NHS Property Services

NHS Estate Funding

Helping you navigate and unlock capital and revenue funding

Contents

Introduction

An ageing NHS estate and growing financial pressures are making it harder to fund improvements to buildings and so deliver your newly formed infrastructure strategies. But to what extent are these pressures exacerbated by the current funding system and processes?

Through our own partnerships with Integrated Care Boards (ICBs) and Trusts across the country, NHS leaders are increasingly sharing their everyday challenges in accessing different capital and revenue funding methods.

To dig further into the issues, our **recent survey in partnership with the Health Service Journal** highlighted a raft of challenges and barriers leaders face around NHS funding. These problems mean over half (59%) of healthcare estates and finance leaders lack confidence in obtaining capital funding.

So, what are the challenges?

84% stated that the barriers to funding are due to a lack of understanding the funding options and/or challenges in navigating the application processes. These common issues – from unrealistic timeframes to not understanding decision-making criteria – are having real impacts on the outcomes of funding applications.

With increasing resource pressures, there are growing knowledge gaps across NHS organisations. It's also increasingly evident that the loss of a range of specialist skills and job roles is impacting some organisations' ability to leverage all the available funding methods.

With this guide, we hope in some way to redress the balance. To plug the gaps and help you and your teams both better understand and make more of the vastly different funding options available to you.

About this guide

To tackle the main challenges identified in the survey, we gathered NHS Property Services (NHSPS) experts from across our Estates Strategy and Strategy Implementation teams for the first time to share their knowledge and experiences of unlocking NHS estate funding from sources including NHS England (NHSE), the town planning system, third parties and from your own estate.

In each chapter, we'll provide an overview on how specific funding methods work, the application process, timings and even the key skills you need in your teams to be more successful.

Our practical insights will show you how to get the most from each funding method. And there's a handy checklist too so you and your teams are clearer about all you need to do.

Being ready

Regardless of the funding method, you'll find a number of common considerations for you and your team to keep in mind to get the most out of current - and future - funding methods and opportunities.

Following the development of Infrastructure Strategies, a long-term view of your estate is essential in helping you identify the right funding source – and in plenty of time too. In fact, we've found that organisations are better placed if they're able to develop a pipeline of 'ready to go' applications and projects, should a funding opportunity open up.

You will also find our recommendations on how best to plan and manage your funding applications – including conducting the proper due diligence, communicating and collaborating with stakeholders from the outset, and making sure you have the right data to back up your applications.

Ways to innovate

There's a growing need to innovate too. That can take many forms, from how you negotiate a lease to reduce your costs or get a capital injection from your landlord. To setting up your own processes and even, thinking of sustainability projects in particular, setting up your own internal funding streams!

It can also be about how you drive down costs and generate new revenue. We know that improving utilisation is a big priority within the NHS right now, and it's an important way in which we can reduce maintenance costs and drive value and productivity.

Then there are space management solutions that can save costs and generate new revenue for you. As well as looking at your sustainability programme and procurement strategy as opportunities to unlock value.

Whatever changes may lay ahead with NHS capital and revenue funding, I hope you find this guide a practical tool for you and your team.

If you have any questions about the topics, the advice shared or want to discuss how NHSPS can help you unlock funding, please do get in touch with our Customer Service Centre who will point you in the right direction.

Kieran Kinsella

Executive Director of Advisory Services, NHSPS

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Chapter 01

DHSC/NHSE programme capital

How best to prepare to access central DHSC/NHSE programme capital

Introduction

In recent years, a substantial amount of funding has been made available on a programmatic basis, with areas of investment defined centrally. Examples of this approach include:

- STP Funding (now Upgrades Funding)
- Targeted Investment Fund (TIF)
- Community Diagnostic Centres (CDC)
- Estates Transformation and Technology Fund (ETTF)
- New Hospital Programme

While these funding rounds offer access to critical sources of investment, they're typically challenging to access. Why? There's a relatively short time period between the announcement of the funding and the submission date for bids.

This places teams under pressure to develop a relevant and impactful proposal and use case, while considering all the funding and resource ramifications that may involve. The funding made available must also be committed in a fixed financial year or annualised basis; no easy feat.

While there may not be any national programmes currently open for bidding, preparation is key. If programme funding is made available in the next six months, would you be ready to take advantage of it? The answer comes down to whether you have a pre-prepared business case that accurately matches your estate priorities with feasibility and deliverability, is supported by careful due diligence and is mindful of all stakeholders involved.

> "Central DHSC/NHSE programme capital can be an essential source of capital. However, this funding is conditional on tight timeframes and clear specifications. How can you prepare to seize this opportunity when it comes?"

What is programme capital used for?

Programme capital is used as a funding route for big, strategic projects or a large number of smaller projects that reflect a centrally-developed priority.

Parameters of funding vary between programmes, but the usual constraints applying to Trusts or general practice funding apply.

In the instance of ETTF, for example, the General Practice Premises Cost Directions (PCDs) still apply to the use of the funding.

While there are currently no national programmes open for bidding, the government is reviewing their intentions for the NHS and the future access to capital will become clearer by mid 2025. For this reason, it's important to have a clear understanding of your priorities and feasibility of projects so that you are prepared to take advantage of funding quickly when it becomes available.

General programme capital bidding principles

When programme capital becomes available, these principles are likely to apply:

- This might be obvious, but there's always been a specific deadline for submission of applications and a specified delivery (funding) period. Some of the historic national funding programmes had dates by which the funds needed to be invested, including STP capital and ETTF for primary care.
- Programmes require bids in line with the standard business case process for the category.
- Bids to NHSE normally require a Treasury Green Book compliant Five Case business case. The initial bid may form a part of this journey, or in some programmes a short-form business case may be acceptable under £15m. We recommend key team members getting a qualification in Better Business Cases™ to increase your business case preparation skills.
- Where general practice investment is required, then an initial Project Initiation Document (PID) is expected. If NHS capital is being invested, this may be followed by Outline Business Case (OBC) and Full Business Case (FBC), combined FBC, or confirming financial close documentation, depending on the value of the investment. Rules for general practice improvement grants are different, with elements of local variation, and normally more straightforward due to their lower value.
- You could submit multiple applications at the same time, but this is wholly dependent on the parameters of the programme. It's also important to remember that the development of a proposal takes significant time and resources with no guarantee of success. We recommend that you focus on the bid(s) that are most aligned to the specific programme funding.

Timings to be aware of

The timescales often depend on the maturity of the clinical requirement and status of the business case process. We advise that it usually takes:

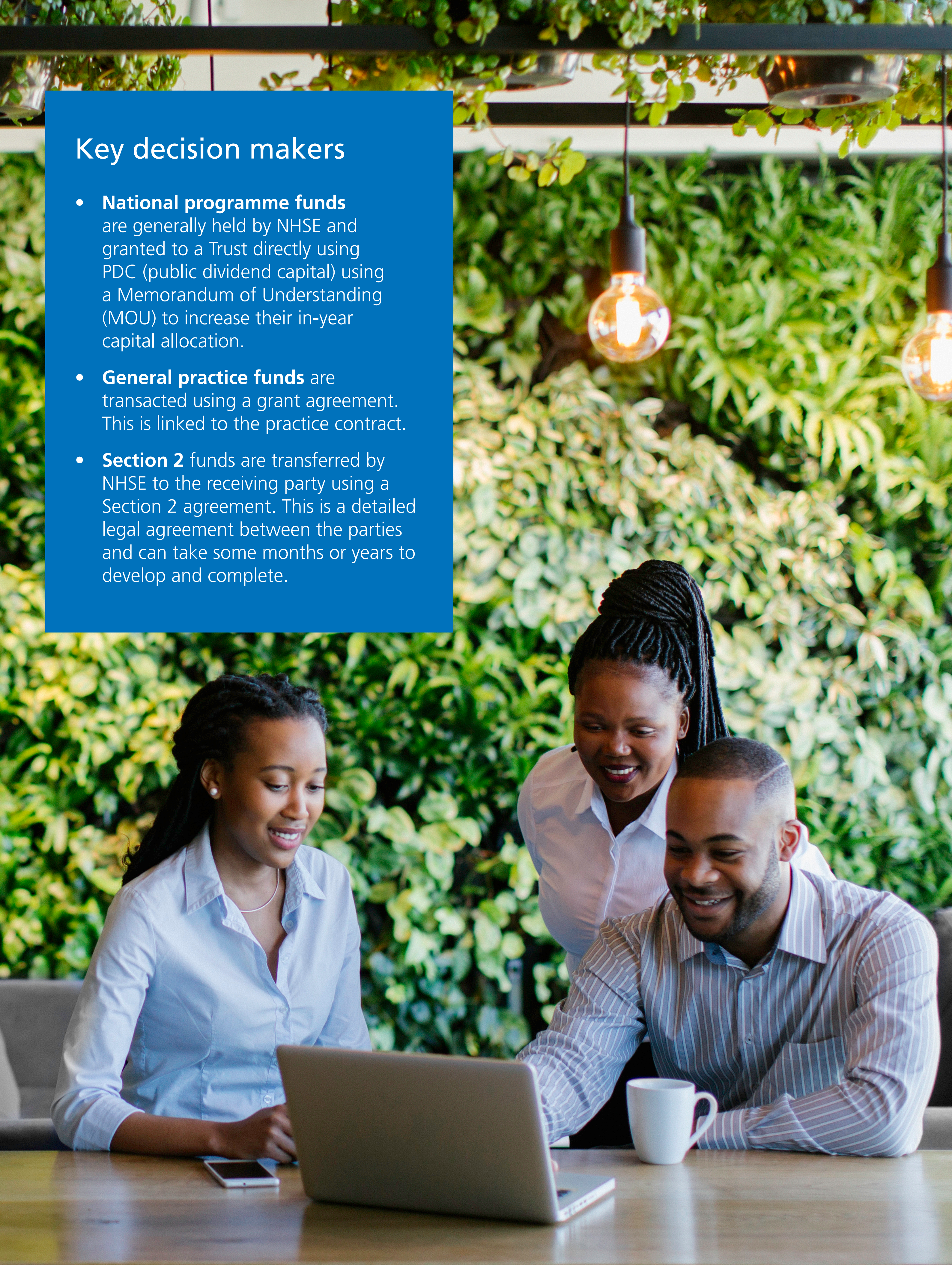
A minimum of 2-3 months to develop the documentation and progress it through intermediary approvals (organisation, locality, ICB) prior to submission to NHSE. We recommend that you develop a pre-prepared business case that touches on your major strategic goals, which you can refine and submit if bidding for programme capital opens up and is related to your funding areas of interest. Doing so allows you to move quickly when a funding window opens.

There's then a waiting period while cases are reviewed. And also while preferred schemes recommended and signed off by NHSE/DHSE and in some cases ministers.

Remember, funding cycles are annualised, so make sure you spend your allocations within the same year, or you are putting your project at risk.

Key decision makers

- **National programme funds** are generally held by NHSE and granted to a Trust directly using PDC (public dividend capital) using a Memorandum of Understanding (MOU) to increase their in-year capital allocation.
- **General practice funds** are transacted using a grant agreement. This is linked to the practice contract.
- **Section 2** funds are transferred by NHSE to the receiving party using a Section 2 agreement. This is a detailed legal agreement between the parties and can take some months or years to develop and complete.



Five key insights

1. **Have a pre-prepared business case.** Here, you need to tell a persuasive story that is supported by the right numbers, which is grounded in clinical demand or transformative change. This will include:

    - A detailed description of the strategic/clinical requirement.
    - A detailed economic case which demonstrates the benefits of investment.
    - Larger capital schemes will require the development of a full economic model, showing the capital costs of investment, the financial implications over the lifecycle of the asset(s) alongside the risks and benefits

    If your scheme involves the development of buildings, provide an accommodation schedule. This will be supported by:

    - An assessment of clinical demand and activity.
    - A detailed cost appraisal for construction.
    - A programme and a management case setting out how the scheme will be delivered.
    - A commercial case setting out the plans for procurement.

2. **Make sure you've got the right people and skills preparing your business case.** A skilled bid team is key to success. You want people with specific qualifications like Better Business Case accreditation, a comprehensive understanding of the Five Case Model and financial modelling skills.

3. **Have honest conversations upfront** with occupiers and stakeholders. Discuss what space is being used, how it is used and if it can be more efficient. For example, do you need 20 desks for 20 colleagues who are in the community 50% of the time? If there is a financial envelope, then everyone needs to understand this constraint. Shared vision and objectives and clear leadership are crucial to success.

4. **Know and match your estate priorities with feasibility and deliverability.** This means ensuring that the physical and legal barriers to development are resolvable and doing your due diligence to guard against scope and proposition creep. For example:

    - Do you have a site area that gives you the space to develop the quantum of accommodation or has a site been identified?
    - Are there legal restrictions that will prevent you from developing, or any town planning policies that will be a blocker?
    - Have you considered delay factors like negotiating and agreeing legal and commercial agreements?

    Taking these factors into account, and layering on sufficient contingency, will give you a greater chance of securing funding and making your project a success.

5. **Be aware of the annualised nature** of the funding programme, and make sure that your financial profile needs are constantly updated to match your delivery plans, to allow you to spend the allocated funds in the correct year or over the course of multiple years (depending on the programme's allocations).

    This is all made possible if you have created a clearly defined programme based on good due diligence. If a project cannot spend its allocation within the financial year, you'll face the challenge of securing approval to carry over funds, which can jeopardise the entire project if not granted.

Skills needed for success

Partnership working to get system buy-in or ICB support.

Strategic insight of long-term needs of the estate.

Interrogation of potential risks and contingencies in funding.

Business case development including financial modelling, data analysis and understanding of the Five Case Model.

Checklist

Should you apply for programme capital if it opens?

- Your business case matches the programme's priority for funding and funding parameters.
- You have the supporting data and information to prepare a detailed business case in a short timeframe.
- You can assemble the right team to prepare and, if successful, implement the bid.
- You have a sound delivery programme that accounts for risks and delays, including business case approvals, planning approval and commercial matters (procurement, land and legal), and aligns with the programme funding window.
- You're prepared to engage stakeholders and communicate the long-term benefits of the project.

For more information, visit:
[NHS Property Services | ICB business case development]

Case study

Devizes Health Centre

Bath and North East Somerset, Swindon and Wiltshire CCG (BSW CCG) faced several critical healthcare issues, including a shortage of primary care capacity, poor conditions at the existing Devizes Community Hospital, and inadequate facilities to meet the projected population growth in the area.

NHSPS provided end-to-end strategic estate services to deliver a new state-of-the-art health centre. This included helping BSW CCG to develop Outline and Full Business Case submissions to secure c. £11 million of ETTF funding which was approved by NHS England in February 2021.

Devizes Health Centre opened in January 2023 to support a population of c. 35k people in Devizes. It is one of the first integrated care centres in the region, offering GP appointments and a variety of outpatient clinics, including physiotherapy, mental health support and much more all under one roof.

NHSPS also released surplus land for disposal with a value of c. £2+ million that we will reinvest in the NHS estate.

Chapter 02

Developer contributons

How to leverage developer contributions

Introduction

Are you looking to fund a healthcare development in your community, but don't have access to any external investment or existing savings? With Section 106 (S106) and Community Infrastructure Levy (CIL) funding, you may be able to access funds for projects that address the growing demands on local infrastructure from population growth.

To date, the full use of this funding remains largely untapped by the health system. Why? Because ICBs and Trusts have not had access to information about the local opportunities available. And because the NHS has had limited access to professional expertise to support funding requests, in line with planning policy requirements.

By understanding the scale of developer contributions in your area, building the right relationships and touchpoints for town planning and following the established NHSPS strategic approach for S106 and CIL applications, you can unlock much-needed funding for your health projects.

What are S106 and CIL?

Both S106 and CIL are mechanisms where funding mitigation can be secured for healthcare infrastructure from the town planning system.

> NHSPS has created a robust methodology on how to identify and tap into S106 and CIL funds, and has partnered with ICBs as a professional resource and support.

All local planning authorities utilise S106, while CIL is not used in all areas. The planning section of a local planning authority website will confirm whether CIL is being utilised. It's important to nurture relevant local town planning relationships by actively engaging with local planning authorities to highlight NHS requirements.

S106

S106 is site specific, meaning that it's funding that has been allocated to mitigate the impact from a specific development, such as housing. For example, this funding would cover improvements and expansions to existing healthcare sites, as well as creating new healthcare premises, to directly serve the increased population or infrastructural pressure coming from the development.

When applying for this funding, you need to meet the legal tests. This includes demonstrating how the proposed healthcare infrastructure supports the needs of a particular development.

CIL

CIL, on the other hand, is more like a tax whereby developers have to pay money to the local authority based on the square footage of their proposed development. The local authority puts this money into a pot, and it could be allocated towards all the local infrastructure in the area.

An NHS organisation can put a case forward for some of that pot to go towards the local healthcare estate, to support local population growth and change in the area. Clinical expansions are typically a key criterion for most local planning authorities, as adding capacity to the health system is always a priority.

What you need to consider when preparing your funding application

Whether you're applying for S106 or CIL, it's important to do so with the confidence that Trusts and ICBs are, in terms of legislation, eligible for this type of funding. It's also critical that you approach the task of building your business case and applying for funding with both a long-term strategic view of your development needs, as well as an understanding of short-term projects that need to be prioritised.

When preparing to access funds from either S106 or CIL, you need to bear in mind the following:

S106

- The funding is designed to mitigate the site specific impact of a development, and if you do secure that funding, it's earmarked for the NHS to use.
- This method of funding needs to be tied to a planning application. However, the request must be made before the planning application has been granted.
- You must make robustly clear the direct link between the new development's impact and how you plan to mitigate that impact with your healthcare-related solution.
- Hone in on the detail. On the developer side, there is always a viability challenge on schemes that are supported by a great deal of technical input. Focus on building the most robust methodology based on consultant studies, case law and surveyor firm input.
- Consider building some flexibility and options around the potential projects (including the legal drafting). This is so you're not constrained to a too-narrowly-defined use for the funds in the future.

CIL

- CIL funds are usually spent within a window period of one financial year. The starting date for this window varies from one local authority to another.
- Other competing infrastructure is also vying for the same funding, it's not reserved for use in healthcare only – so a compelling case is vital. Your compelling case would usually include an application form, build cost data and a project timeline, supported by a clear case as to why your project is the best use for CIL funding.
- Tell a story and have your evidence. What does this project mean for your area? What is the potential impact?
- The process usually includes presenting the case to the relevant officers and committees (depending on local governance).
- The process varies from council to council, and could include different levels of political involvement.
- In areas where there haven't been any allocations for CIL in the past, there may be a historic relationship between the NHS and funders that needs to be changed. We need to help our colleagues in the system rightly prioritise healthcare in service of the local community.

Timings to be aware of

S106

- The NHS would need to make the request before the planning permission is granted.
- Most applications have a formal public consultation period.
- Once the planning application is granted, it's unlikely there will be another opportunity to make the request for that development.
- Your request should be made swiftly within the consultation periods. Major and strategic applications can take a much longer timeframe to be determined for permission by the local authority.

CIL

- There are different deadlines for every local authority.
- Allocations are typically decided upon every financial year.

Five key insights

1. **Familiarise yourself with the scale of developer contributions in your area.** You can do this by accessing the Council's Annual Infrastructure Funding Statement through the local planning authority website.

2. **Understand the relationships and touchpoints for town planning that need to be in place.** Securing S106 funding would take the form of a formal consultation response. You would engage with the local authority, committee, and developer, with the final decision usually being made by the local planning authority.

   For CIL, you will fill in a bespoke application form with a supporting case and evidence that you will use to advocate for the project to local planning committees. Depending on the council's governance, the final decision would be made by the council's decision-making committee.

3. **Build a unified view within your organisation on your capital programme going forward and what gets funded first.** Strategically strike a balance between using funding that is available now and creating a long-term process for developer contributions. The NHS should embed the availability of funding into capital programmes.

   For example:

   - Focus on the delivery of projects where S106 or CIL funding has already been secured.
   - Target projects that can be potentially funded by CIL in areas where you know there is CIL funding available.
   - Target projects for CIL support where you can show NHS investment may also be taking place for maintenance purposes/NHS funding (councils often require a 'match funding' principle to be followed on CIL projects).

4. **Reframe how you are looking at S106 and CIL.** As part of your overall capital strategy, you may want to change how you are looking at S106 and CIL to enable an underfunded health project. An exemption, for example, could fund the health aspect of a project.

5. **Seek advice from experts.** Remember that an established approach to securing S106 and CIL funding exists with NHSPS so you don't have to reinvent the wheel.

   Find out more: NHS Property Services | Town Planning

Skills needed for success

Communication and negotiation skills with developers, local councils and political stakeholders.

Technical understanding of town planning processes, including planning policies.

Data storytelling to support business case development.

Knowledge of construction/ building processes.

Checklist

Should you apply for 106 or CIL funding if it opens?

S106

- You can make a case that there's a need to create a health-related building or extension that services the infrastructural needs of a particular local development.
- You have the data and story to motivate a compelling case.
- You understand the scale of what is possible.

CIL

- You have reviewed infrastructure funding statements to identify potential funding opportunities for NHS projects.
- You can make a case to create a health-related building that services the infrastructural needs of a local community.
- You have the data, story and evidence base to motivate a compelling case.
- You have an understanding of the local political landscape and how you could motivate for your project to meet these objectives.

For more information, visit:
[NHS Property Services | TownPlanning]

Case study

Bourn Airfield New Village

Prior to NHSPS engagement, a major planning application for a mixed-use 3,500-home new village at Bourn Airfield in South Cambridgeshire had been approved at planning committee with a health contribution of just £1.4m being allocated to build a much-needed new health centre.

Following a request for support from the ICB, the NHSPS team submitted detailed representations and led a series of meetings with the developer and senior officers from the council to negotiate a better outcome for the NHS system.

NHSPS successfully negotiated a significantly better deal for the NHS. The developer is now required to transfer the freehold of the 'health site' at **'nil' cost**, and pay a contribution of **£5.055m** for the NHS to self-deliver the facility, should this be the ICB's preferred delivery route.

Chapter 03

Third-party owned solutions

How to lease a space from a developer

Introduction

For many NHS organisations, finding the right property for the services that you need to deliver to your communities can be a challenge. Ageing estate, competing priorities and, crucially, lack of funding can mean you face solving a complicated estates conundrum.

If you have capital available, you can develop a plan to find and develop the right site in the right location to deliver your services. **But in many instances, you may not have funding to finance a new development**. So, what options do you have to take a project forward?

You could consider leasing a new build facility from a developer who has a site and capital to invest. A third party owned or developed solution can be a convenient and cost-effective solution as long as the terms of the agreements are fair and the quality of the accommodation meets your needs. Make sure that the developer is experienced in working with NHS organisations and delivering space to the right standards. And establish their track record of quality and on-time delivery.

In this chapter, we'll show how you can make the most from your negotiations with a developer who is experienced in helping NHS organisations deliver their services from a fit-for-purpose space.

If this is the route you choose, success will rely on careful financial planning, clear stakeholder engagement, and strong lease negotiation to reduce your costs.

What steps should you take if considering a third party development?

While ICBs (previously CCGs) weren't allowed to own properties or leases in the past, legislation has now changed, making this a viable option to making your project a reality.

Whether you are looking to lease space or progress a development with a partner, based on our experience, we advise you take the following steps as you consider involving a third party:

1. Map out your needs

Think about the sort of space you need. Office space, GP and community services space are suitable for delivery by third parties. More specialised facilities with in-bed services or scanners are usually better suited to be developed and held by NHS bodies due to the risk and investment involved.

Think about what space is required and plan utilisation effectively. A health planner can assist to right size the development. Your consultant can advise on budget costs and anticipated rent and other costs.

Consider any business case approvals and ensure you get the right project team in place.

Once you've done this, do a site search to find out what properties are out there that could meet your needs and appraise your available options.

2. Understand the financial requirements

While leasing may negate the need for upfront capital, there are revenue implications. And several factors to budget for, from monthly rent to operational running costs. And don't forget to factor in repairing obligations, lifecycle costs and end of lease costs.

What you pay landlords should fairly reflect the development cost and reasonable landlord profit.

Depending on the space you lease, you may still need capital funding, especially for fitting out leased properties or undertaking major reconfigurations. This is especially true if you lease a 'shell and core' whereby the health system funds the fit-out, so you'll need a blend of leasing and capital expenditure in practice.

3. Understand what flexibility you need in any lease to benefit your project the most

Think carefully about any potential changes to your future estates strategy or clinical direction. Can you exit the lease if the agreement is not working for you? Can you change the use? Can you lease space to other NHS or government users?

Strong negotiation with the landlord can help secure a capital contribution, limit your repairing obligations or liabilities. Sometimes in exchange for extending your lease. Find out more about this in our Lease Negotiations chapter.

4. Be aware of your obligations

Depending on the value of the lease, you may need DHSC approval, so consider that in your timeframes as well.

You will also need to take IFRS16 into account. IFRS16 has established principles for the recognition, measurement, presentation and disclosure of leases. In NHS terms, this means that if you enter into a lease agreement, it may need to go onto your balance sheet.

We recommend doing your homework on IFRS 16 and make sure you have the necessary support for ongoing lease management, which can be provided by external experts if not available in-house.

Explore grant funding, landlord contributions and S106 funding from local authorities as alternative sources too.

5. Consider your long term options

If you are considering third partyw solutions for your services, look at what is available and start conversations with commissioners and landlords.

If you need more time to put things in place, could an interim solution allow you more time to plan?

Five key insights

1. **Understand who will be making use of the space.** What services will they be delivering and who for? Is it located in the right place for your community and the services which are going to occupy it? Have you done your research to make sure this is the case? Communicate with your stakeholders to get them on board and committed to occupying the space, ensuring it meets their needs and the needs of their patients or service users.

2. **Negotiate, negotiate, negotiate.** Strong lease negotiation is critical when considering leasing – it can greatly influence the terms and outcomes of your lease agreements, which impacts overall affordability.

3. **Review your options and do your due diligence.** Make sure you've thought about all the options available before you make your final decision. There are ongoing financial commitments when it comes to third party solutions, so while this can be a very successful option, make sure you can afford it over the length of the lease. And ensure the developer has NHS experience and can meet standards, with a proven record of quality and on-time delivery.

4. **Prepare a detailed business case.** Consider factors such as IFRS16. Understand and build in sufficient contingency so that you don't run the risk of overrunning your budget at a later stage.

5. **Determine how you want to run the building.** For example, will you be running it on a sessional basis (through platforms such as NHS Open Space) and what tools will you need to make this possible?

Skills needed for success

Financial knowledge to ensure affordability and value for money.

Legal counsel to enable transparency and flexibility in site usage now and in the future.

Project management to ensure plans are delivered efficiently.

Stakeholder engagement to ensure plans are communicated clearly.

Technical expertise and lease negotiation to ensure the finer details of leasing are clear.

Checklist

Should you consider a third-party development?

- You are unable to finance a new-build.
- Your budget allows for rent plus any agreed facilities management, maintenance and repairs outlined in the lease.
- You have agreement from service providers who will be using the space.

For more information, visit: [NHS Property | Lease Advisory]

Chapter 04

Lease negotiations

How to unlock value from your negotiations with landlords

Introduction

When you're managing lease issues alongside other priorities, it can sometimes feel like you're on the back foot with your estate.

If issues build, they have the potential to make your lease portfolio inefficient and costly – ultimately making it harder for you to realise your future estate plans. So how can you get on the front foot? By taking a strategic approach to lease management, you can find and act on opportunities to reduce costs, increase flexibility, release value and improve the quality of the estate or inform future development plans.

The best way to approach this is by making sure you have the right skills to frame conversations with landlords, engaging as early as possible and remembering that successful lease negotiations extend far beyond just rent alone.

What can you negotiate?

There are two key types of leases that you could negotiate as an ICB or Trust – a lease with a third party or with an NHS landlord. Being proactive in your lease negotiations helps get the most value out of your estate. This will go a long way in helping you deliver the best possible healthcare and improving your estate to be in line with an NHS fit for the future.

> Our skill set and our purpose as NHSPS is to achieve savings for the NHS, and avoid money being spent unnecessarily – not just at the outset of a lease negotiation but throughout the term of that lease.

Below are some examples of what you may look to negotiate in your lease:

- The best terms when acquiring; to structure a transaction that is most beneficial to the NHS and future occupiers.
- Managing lease liabilities, including rent reviews and dilapidations.
- Opportunities to increase space utilisation.
- Reducing void space and associated costs.
- Renewing or regearing a lease during its term to manage costs or raise capital.
- Negotiating early exits and leveraging value from break clause.
- Negotiating a longer term lease for a better incentive from a landlord.
- Service charge management; holding the landlord accountable for service delivery quality and cost.

How to prepare your negotiation

Regardless of what you're hoping to negotiate with your landlord, there are certain steps you can take to prepare. These include:

- **Develop a business case** to consider the options available to you, including the suitability of the property and what adaptations might be needed so that it meets your needs. Some costs and potential benefits could be reduced or unlocked from negotiations. These could include works by the landlord or contributions to fit out costs, capital contributions to energy efficiency, or rent free periods. Plus, think about limiting future cost increases for rent and service charge, or dilapidations when the lease expires. Consider how these could positively impact your property, the space utilisation, and limit costs to the NHS over the term of the lease.
- **Conduct a financial analysis** to understand cost implications and compare the options. Understand the immediate financial impact as well as the longer term impacts of costs, VAT and stamp duty implications, and the legal structure of the transaction. Appreciate the balance sheet impact of options.
- **Consider all possible options to deliver your objectives.** Challenge landlords and developers to provide what works best for you based on your financial, estate and service provision goals. The value of a NHS tenant to a landlord is significant. Recognise the value of your negotiation position before you start negotiations. Understand what outcomes are possible versus what you might have been offered so far. Even some small changes in the negotiation could give you more future control, revitalise the space and add more value to your use of the building.

Timings to be aware of

We recommend that you plan for any potential negotiations as early as possible and at least 12 months in advance, even 24 months if you can. This can help you be on top of negotiations and drive value.

While you can drive this process yourself, involving a partner such as NHSPS from early on can help you engage strategically at pivotal moments during the negotiation.

Five key insights

1. **Engage as early as possible.** The earlier you (and any experts you bring on) can negotiate with the landlord, the easier it should be to structure a transaction that is most beneficial to you and the teams using and managing the building, both financially and to meet your current service needs.

2. **Negotiation is not just about rent.** It also extends to service charges and the overall costs of the building and its maintenance. A strong negotiation will make sure that there is a specified agreement on what needs to be done, who is responsible for doing it and what the costs are – both now and in the future.

3. **Don't be scared of a longer term lease.** In your negotiations, agreeing to a longer term lease could get you a better incentive from a landlord like capital investment to refurbish or fit out your property, which in turn could help you deliver more services and improve patient care. What you negotiate should align with your overall estate strategy.

4. **Consider the longer term legal and cost implications of your negotiation.** Make sure that your consultants are aligned with your legal team. Both should be there to give you the right commercial advice on any proposals and the contracts you will enter into.

5. **Ensure you have the necessary skills on board.** Consider the experts you need to work alongside you to help you frame and drive conversations with developers and landlords. The earlier you are able to acknowledge where support is needed, the better, as it can take time to bring external resources on board.

Skills needed for success

Negotiation skills to make the most of developer relationships.

Financial analysis and benchmarking, which is crucial for discussions around structuring the transaction.

Development expertise to navigate the complexities of lease negotiations and project delivery events.

Legal and contracting ability to navigate complicated property contracts.

Checklist

Should you renegotiate your lease?

- You have a lease event coming up in 12-24 months.
- You are looking for an avenue to unlock capital on an existing site.
- You want to lease a new site and negotiate terms that are best for the NHS estate.
- You have supporting evidence to back up your negotiation.

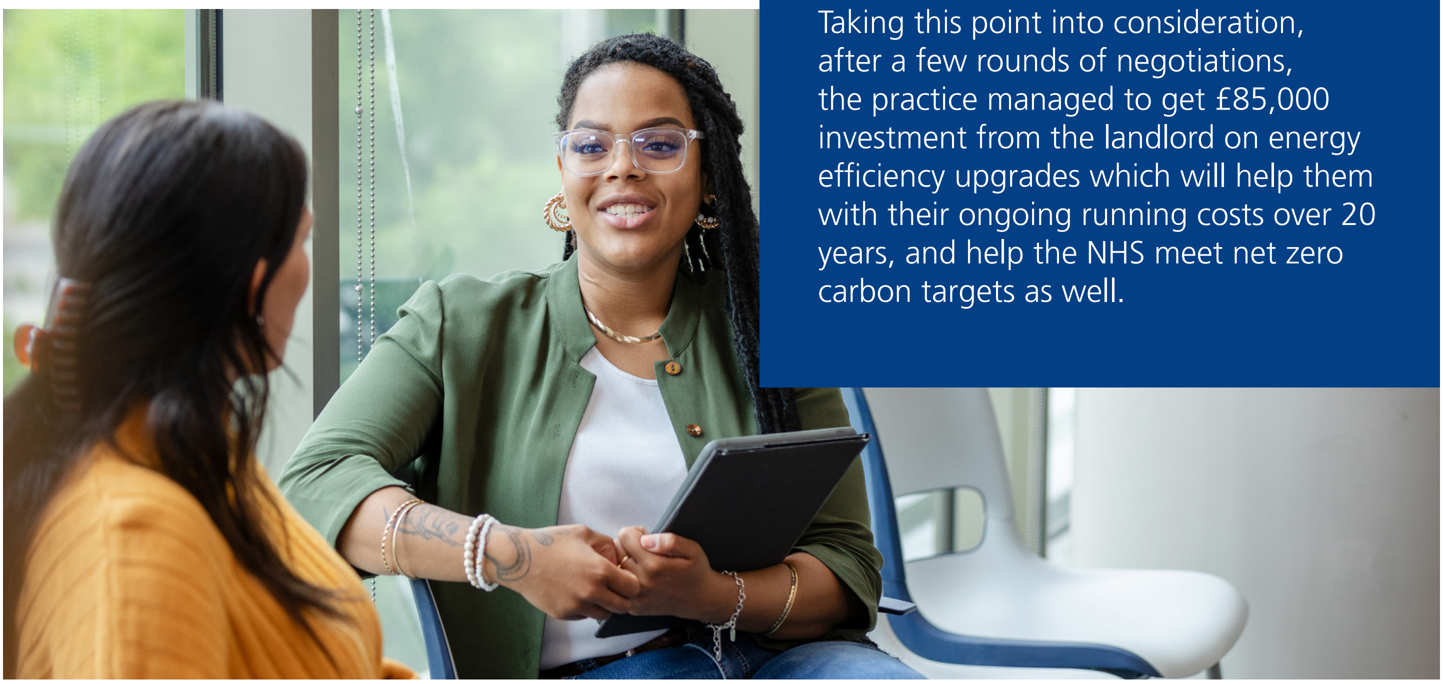
Case study

Greater Manchester ICB

Greater Manchester ICB came to NHSPS for support as a GP was offered a 20-year lease, with no incentives from the landlord.

We advised the GP that they could get some sort of capital investment in the building or perhaps a rent discount.

Taking this point into consideration, after a few rounds of negotiations, the practice managed to get £85,000 investment from the landlord on energy efficiency upgrades which will help them with their ongoing running costs over 20 years, and help the NHS meet net zero carbon targets as well.



For more information: [NHS Property | Lease Advisory]

Chapter 05

Internal funding streams

Creating and making the most of internal funding streams for your sustainability plans

Introduction

It's a common misconception that sustainable building upgrades are more expensive than non-sustainable upgrades. While there is often a greater capital outlay in the beginning, this is resolved in reduced costs and improved sustainability of the building over the long term.

Investing in sustainability projects at the right time and in the best location can have a powerful impact on your building's energy efficiency, environmental compliance, climate adaptation, and overall sustainability. It will also save you money. **However, demand for capital exceeds supply, leaving many organisations unsure of where to invest for maximum benefit.** So how do you manage this?

To help us make the right sustainable investments, a few years ago, we set up a specific internal funding stream for the sole purpose of driving energy efficiency and net zero targeted projects. This has been transformative for us. We call this our Regional Energy and Environment Fund (REEF).

Given the different ways budgets are managed across NHS organisations, we know setting something like this up might not be for everyone.

But, if it is possible, this chapter will show you how to create an internal funding stream for sustainability projects and how to get the most out of it so that you can unlock even more funding year on year.

> Internal funding for sustainability exists, but how can you ensure that you have the funds you need, for the right projects at the right time?

What are internal funding streams?

Internal funding streams are agreed operational mechanisms that unlock capital for a pre-defined purpose. Sometimes these streams will be agreed capital for specific business units to use on standard business activities such as backlog or reactive maintenance. In other cases, the funding is unlocked based on a competitive internal process where certain criteria need to be met.

Our REEF pays the difference on projects that are already going ahead to ensure that the outcome is more sustainable. This removes the upfront cost barriers for greener options. For example, you may have budgeted to replace an end-of-life gas boiler with a new gas boiler, but the REEF can supplement this budget to allow you to invest in an alternative heating system that doesn't rely on gas or oil as fuel.

How to set up an internal funding stream for sustainability

1. Analyse the funds available to you.

And ringfence a portion of your capital for your fund at the start of each financial year. In terms of how much is needed, start with a sum that is achievable for the business at first. How this capital is invested and which projects receive the capital is key in ensuring the success of your fund.

2. Champion sustainability as a business driver when making the case to your Finance team.

Although initial costs for sustainable upgrades may be higher, the building's long-term sustainability and operations will save you money so it's important to educate your peers and decision makers. This is where whole life costing comes in to assess and prove the benefit over the whole life of the technology/asset/initiative. For example, LEDs can return the investment in less than a year, but a solar project might take 5 years or more.

3. Set up a process to ensure the funding stream, and projects within it, meet the current and future requirements of the business.

You need to decide on the criteria that's required so that you use the fund to invest in the right projects at the right time for maximum ROI, environmentally and economically. As you'll see in the next section, our projects are analysed and prioritised using a calculation that assesses total project cost and associated carbon impact.

How to allocate funds to generate maximum benefit

If your organisation is anything like NHSPS, demand for sustainable investment is now outstripping the supply of capital. With this in mind, we've developed tools and measurements to make sure that money is allocated to the projects that will deliver the best results.

Crucially, you need to calculate the potential benefit of a sustainable solution over alternatives. This benefit is interpreted in a variety of ways, including saving/avoidance, carbon reduction, climate impact mitigation, or a mixture of benefits. Here are some crucial steps you need to take to allocate the funding appropriately:

Make the relevant calculations. Calculate the total project cost and projected associated carbon impact from a particular project. The projects with the lowest £/tCO2e metric are more likely to receive the top up funding from REEF.

Work out whether your project is investment-ready. Develop your project plan which should include wider project costs such as prelims, fees and contingencies to help assess whether it will meet the level required for investment, or if the project needs more planning to be ready to start once funding is allocated.

Extend this intelligence to enabling works. If needs be, the project could have several phases that can be undertaken over a few years to spread the cost. With these initial phases 'enabling' the final project. For example, insulation, solar, increased electrical supply or energy efficiency, could be required first to enable a decarbonisation project later.

Take a holistic approach. It's important that the project takes account of climate adaptation and biodiversity elements, where possible. The project needs to be as holistic as possible, where capital allows.

The key is to make sure you measure the success and your decision makers understand the benefits. By delivering (and advertising) the success of your project, stakeholders will look to you to deliver more benefits in future years and hence provide you with the funding.

Timings to be aware of

When it comes to timings for setting up this fund and allocating money, here's what we've learned:

Early intervention is key. Have your budget agreed as early as possible. This allows you to work with project teams to include REEF projects and for you to build a pipeline of projects. Significant time is needed to plan and design an alternative heating system in a property, for example. We're currently looking five years ahead.

Funding opens each financial year. Ringfence your REEF and commit to spending it. This will ensure that you don't delay or cause unneeded changes to projects, as project teams will be able to rely on your funding. If funding is released later in the year, this should ideally be used for quick projects in your pipeline and not to fund your core projects.

The actual application process is relatively quick once the REEF calculation form has been completed, and if there is sufficient budget remaining in the pot. So keep the administrative burden as light as possible.

Look long term. Historically, our energy efficiency budget had a two-year payback limitation, which was initially used for projects like LED lighting upgrades. But we have since evolved, and encourage you to take a more long-term and flexible approach to calculating pay back, to accommodate sustainable investments with long-term benefits. This is also important to take account of future climate change such as increased temperature and rainfall, for example.

Key decision makers

Our REEF is overseen by the NHSPS Net Zero team, with capital tracking being undertaken in conjunction with NHSPS's Capital Finance team and Regional Capital Project Managers. Think about who you would need to involve in setting up a similar process.

Five key insights

1. **Engage with stakeholders as early as possible** to ensure that sustainability goals are integrated into project designs from the outset, preventing expensive alterations later in the process.

2. **Educate, educate, educate.** Raise awareness and train your colleagues, building users and maintenance colleagues on how to operate and maintain the new equipment, as well as the benefits.

   This will make sure the proposed energy, carbon and cost benefits will be realised, as well as ensuring the technology operates as intended for its whole life.

3. **Have a multi-year pipeline of projects** to ensure that you can prioritise and budget properly for the future. As part of this, you can identify projects that are ready for quick initiation as funding becomes available if another scheme falls away for whatever reason.

4. **Value long-term strategies over quick paybacks** to achieve the 2040 net zero target. You'll need to shift project evaluation metrics from cost savings to the cost and carbon savings across the whole life of a project.

   For example, you could approach design with long-term sustainability in mind, such as avoiding the installation of gas boilers and considering electrical capacity from the initial stages.

5. **Calculate the full and long term ROI** for each project to make sure that you can prove the benefits of your new internal funding stream, economically and environmentally. This will help you unlock more capital for your fund YoY to help you make more sustainable changes across your estate.

Skills needed for success

Change management to implement new processes.

Management of minor works and construction programmes.

Technical knowledge and maintenance skills on new technologies.

Financial analysis to ensure successful project outcomes.

Checklist

Should you create an internal funding stream?

- You need to upgrade elements of your building with more sustainable solutions.
- You have a team that can centrally create and manage a fund like this.
- You are able to ringfence some of your sustainability/net zero budget and allocate it out to other areas in your organisation.
- You can calculate the £/tCO2e for your project, and it falls within the investment threshold.
- You are prepared to engage stakeholders and communicate the benefits of the project.

For more information, visit:
NHS Property Services | Net zero strategy

Case study

Mile Lane Health Centre

Mile Lane Health Centre in Bury had an aged boiler system and poor insulation. There was capital investment available through the NHSPS Backlog Maintenance programme to replace the boiler and make some other minor improvements.

The project was identified by the NHSPS Net Zero team as showing potential for investment through the REEF. An options appraisal recommended installing an air source heat pump to replace the hot water and space heating gas boiler to remove gas from the property. It also recommended adding cavity wall insulation and upgrading the lighting and controls to heating, and installing solar PV to provide the electrical power to offset the amount needed from the grid. The REEF funded these sustainable upgrades.

Carbon emissions at the property have gone from 16tCO2e per year to 5tCO2e per year. With the remaining emissions being fully electric, these will reduce as the grid decarbonises. The gas and electricity cost has also reduced from about £11k per year down to about £7k per year.

Chapter 06

Property disposal and re-investment

Free up surplus land to unlock additional funding

Introduction

Property needs can change over time. This is no different in healthcare, where a property in a portfolio may not be the best fit for a community's healthcare needs or treatment facility requirements. You may need help raising capital for property developments that truly meet your needs, or you may wish to free up funds that can be reinvested into the NHS.

While disposing of assets may seem relatively straightforward, **there are some key steps that will not only make for a smoother process but also make sure you realise your funding goals.** If you do all the preparation work upfront – from derisking physical and title characteristics, mapping out the full impact of the site and involving all stakeholders through a clear communications plan – you will be best positioned to sell your property. In so doing, you will make a positive strategic impact and ensure that your patients will be treated in the best-fit building for their needs.

How to dispose of a property

1. Start with a clear, integrated strategy:

1. Clinical strategy

How you can create the best healthcare environment for practitioners and patients.

2. Estate strategy

How you can make the best use of the properties in your portfolio or the wider NHS and public estate.

3. Capital strategy

How you intend to invest capital, and the sources of capital at your disposal.

A property disposal would make sense if the property in question does not align with your clinical, estate or capital strategy, or meet any objectives for the health estate.

For example, you may have experienced a change in service requirements, a change in the condition of the building or your team has relocated. This has reframed your space requirement and changed how you occupy the core space. As part of this strategy review, you would be mindful of the NHS's current clinical and infrastructural strategy and how your strategy ties in with this.

2. **Next, conduct a utilisation study.** This helps you create a clear picture of how your building is currently being used and engage with key stakeholders to assess future requirements. If possible, de-risk town planning to maximise receipts and shorten transaction timescales.

3. **Understand how you will separate your site from the rest of the property.** This is important if it's a partial site disposal. Determine the functionality, size and shape of the estate you need to retain.

4. **De-risk your property before initiating the sale process.** Consider the environmental, planning and legal due diligence to understand a property's constraints and potential impact on the sale value, and then actions to address these issues. Futureproofing the site and working up solutions ensures it's at its best and most attractive to buyers. To do so, carry out the necessary investigations. For example:

    - Is there asbestos in the building?
    - Is the building listed?
    - Are there any issues with the title ownership, such as access rights to the site?
    - Could there be anything that impacts on a sale from a planning use perspective?
    - Would you benefit from exploring an alternative planning permission to enhance the value?

    You should also consider promoting your sites for allocation through the town planning system. This involves responding to 'call for sites' opportunities that local planning authorities put forward in the process of producing their local plans. Successful site allocations can significantly enhance the value of a site, minimising the town planning risk for any prospective purchaser. NHSPS, for example, has added over £20m in value to our portfolio from this activity over the last few years, even before sites are considered for sale or development.

5. **Create a communications plan.** Do this as early as possible. And demonstrate the benefits of selling the property to a wide variety of stakeholders and community members.

6. **Consider routes to market.** Consider, where you are best placed to market your site - is this likely a residential development site or mixed use? Do you need a local/national reach? Is the site suitable for auction or do you need to go to the market by informal tender? Think about timescales for marketing, arranging viewings, setting deadlines for offers, reviewing and analysing bids and seeking the right information such as:

    - Any conditionality on the offer i.e. is this subject to planning.
    - Operational implications on split sites.
    - Timescales for exchange and completion, for estimated realisation of disposals receipt.
    - Purchasers proof of funds/reputation.
    - Protecting the future value of your site through. overage and clawback on any future value.

    Overall, the importance of the marketing strategy, selecting the right purchaser who can perform and securing best value, cannot be underestimated.

Timings to be aware of

A property disposal is an ongoing, sometimes lengthy process. The above preparations can take between 10 to 15 months before the marketing phase starts. There are some ways to decrease timeframes, by conducting due diligence and planning in parallel, for example. This way, when you reach the public engagement phase, you can propose a credible case.

Five key insights

1. **Do all the prep work.** This includes assessing the current use of the site through utilisation studies to right-size relocation requirements for vacant possession, and understanding how to optimise the maximum capital receipt as early as possible with the greatest level of certainty. You can best optimise a site with a marketing and disposal strategy, as well as legal due diligence on the title.

2. **Derisk physical site characteristics** so that the buyer has the confidence to proceed.

3. **Consider the full impact of the site** before disposing of it. For example, a site may not be contributing financial value, but it could be converted to a development that has a positive impact on wellbeing through say, key worker housing.

4. **Involve all stakeholders from as early as possible with a clear communications plan.** This includes strong local engagement with public sector stakeholders, as well as with the general public. The public perception of a new property development or disposal can significantly influence the outcome and timescales.

5. **Be ready to negotiate the sale.** When considering bids, weigh up factors such as sales proceeds for NHS reinvestment, viability of buyer's plans, conditions, town planning, stakeholder interests, and receipt timing. And crucially, be prepared to manage complex commercial and legal negotiations to get the best result on the completion of a sale.

Skills needed for success

Healthcare Estate Planner to assess occupancy and future space requirements.

Asset Manager conscious of the need for change and relevant disposal options.

Transaction Manager experience in managing complex transactions.

Change Communications Manager to drive stakeholder communication and public perception.

Checklist

Should you start the process of disposing of your property?

- Your needs have changed and the property is underused and no longer serving you.
- You have the supporting utilisation data and information to prepare a strong business case.
- You understand the impact of the disposal from a town planning perspective.
- You are prepared to manage communication with a wide range of stakeholders.

Case study

St George's Hospital

Havering Clinical Commissioning Group (CCG) announced St George's Hospital surplus to requirements and vacated the site.

NHSPS carried out extensive due diligence to de-risk the site, and then submitted a series of outline planning applications for a new health facility and residential units.

NHSPS secured planning permission for 290 units, including 15% affordable housing, which significantly enhanced the value of the site. NHSPS identified a preferred bidder and secured an unconditional capital receipt of £43m in March 2018, which was reinvested in the NHS alongside the £500,000 p/a savings made available to commissioners to reinvest in patient care.

For more information, visit: [NHS Property Services | Property disposal and re-investment]

Chapter 07

Space utilisation and management

Reducing costs and generating revenue

In this chapter, we'll explore three ways in which you can optimise and manage your estate as to help you unlock value, drive down costs and generate revenue.

7.1 Optimising underutilised and vacant space

Property is one of the largest expenses faced by the NHS after workforce and medicines, with increased pressures on healthcare facilities year on year as our population continues to live longer and with more complex health needs. Space can become redundant and under-utilised for a number of reasons. **Changes in technology, service delivery models and location requirements, as well as an ageing estate or obsolescence are all reasons why changes sometimes have to be made**.

By understanding the strategic context of your estate (core, flex and tail categorisation) and what spaces you have available - and making the most of them - you'll be able to improve services for patients. And you should also be able to drive better value, reduce maintenance costs, or even identify surplus space that could generate capital funding that can be reinvested in other core estates projects.

Three top tips:

1. **Start with an occupancy and utilisation study.** Doing so helps you gain a deep understanding of the operational and financial performance of the building and the services provided in the building you wish to optimise (core estate) or rationalise.

   Armed with the knowledge of what, how, when and why space is used, you can make the most of the space available to you, thereby saving on costs and bringing forward opportunities for revenue generation. For example, if a room within a building is only occupied by clinicians between 9am and 11am, you could allow other services to make use of that space when it's unoccupied or look to move that service elsewhere. This stops you wasting money maintaining unused space and can improve NHS productivity.

   When conducting a utilisation study, we recommend that you drill down into the details of the occupiers/services in the building, their service needs, operational hours and the contract lengths. This will help you match demand with supply effectively and plan adjacencies. It's critical to understand the relative importance of different services in a location: those that are core and of strategic importance and those which are on the periphery. If there isn't internal demand you might consider the options for rationalising your estate instead to reduce costs.

   In line with NHSE guidance, we work closely with ICBs to categorise properties into 'core,' 'flex,' and 'tail' based on their service strategy alignment, condition, future-proofing and utility value to the NHS. This categorisation is helpful to drive commissioning, occupancy and investment decisions, and inform accommodation and funding strategies, allowing you to generate or save revenue.

2. **Map business case and capital investment needs.** If you choose to keep the underused space you've identified, you may need to secure capital investment for necessary adaptations to make spaces fit for new purposes. This is when you should set out the practical options and perform a cost-benefit analysis: Will it deliver the cost savings or revenue generation you require? Will the outcomes justify the investment over a reasonable time period? Will it meet other key benefits, core service and patient objectives?

3. **Proactively engage local stakeholders.** Early engagement is essential when seeking to repurpose or dispose of surplus estate. A detailed stakeholder map should be developed to consider all parties – internal to the NHS, and external partners and interested parties - who will need to be engaged to make sure there is support and areas of concern can be planned for. Early engagement and planning will improve the potential for securing the best value, understanding the social benefits of property use, and progressing at pace. The opportunity to optimise cost savings is improved if all parties are supportive with how you plan to use or update the space.

For more information, visit: [NHS Property Services | Estate optimisation and space utilisation]

7.2 Investing in space management solutions

Understanding your estate is the first step to healthy estate management. The next step is to use this data on an ongoing basis to effectively manage it. The best way to do this is to deploy a digital space management solution so that you can **track, manage, and better understand how your estate is being used on a day-to-day basis.**

Digital solutions can give you a wealth of data to help you reduce costs through better space management and generate new revenue, as some tools allow you to lease out space on an ad hoc basis.

Three top tips:

1. **Understand your problem and the value you want to realise**. Different space management solutions will track different data sets and allow for differing cost savings and value generation opportunities. Are you looking for a platform that helps you manage your space and provides detailed usage data? Do you have an issue with rising utility costs in underutilised properties? By setting out clear objectives and goals, you will be able to choose the right solution for you.

2. **Features and support.** Once you understand the value you wish to realise, choose a space management system that provides the features and functionality that give you the best opportunity to realise these outcomes. Whether that's being able to drill down into room level data or upload your own rooms for booking.

3. **Select an intuitive, user-focused solution.** Adoption by your staff and customers is fundamental to the successful implementation and everyday usage of a space management solution. Choose a system that is intuitive and easy for staff and customers to use. This will minimise training, promote everyday usage and help maximise outputs from your investment.

Case study

NHS Open Space

NHS Open Space is the primary estates management tool used by NHSPS. It is an award-winning all-in-one space management system, specially developed by the NHS for the whole healthcare sector, and has been delivering significant value to patients, users and NHSPS since 2019. It provides all NHS and public sector landlords with a suite of specialist estates management, booking and analytics tools, complemented by expert support and guidance from healthcare sector specialists.

Since its launch in 2019, NHS Open Space has delivered:

- 3.5 million consultation hours across 1,300 rooms at 215 sites.
- Over £5m in additional revenue to the NHS to date.
- Utilisation has grown from 19% in 2020 to 39.5% in 2024.
- Providing utilisation and financial data on rooms, properties and portfolios to customers and stakeholders (such as ICBs) to make data driven decisions.

By using NHS Open Space, you can better understand your estate, mitigate costs and generate new revenue.

Find out more: Book Clinical, Therapy and Work Spaces | NHS Open Space

7.3 Investing in 'spend to save' initiatives

Despite what many believe, making strategic and sustainable investments in your infrastructure can have a positive impact on your cashflow by **saving on operating and maintenance costs further down the line.** For example, instead of investing in a new boiler, you could adopt an electricity based heating system with modern costs and efficiencies, reducing operating costs in the long term.

This has a positive impact on your building's sustainability profile too, as many of these alternative investments (such as heat pumps, solar PV and LED lighting) reduce long term emissions.

The more attractive the building is from a sustainability point of view, the more it drives interest from tenants, investors and the NHS – all of whom would have their own sustainability mandates that need to be realised. This also drives energy compliance in the form of improved EPC and DEC ratings, as well as Air Conditioning Inspection (TM44) certification.

Three top tips:

1. **Assess your estate needs and plan ahead.** Identify issues that need to be addressed and make a list of potential projects. We'd recommend starting with upgrades like LED lights, heat pumps, solar PV, insulation or electric vehicle (EV) charging. Develop a project plan for each of these and get buy-in from relevant stakeholders so when they're doing any minor or major works to a building, your sustainable alternative is easy to implement.

   As part of this planning, make sure there is an understanding of the additional power demands to the property (for example from EV chargers, Heat Pumps and Solar PV installs) and engage with local Distribution Network Operators (DNO's) early to understand any limitations that need to be overcome.

2. **Communicate with all stakeholders.** By creating a culture among stakeholders that champions carbon reduction, it will be easier to get buy-in on sustainable investments that don't have an immediate short-term benefit but translate into long-term economic and environmental gain. With older estates, many stakeholders may be passionate about maintaining the historic look, feel and infrastructure of the building and be resistant to any potential changes.

   Also, stakeholders may not know how to use sustainable upgrades, particularly if the technology is different to what they are used to. We recommend developing a change communications plan that acknowledges their concerns, states the anticipated outcome and shows how the benefits will be passed onto those using the building to ease the transition and maximise value.

3. **Measure and prove your impact.** A common misconception is that sustainable upgrades only cost money. And while they do require upfront capital, over time, they can significantly reduce your operating costs. Start with establishing a baseline with the data you have available. For example, you could measure the electrical and gas circuits over a period of time before, during and after the project works. Then, map out external variables that would impact savings. Be as granular as possible about your data so you understand how energy is used throughout the day and where there is an opportunity to make strategic investments to improve the use of these resources.

   When assessing your building, look at it holistically, combining quick wins with long term, strategic investments. Being able to prove ROI helps you unlock more funding YoY. And if more funding becomes available in a year where other departments have underspent, you've proven your ability to be trusted with it and implement more projects.

For more information, visit: NHS Property Services | Carbon Reduction and Energy Management

Chapter 08

Opting to tax

Recovering costs
to deliver projects

In this chapter, we'll explain how NHS Property Services can claim back VAT on building costs and related services which can be critical to project funding feasibility.

What is Opting to Tax?

Opting to tax allows businesses to claim back VAT on building costs and related services. In relation to healthcare, when looking to extend, refurbish or build new clinical facilities, **opting to tax can enable project funding through VAT recovery on fees, build costs, and land acquisition.** Within the health system, NHSPS and CHP are "businesses" that can opt to tax. However it's important for local health systems to understand how opting works and its implications, as it can save significant amounts of money for healthcare developments.

Opting to tax on a large-scale new build project such as a £12m (inc VAT) health centre could enable £2m of VAT to be recovered, which can be critical to project funding feasibility. It also has an **impact on long-term capital costs over the life of a building, for example roof and boiler replacement, as VAT incurred on these works can be reclaimed**. This translates into long-term savings to the health system for the life of the building, allowing capital budgets to stretch further to better maintain healthcare facilities.

Where NHSPS has received agreement from relevant stakeholders, we can opt to tax a building and begin to reclaim the input VAT suffered on purchases back from HMRC. Applying to opt to tax is a relatively simple process with a **two-page form** that's usually acknowledged within 48 hours. Where a site already exists, and exempt supplies have previously been made, permission may be required by HMRC before opting.

There are some rules: we can only opt whole buildings that are delivering patient care, not parts of buildings and not offices.

Three top tips:

1. **Consider it early and engage.** Considering opting to tax early in the business case process will allow time to understand implications and engage with all relevant stakeholders. Engage expert advisors where required, consider the impact to the health system as a whole and to individual stakeholders. Communication and agreement among all parties is crucial.
2. **Be aware of COS 45.** Contracted Out Services (COS) 45 provides specific rules enabling NHS Trusts and Foundation Trusts to recover VAT on property charges (despite not making a taxable supply) where their landlord provides a 'fully managed healthcare facility'. This can provide savings to ongoing revenue costs as well as on capital costs. COS 45 is not available to GPs, administrative or office buildings. Where Trusts plan to recover VAT under COS 45, the documentation of the arrangement that constitutes the provision of a fully managed health facility needs careful review.
3. **Be mindful of timings.** Submitting the option as early as possible is key to maximising VAT recovery on work up costs (design fees etc). A belated option can be made to recover past input VAT in certain circumstances, but it needs careful consideration, requiring documentation of a decision having been made at an earlier point and can be challenged by HMRC. The decision to opt to tax can only be revoked within six months of making the application or 20 years after the date it was made. So consider potential changes in types of tenants when assessing the impact of opting.

About NHS Property Services

NHS Property Services provides strategic estates services to help NHS organisations deliver the best patient care. Every day, we work hand in hand with Integrated Care Boards, Trusts, and GP practices across England to help them better assess, adapt and maintain around **3,000 buildings** - (approximately 10% of the NHS estate) safely and sustainably.

As **part of the NHS**, we know how it works and understand the challenges our customers face. Whether that's negotiating funding or keeping buildings compliant, we help our customers navigate the system more easily. Last year, we **unlocked more than £150m** for them to reinvest or reimagine their spaces.

With over **5,500 experts**, our local teams make the real difference by understanding individual estates and communities. Looking after thousands of NHS buildings means we've seen the full range of estates projects that our NHS needs. In fact, we've **completed over 330 refurbishments or new builds** in recent years - each one giving us new insights and ideas to help transform estates while keeping costs down and patients safe.

From estate strategy to town planning and cleaning, through to selling inefficient assets and reinvesting the proceeds, our **end-to-end service can support every life stage of an NHS building**. Saving significant costs and removing the hassle of managing multiple providers, so our customers can spend more time **delivering the best patient care**.

Because we're part of the NHS, every penny stays within the health system and is reinvested across the NHS. That way we can continue to focus on delivering brilliant service and building an NHS estate that's fit for the future.

Contributors

This guide was created by experts from a range of teams at NHS Property Services. Each of whom have a wealth of experience in unlocking funding for customers across the NHS - including ICBs and Trusts.

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