stream for the joint venture. As the majority shareholder, most of this would flow back to the Department. This model could be applied to surplus estate or to that still in use by the NHS, and would have the advantage of the Department retaining ownership (and management responsibility) of the estate, with the option of sale at a later date.

Of course, the practical and legal implications of this approach are likely to be significant and would need to be worked through in detail, and therefore it is unlikely to provide the support required for transformation in the immediate term. However, there are examples of this model having been successfully applied in other contexts, such as land held by the Crown Estate, and it undoubtedly warrants further exploration. In the longer term, this type of approach may be able to make a major contribution to funding the later phases of transformation (eg the phase 2 Roll-out Strand).

Value of the remaining surplus NHS estate

Approaches to valuation

There have been different estimates for the value of surplus NHS estate. Evaluation is complicated by general fluctuations in the property market and regional differences in property and land values, but also (for acute and specialist estate in particular) by the difficulty and cost associated with converting health facilities for commercial sale. However, for the most part, differences between estimates are the product of the different approaches to valuation. This is outlined below.

Monitor analysis

In its 2013 report *Closing the NHS funding gap: how to get better value health care for patients*, Monitor estimated that the sale of underused assets across the acute and mental health sectors could generate up to £7.5bn.[5]

This figure is based on assumptions relating to asset utilisation (measured as an asset value to revenue ratio). Monitor's analysis suggests that if all trusts managed their assets as efficiently as the best half or quarter, this would release a proportion of assets across the NHS for sale. The monetary value attached to these assets (between £4.8bn and £7.5bn) was calculated by applying these optimum utilisation ratios across all NHS assets.

As such, this value is dependent on half or three-quarters of trusts becoming more efficient (and in some cases significantly more efficient) in their utilisation of assets. Monitor's analysis also notes that realising the gains from these assets is likely to be difficult in practice due to a number of factors, including long-term private finance initiative contracts, the challenge of selling off part of an estate, and the inclusion of non-estate assets. In the context of the broader analysis carried out for Monitor's report, this analysis on underused assets was rated amber, indicating that the strength of the evidence was 'medium'.

London Health Commission analysis

The London Health Commission (LHC) carried out some work in October 2014 to identify options for unlocking the value of the NHS estate in London. This work concluded that the size of the total 'opportunity' across acute and mental health estate in London was approximately £1.2bn to £1.4bn. As with Monitor's calculation, this figure assumes improvements in asset utilisation, measured as the capital (book value of land and buildings) to revenue ratio. The £1.2bn to £1.4bn range is calculated on the basis that all trusts move up to the median.[6]

The LHC work does include some analysis in relation to surplus estate specifically. This concluded that of the total acute estate in London (which has a book value of c. £7.2bn), nearly 5% is unused floor space, with a value of c. £375m. However, the analysis also noted (referring to a previous audit by Grant Thornton) that at least 50%–70% of this is tied up in buildings and would require reconfiguration to release value. This would suggest that in practice, the realisable value of surplus acute estate in London is likely to be significantly below £200m.

An alternative approach

A different approach to estimating the value of surplus land would be to link this more closely to land that has been identified as surplus and information from previous NHS land sales (ie, the information on income set out above).

On the basis of NHS trust and foundation trust land sold in 2013/14, it is possible to determine an 'average value per hectare' for each group and apply this to the total 662ha surplus identified by ERIC returns. This (very crude) calculation suggests that, in addition to the £223m forecast for 2014/15, a further £474m might be released through the sale of surplus land belonging to NHS organisations, giving a total value of just under £700m. Applying a similar calculation to the 59 vacant sites held by NHS Property Services (albeit based on the number of sites rather than hectares) suggests these might generate roughly £30m.

In practice, these figures are likely to be an underestimate. These calculations exclude a potentially significant amount of estate that has not yet been declared as vacant and/or is more complicated to unlock. However, there is no easy way of quantifying or valuing this portion of the estate, and the obstacles to unlocking it are potentially significant. The following section sets out some of the major barriers.

Obstacles to releasing value from surplus NHS estate

Notwithstanding the challenge of valuing the surplus NHS estate, it has been suggested that capital receipts generated from the sale of these land/buildings could be used to support a Transformation Fund. This approach is referred to in the *Five year forward view*, which highlights the need to 'pump prime' new models of care. It suggests that this might involve unlocking surplus NHS property, as well as supporting foundation trusts to make use of accrued savings on their balance sheets.

However, there is a key question as to whether it is possible for this value to be unlocked in practice. Below are a number of practical and policy constraints that would need to be overcome if surplus land were to be used to support a Transformation Fund.

Practical constraints

As suggested above, the 662ha of surplus NHS estate is made up of a large number of individual buildings and sites spread across different geographical locations and belonging to various organisations. These sites vary considerably in size as well as in flexibility or accessibility. In addition to unused buildings, the surplus estate includes small, fragmented parcels of land and specific areas within buildings (such as individual rooms or corridors) that, in practice, are likely to be difficult to sell.

Similarly, the LHC's work noted that, in London, only a small number of trusts are reporting land that is 'truly surplus' and available for sale. It also estimated that only about a third of the total opportunity arising from unused floor space in the acute sector relates to unused buildings/land, while the majority requires reconfiguration to release.[6] NHS Property Services also suggested it is likely that a substantial proportion of its estate is vacant but has not yet been declared as such, and that it contains some 'aggregate' vacant space made up of a large number of small parcels of land and/or areas within buildings.

Even where surplus estate is clearly suitable for disposal, there can be practical challenges to releasing it at a local level, particularly in relation to the sales process. For example, the need for planning permission can delay the disposal of surplus NHS land. Another consideration, particularly outside of London, is the state of the property market; in areas where the market is depressed, disposing of surplus buildings may, in practice, be very difficult.

Policy constraints

In addition to these practical constrains, there are some pre-existing and competing policy priorities. In particular, the government's ambition to increase the stock of affordable housing across the UK (enough for 100,000 homes by 2015) has had implications for all parts of the public sector, including health, which has an allocated target. This is reflected in the 2014 surplus land data collection in which, for the vast majority (70%) of NHS sites identified as surplus, the future proposed use following disposal is recorded as either 'housing' or 'mixed with housing'.[7] While this does not necessarily prevent the NHS from retaining capital receipts, it might limit organisations' ability to explore development opportunities that would allow them to use surplus estate as a means of generating income.

Incentives

A more significant issue, perhaps, is whether there are incentives for local NHS organisations to share value released from surplus estate, and/or whether central government has the necessary levers to encourage them to do so.

Within the current system, foundation trusts are entitled to retain the proceeds from a disposal (although Monitor approval is required if the asset is used in the delivery of Commissioner Requested Services). NHS trusts may also retain the proceeds from a disposal, although this is capped at £5m. Trusts may retain receipts above £5m with the approval of the NHS Trust Development Authority, which can lower the cap for trusts in financial distress.

Both NHS trusts and foundation trusts typically use the proceeds from a sale to invest in services and existing estate, and their plans for disposing of land or buildings tend to be linked to a plan for developing new or existing services. As such, there is currently limited incentive for trusts to return the proceeds from land sales to central government, or even to pool these at a regional level.

In recent years the government has taken some steps to encourage the disposal of surplus land and more efficient use of public estate by individual organisations. In 2013, the Homes and Communities Agency launched a £290m Public Sector Land Investment Fund (of which £190m was earmarked for NHS organisations) to support organisations with planning, demolition and site investigation, accelerating the delivery of surplus public sector land for housing.

In early 2014 the government announced an additional £100m support in a Growth and Efficiency Fund. This was designed to encourage NHS organisations to identify and sell surplus land by providing them with revenue-based contributions that accelerated the delivery of their land sales

and provided access to capital loans to finance estate configuration. As part of this, the Department of Health also committed to underwriting the risks of early transfer of the land for smaller building plots to small and medium enterprises.

The fund comprised three parts:

- Revenue fee reward – a payment to incentivise trusts to accelerate disposals
- Capital loan – to fund enabling works to allow the surplus land/buildings to be disposed of
- SME guarantee – a scheme for smaller sites to allow builders on to site prior to completion of the land purchase, with the Department of Health guaranteeing the sale price to the trust.

Applications to the fund have now closed, although allocation of the funds is still in progress.

NHS Property Services is increasingly taking on the role of facilitator or broker in local projects that seek to link estate sale and development to improvements in a range of health outcomes. Attempts by central government to pull back the proceeds from estate sales could risk disrupting these types of projects.

Key messages

A key finding from our work is that the true scale and value of surplus NHS estate is not known. This is for the following reasons:

- Not all surplus estate is recorded as such. Information from NHS trusts and foundation trusts is self-reported and self-certified, while NHS Property Services indicated that 80% of its property portfolio is not fully documented. It is therefore likely that the number of surplus buildings/sites is greater than official records would suggest.
- The definition of 'surplus' estate is not clear-cut in practice because:
  - not all estate identified as surplus can be immediately unlocked; some sites require significant development or reconfiguration before their value can be realised
  - some land parcels/areas within buildings are surplus, but in practice are too small or not sufficiently separable to be sold.
- Different approaches have been used to determine the financial value of surplus estate. The larger estimates (eg, Monitor's £7.5bn figure) are based on assumptions about significant improvements in estate utilisation and are likely to be very challenging to unlock in practice. However, 'bottom-up' calculations are based on central surplus land data only (ie, the £700m figure) and are likely to be an underestimate.

Recognising these challenges, we have concluded that the surplus NHS estate is most helpfully considered in three broad categories:

- **Surplus estate that is immediately saleable.** This refers to vacant land and buildings that have been identified as available for sale within the next one or two years. On the basis of previous sales, it is possible to estimate a value of approximately £700m–£750m.

– **Vacant or underused estate that could be released in the medium term with some reconfiguration and/or development.** This includes land and buildings that are disused but have not yet been reported as surplus, as well as sites that are underused and could be released in the medium term through moderate strategic reconfiguration. The value of these sites is not known, but even if it were to double the total volume of estate currently identified as surplus, it would generate only another £700m–£750m.

– **Estate that could be released in the longer term if significant changes were made to its configuration and management.** This recognises the huge variations in the utilisation and efficiency of the NHS estate, and the absence of clear incentives for individual organisations to release land and buildings. It is not possible to estimate the value of this estate with any accuracy.

An important final message from our work is that the greatest opportunity for realising value from the NHS estate is, in fact, likely to be the generation of new revenue streams (from both used and unused estate), rather than capital receipts from sale of surplus land and buildings. NHS organisations could seek to do this by working with other local organisations or the private sector to develop and/or lease out estate they no longer use. While there are likely to be significant practical and legal implications to work through, in the longer term this type of approach may be able to make a major contribution to funding the later phases of transformation.

What does this mean for resourcing a Transformation Fund?

In terms of providing the additional resources required for a Transformation Fund, it seems that the value that could be released through the sale of surplus estate in the immediate term is not of sufficient scale to support the transformation needed.

However, it seems likely that significant further value could be released from surplus estate through reconfiguration and improvements in estate management over the longer term. Therefore, we suggest that detailed work is undertaken to understand estate utilisation and the factors that drive it, and to identify options for increasing utilisation levels across the NHS.

In addition, there may be significant opportunities to use innovative approaches to release revenue, rather than capital receipts, from all NHS estate. These approaches are relatively new and require further exploration. However, given the potential gain, we recommend that significant work is undertaken to understand the full implications and potential of joint ventures as a new and innovative approach to raising funds for the NHS, as well as generating benefits for the wider economy.

Finally, it is important not to underestimate the challenge of providing an incentive for individual organisations to pool the value they are able to release from their estate. This issue will need to be considered carefully in any plans to use these resources for a Transformation Fund, and in the detailed arrangements for its administration.

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We are here to inspire and create the space for people, teams, organisations and systems to make lasting improvements to health services.

Working at every level of the health care system, we aim to develop the technical skills, leadership, capacity, knowledge, and the will for change that are all essential for real and lasting improvement.

The Health Foundation
90 Long Acre
London WC2E 9RA

T 020 7257 8000

Registered charity number: 286967
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www.health.org.uk

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The King's Fund
11–13 Cavendish Square
London W1G 0AN

Tel: 020 7307 2400

Registered charity number: 1126980

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