Building healthy futures:
Strengthening our healthcare estates

September 2024

Key points

- Estates are integral to the NHS; they are key to achieving a strong primary care system and assist in staff recruitment and retention.
- NHS estates are rapidly aging and need significant investment, with an £11.6bn maintenance backlog, 63% of the estate over 30 years old, and 20% of primary care facilities described as unfit for purpose.
- Funding of primary and secondary care is constrained by several factors, including a lack of system-wide thinking, accounting barriers, viability challenges, and a lack of investment avenues.
- Where public funds are constrained or failing to be effectively used, private capital can alleviate funding pressures, drive innovation, and support sustainability.
- There are several key areas which would support private investment in estates delivery, and Government should work with the BPF and industry to investigate these.

About the BPF

From the homes we live in, to the spaces where we learn, work and relax, property is an essential part of modern life.

The British Property Federation (BPF) represents the UK real estate sector, an industry that invests in communities across the UK, providing a wide range of high-quality homes, workplaces, health, education, and warehousing facilities which people and businesses rely on every day.

The BPF's Healthcare Committee is comprised of companies across the healthcare sector, from investors to developers and advisors, all motivated to increase the quality and supply of healthcare estates, and we drive best practice and policy change to achieve this.

The BPF Group

Introduction

The NHS has been an integral part of UK society for over 75 years, ensuring the health and wellbeing of our communities so that we can thrive. It is one of the largest employers in the UK and provides over 1.5 million patient interactions every day; truly, it is woven into the fabric of our society.

However, it is well recognised that the NHS is facing many challenges, including a lack of capital funding to address its aging and increasingly unfit estates. The impacts that this is having and will have on the health of our communities and our shared vision for the NHS are far reaching and must be addressed.

Building healthy futures: Strengthening our healthcare estates is the BPF's primary and secondary care policy document, setting out the importance of estates to our healthcare system, and how we can use estates to deliver the NHS' vision. In it, we call on the Government to work with industry to explore how private capital can be deployed to alleviate public funding pressures and deliver on NHS ambitions.

We note that, in referring to primary and secondary care throughout this document, it includes within this the mental health services provided by the 54 mental health trusts in England, which are integral to healthcare provision and are often overlooked in NHS reform.

"Ensuring that the NHS has the buildings it needs to deliver care closer to people's homes and keep people out of hospital where possible, and to provide access to high quality, modern health services when they do need care and treatment, is vital to the sustainability of the health service. Over many years, the core fabric of the NHS has been crumbling, with huge backlogs of repairs needed across hospitals and GP surgeries, but little funding available to address this.

In this environment, there is an important role for private capital to play, supporting NHS estates delivery and maintenance while alleviating pressure on public finances and supporting sustainability goals. Now is the time for us to work in partnership to deliver the buildings that patients and healthcare professionals need and deserve.

The BPF Healthcare Committee stands ready to work with Government, the NHS and others to deliver an NHS estate that is fit for the future".

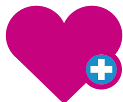
Jonathan Murphy,
CEO of Assura and Chair of the BPF Healthcare Committee

Estates are integral to the NHS and England's health

It has long been a priority of parties across the political spectrum to address the significant issues facing the NHS, including through a focus on moving more care into the community to aid in illness prevention and alleviate secondary care pressures. While discussion around NHS reforms to date have centred around funding, resourcing, and staff pressures, estates are increasingly recognised as a key part of achieving the Government's vision for the NHS.

Estates are integral to the NHS, providing the buildings and facilities where care is provided, from the local GP through to the specialist and acute care provided by our hospitals. Estates ensure that these places are equipped to provide quality care and support efficient, effective delivery of services to our communities.

Benefits of modern community healthcare facilities include:



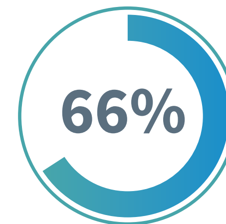
Better population health outcomes

Reduced hospitalisations and ambulatory care

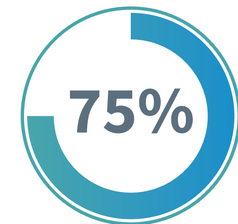
Increased satisfaction with the healthcare system

Preventative care has a correlating effect on reducing pressure and expenditure in secondary and acute care, as demonstrated in an integrated general practice trial in Sheffield, which reduced Type 2 demand presentations in A&E by 15% annually. As Dr Claire Fuller highlighted in her 2022 report (Fuller Stocktake), estates are key to achieving the accessible care and integrated teams required to ensure a strong primary care system.

One of the biggest challenges facing the NHS currently is workforce growth and retention. At the end of 2022, there were 124,000 NHS vacancies, mostly within nursing, and reports have found that 42% of GPs are likely to leave general practice within the next five years. To address some of these issues, major political parties have committed to increasing the number of trainee doctors and nurses. It is not clear where these additional places will be accommodated, as existing training space is restricted within the NHS.



Percentage of GPs who say limited space makes it difficult to train new GPs (RCGP)



Percentage of GPs who say space restricts the number of trainee GPs that they can take on (RCGP)

While we do not suggest that estates are the key driver of these issues, there is a wealth of research noting that work environment supports employee wellbeing and productivity, and is a factor considered by candidates. As the Fuller Stocktake notes, improved estates will contribute to workforce flexibility, integration of neighbourhood teams, and a positive work environment for staff. The potential of NHS estates, once properly addressed, to support staff retention and attraction should not be overlooked as an important factor.

There is need for significant investment into estates

Despite reaching record levels, capital investment in the NHS is well below that of comparable countries and is failing to address investment need, with backlog maintenance requirements increasing to over £11.6bn in secondary care alone – and this is over and above the need for additional estates. The severity of maintenance issues has also increased, with 54% of the backlog considered to represent a high or significant risk in 2022/23. The disparate ownership models in primary care means there is no central figure on maintenance need.

NHS estates are aging rapidly and not being upgraded – 14% of the NHS estate pre-dates the NHS (1948), approximately 63% was built over 30 years ago, and over a fifth of primary care premises (around 2,000) are not described as fit for purpose by GPs. Capital investment projects have aimed at rectifying this; for example, the New Hospitals Programme (NHP) aims to deliver 48 new hospitals by 2030 – however, it is well behind schedule, with parliamentarians and the National Audit concerned about its lack of progress. The new Government has committed to a review and reset of the programme, however, secondary care estates delivery post-NHP is also uncertain, with no funding committed or concrete plans outlined.

Capital budgets have frequently been re-allocated to cover shortfalls in day-to-day spending, which has prevented long-term planning and investment. This short-term planning is likely contributing to the lower-than-expected hospital productivity seen since the Covid-19 pandemic.

As the Fuller Stocktake notes, one of the reasons for the current state of NHS estates is a failure to consider them early enough in the planning process.

We believe that a lack of creative thinking and innovative approaches to funding, combined with constraints of capital business case approvals, is preventing the kind of progress we desperately need to see in NHS estates.

Primary and secondary care have different funding levels and models

The NHS employs distinct funding models for primary and secondary care, reflecting diverse approaches to resource allocation and healthcare delivery. However, a lack of system-wide thinking exists across the two; for example, increased pressures in secondary and acute care have resulted in increased funding in these areas, rather than an increase in primary care capacity to manage demand.

Investment is needed across the NHS estate portfolio in primary and secondary care. Where public funds are constrained or failing to be effectively used, policy- and decision-makers should consider the role that private capital can play.

Currently, private capital is principally deployed in primary care through two models:

1. **Third party developer –** where a private developer builds the asset and the NHS, general practice, or other public body take a long-term lease; and
2. **Public-private partnerships –** which involve a joint venture between the public and private sector to deliver a new estate with private funding and debt.

Both models are struggling to be effectively deployed.

Public-private partnerships have struggled due to barriers to NHS LIFT use (a model that specifically supported public-private partnership), or an equivalent partnership structure, a result of a 2018 ban on PF12.

Accounting barriers

For third party development, in some cases there can be accounting barriers to making progress. An international accounting rule (known as IFRS16) requires NHS Trusts that take on a multi-year lease to capitalise the entire cost in the year the lease is signed. On its own this requirement may not cause an issue, but NHS Trusts have a legal obligation not to breach the NHS's annual capital spending limits (CDEL). In many cases, the capitalised leases mean that Trusts will breach their CDEL limits. This is preventing the development of new estates, even when a third-party developer is investing in the project.

Market rents and viability

Some third-party developments – for example GP surgeries – are 'off-balance sheet' because their leases are funded through day-to-day revenue spending. However, even here there are challenges due to uncertainties over market rent levels. To ensure the NHS gets value for money from its estates, current market rents are assessed by the District Valuer Service. However, changes in the cost of construction and interest rates, as well as fluctuations in property values, are not being reflected in the assessments of current market rents, meaning projects are being put on hold because a viable rent cannot be agreed.

While it is hoped that the revision to the Premises Cost Directions (that govern premises funding in primary care) may help to unlock funding, this will take time. There are some improvements, such as the ability to receive funding assistance for purchase as well as development of land, more flexibility around multi-let buildings, and the ability to use valuers other than the over-stretched District Valuer Service. However, there remain some blockers to development: for example, there will be no additional funds for Integrated Care Boards (ICBs) under the updated Premises Cost Directions, and there is insufficient support for additional building costs relating to environmental measures. This means developers will need to show a net financial benefit of such measures to the NHS before the cost can be included in any financial assistance, such as a higher market rent valuation. It is difficult to see how this will be applied in practice.

Secondary care investment

Despite the benefits this would bring and calls for its creation, there is no established and centrally endorsed funding route for private investment into secondary care; a previous attempt at this, the Regional Health Infrastructure Companies, was abandoned. This has resulted in a lack of clarity as to how Trusts and ICBs can engage with private capital.

Private capital can play an important role in supporting investment

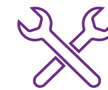
Despite record levels of public investment, the gap between capital need and capital investment continues to widen. This has very real effects on NHS capacity and, subsequently, the health of our population. Many reports on the need for NHS reform note the importance of a different approach to estates, and ensuring local systems can build models that work towards, not against, wider NHS strategies – including becoming the world's first net zero carbon national health system by 2040.

Private capital has an important role to play here, in several key respects:

Availability - where public funds are constrained, there is private funding ready to be deployed and used within the system.

Reallocation - use of private funds will reduce the burden on public funding and allow this to be used elsewhere within the system.

Innovation - private funding enjoys flexible structures, which allow for delivery of projects even in challenging fiscal conditions.



Maintenance - private investors are motivated to ensure properties are occupiable, and therefore ensure that properties are well-maintained. This will reduce the maintenance backlog that currently exists.

Sustainability - private investors are ESG-motivated and invest significant capital into the decarbonisation of assets. This will contribute towards the NHS's sustainability and net-zero ambitions.

There is appetite from investors and developers to invest in healthcare projects, and attracting this investment offers huge potential to tackling estates undersupply.

Government should work with industry to investigate ways to support this investment

The current NHS procurement and partnership system does not facilitate private capital assistance with estates delivery; as we note above, the existing pathways for primary care are extremely constrained, and there is no clear pathway available for secondary care.

For the benefits of private capital to be fully realised, the Government must work with industry to investigate ways in which it can provide private investment pathways and partnerships. We believe the following areas should be explored:

At a glance: Key areas to support investment

- Address NHS Spending Limits and Capital Constraints to Improve Budget Allocation
- Agree viable rents to attract further investment
- Reform Revenue Allocation to improve delivery of estates
- Avoid over-centralisation and promote local decision making
- Facilitating third party partnerships to develop primary and secondary care facilities
- Facilitate public sector partnerships across organisations to maximise investment
- Support additional infrastructure needs through planning requirements

- **Address NHS spending limits and capital constraints to improve budget allocation –** the current system of spending limits and capital allocations, when combined with IFRS16, is preventing local NHS organisations from effectively utilising their budgets and private capital funding.

- **Agree viable rents to attract further investment –** attracting private investment into estates relies on providing certainty that investors will see an appropriate return that can deliver value for money for the NHS, reflecting the current financial conditions. In turn this will require additional funding into primary care. The new Premises Cost Directions allowing valuers other than the District Valuer to have a role in primary care valuations may help, but this has yet to be put into practice and is subject to various limiting factors.

- **Reform revenue allocation to improve delivery of estates –** the rules around revenue allocation are constraining and prevent innovative delivery of estates and should be reviewed to better allow for practical solutions.

- **Avoid over-centralisation and promote local decision making –** many experts (including Dr Fuller, Sir Robert Naylor, and the King's Fund) point to the centralisation of strategic estates planning as a barrier to effective reform. We encourage government to instead facilitate local decision-making, guided by clear national objectives and frameworks that allow for flexibility and strategies that best cater to individual communities. For example, capital envelopes are managed through ICBs at system level, which play a key role in financial planning and capital prioritisation and are well placed to perform this role.

- **Facilitating third party partnerships to develop primary and secondary care facilities –** as recommended by the All-Party Parliamentary Group for Healthcare Infrastructure, the Government should facilitate third party partnership between the NHS and the private sector for the construction and modernisation of both primary care and secondary care estates.

- **Facilitate public sector partnerships across organisations to maximise investment –** working together across public sector organisations can be challenging but can maximise investment for the public sector and bring other shared benefits. For example, locating community diagnostic centres on university campuses opens the campus to the community and offers opportunities for training collaboration for the students.

- **Support additional infrastructure needs through planning requirements –** including possible ringfencing of financial contributions under planning obligations and joined-up thinking between bodies such as Homes England and the ICBs at early stages of housing development. The new Premises Cost Directions envisage a cost saving for ICBs for development where the funding has come through public funds, whether from the health service or section 106 grants from local authorities, and this should encourage public bodies to work together to maximise this potential source of additional funding.

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