Q and A

THE NHS ALLIANCE

Q: Where can I download the white paper?
A: Download the white paper here: https://www.nhshomesalliance.co.uk

Q: Will this presentation be made available to attendees?
A: Yes the recording will be available after the webinar. Please either subscribe via https://www.nhshomesalliance.co.uk or join our linkedIn page: NHS Homes Alliance to be kept updated. Thank you.

Q; Could I have the speakers contact details?
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THE “NHS: NEW HOMES SOLUTION” – DEVELOPED BY GLOBAL CITY FUTURES

Q: Do you imagine that this would act as a build-to-rent model, however the NHS will retain the land?
A: Yes. The operator would have a direct relationship with NHS Staff. The NHS Trust or ICB would have a soft nomination agreement (without any guarantee). The NHS Trust would retain the freehold of the land (and the accommodation, post the end of the arrangement).

Q: If it is outsourced to Investors, what stops them from keeping market prices rather than at affordable rent?
A: Prices are set at contract award, along with an agreed indexation regime aimed at ensuring rents are affordable for NHS salaries as opposed to a discount to market value – all solved back to a workable IRR against the cost of investment/build.

Q: What if land value is not high enough for the model?

A: This is a key point - this is what we are testing across the many sites in the portfolio, to establish which schemes have room to provide discounts in of themselves, and which schemes may need government capital to pump prime the project.

Q:It is unlikely that the 3rd party will accept all of the risks around being fully or mostly occupied, particularly around voids so how does this model keep any guarantee of voids underwritten by the Trust off of balance sheet/CDEL, this would appear to be back on BS and in CDEL given introduction of IFRS16? If there is further subsidised housing e.g for apprentices/trainees again underwritten by Trust is this just considered charge to I&E or are there further considerations for CDEL B/S?

A: There is a balance to be struck here and investor discussions at Fund level have reflected this. Strong staff demand surveys offer great comfort for Funds in terms of demand now and demand curves in the future. Discussions around including void risk, on KWA schemes specifically, within the annuities regulations are progressing. Equally, the nature of a shared underwrite is being explored, since not all guarantees automatically imply a financial liability in C-DEL terms. Both the BTR and Student sectors operate without an underwrite.

Investors need to be comfortable that voids, while exposed, are covered. Which is why we do a lot of staff surveying, with many respondents creating a rich well of data. We go into universities to survey the medical students and ask what accommodation they want in year 1, what they would expect in year 2. Developers and Trusts are able to configure the site on the footprint in line with what your end user has asked for. This is a great way of providing comfort to investors that voids as we have spoken to the existing and future users of the end-product. We are talking to investors about how we get comfortable with lowering cost of capital on that basis.

Q: Can this model be rolled out across the wider public sector - Councils / MOD / MOJ etc?

Yes, this can be rolled out across the wider public sector. The same rules apply in terms of the balance sheet treatment. Of course across councils and MOD MOJ don’t have the specific NHS C-Del barriers, but it's always music to the ears of finance directors if you can provide a capital compliant solution.

This is an important point as many trusts don't have their own land, or enough land - a really good solution is to take the ICB approach to aggregate different parcels of land, to have mixed use developments. Some of the projects we are doing do precisely that - we are trying to figure out a way of delivering social and healthcare integration projects on land parcels that are part owned by a trust and part owed by a council, but we still maintain the same balance sheet solution. These are working well - the same solution does work in that way.

Q: There has been talk about pilot schemes and some initial funding – is this to cover costs for up front design for Trust's to confirm their specific design requirements and demand surveys, how the accommodation will coordinate with their estates strategy/masterplan (not by the incinerator), allow for initial dialogue with planners to reduce planning risk and production of an OBC – i.e. prior to procuring a development partner?

A: The White Paper mentions the importance of high quality placemaking led design. We suggest procuring a 'development partner' with no initial design requirements or brief, will not achieve high quality placemaking led design. <u>Equally without clarity on the target audience to serve a Trust or ICB recruitment and retention needs the market may not deliver – cluster flats tend to be more profitable than family homes.</u>

There are two ways of doing this. One is to go out using current estate code, drawing a red line around a piece of land, and saying 'developers, what you like to put here given the market?' There's a conversation about can how we help structure that conversation without crossing a procurement line. That is a valid approach, potentially another route through the C-Del conversation.

There are challenges to this when thinking from a development background, aiming to create a quality environment for the long-term that sits with your operation. We think you do need to be clear about what your brief is. Who do you want to live in those homes? You don't need to design the homes, but be clear about who you want to live there. Be clear about the type of place you are trying to create.

Anything you can do upfront to de-risk the project for developers in terms of conversations with the planning authority, the 'Art of the Possible' helps reduce risk and potentially margin required by developers. So does it work in planning terms, can you build it, what does the headline viability look like - all of that will aid your conversation with developers. It does take you into a procurement loop, you're then into public sector procurement rules. When the ambition is to deliver really high-quality places, it does need engagement up front, about what the brief is for those places. But it then needs a way through the procurement strategy to deliver that place without alienating potential developers and investors. What we know, is that there are developers out there who are really keen to build good quality places, to deliver affordable homes.

Part of the challenge and solution may be to also look at the takeoff for those developers, so they are not carrying the takeoff risk i.e.lining up investors who would like to own the property for the length of the contract once it is built. If we get enough volume, and show a pipeline of interest we can start to get the pension capital and more patient capital interested, and we are seeing those conversations live.

If it's a takeoff approach with the 'art of the possible' defined it allows the developer to sit with a de-risked up front piece and a de-risked takeoff, that reduction in risk reduces their required margin and helps the viability of the scheme.

We think there is a need to have a clear brief. It does lead to the C-Del and procurement conversation which is in the white paper, and topics that the task force will be exploring.

Q: There has been little said about the financial viability. The rents will need to service debt (capital and interest). Does it stack up financially? If not, how big is the gap and how will this be filled?

A: Viability is to be assessed scheme by scheme and where gaps exist, the Taskforce is examining options to provide funding akin to submarket sectors that exist already e.g. Affordable Housing grant via Homes England. Where affordable housing is provided there is a fund - we are looking to explore with the taskforce how that would work in a Key Worker housing specific context.

We are looking at creating a viability model so schemes can be quickly and easily assessed. This is about bringing together the world of property, finance and NHS so we all understand where the other is coming from. The key is helping everybody to understand how the viability on these schemes work and where the levers are. The viability is challenging, particularly in the current financial market, and it varies from area to area - it varies a lot on what you think the rent should be, what mix you can have on the site.

The discussions to date show that government do appreciate the challenge and can see that there may be a role not just for affordable registered providers - but for another form of grant funding that helps support the gap. That viability funding will vary at different points in the market. From a public sector point of view if a scheme has grant funding up front to make it viable, then there should be some kind of clawback in the event that interest rates drop, yield changes, capital value rises and the property is moved on with someone taking a significant capital profit.

Viability comes up as ultimately we are looking for investment in schemes and need to get investors behind the opportunity. That's going well - we haven't covered a lot on procurement and planning, they are also going to be difficult hurdles.

I felt that the housing minister and Lord Markham were very aware that not all schemes are going to stack up, and that help is needed from the government to pump prime these schemes, particularly on a means tested basis - it's a stark reality that has to be addressed. The issue has moved way further forward than it ever was before, with that set of gaps that exist across the country.

Q; Are there any lessons we can learn from the LIFT companies that Community Health Partnerships operate?

The White Paper provides a number of ‘Procurement Recommendations’ to support a people-driven approach, helping to devise a procurement model that is efficient, cost-effective, robust and flexible.

This includes making use of existing pre-procured frameworks such as NHS Local Infrastructure Finance Trust Companies (LIFTCo’s) and Strategic Estates Partnerships (SEPs), as appropriate to allow for the delivery of pathfinder projects at pace. These mechanisms will allow Trusts to test finance and legal structures and deliver schemes whilst an NHS Homes procurement framework is being developed.

Q: What are your thoughts on the minimum 'deal size' of a project to interest investors? Is there the option of bundling projects ...and would that need to be/ be possible across Trusts?

Many surplus sites, notably the case for Community Health Trusts, will be small, making it difficult to access lower-cost pension type capital and other sources of long-term capital as the transaction cost is too hight. A pipeline approach is the intention and so as to engage with institutional investors and provide a pro-forma set of documents which reduce deal costs.

Q: Upfront de-risking work – demolition / remediation / access / utilities will make these sites ‘developer / investor friendly’. Is there a role for upfront funding to achieve this?

The White Paper provides a number of ‘Financial Recommendations’, one of which is to establish a **revolving loan fund** with Homes England, HM Government and private sector contributions to enable NHS Trusts and partners **to undertake initial feasibility work**. The work should scope development potential across estates, thereby reducing risk and establishing viability for future development partners.

In addition, the White Paper recommends establishing a Homes England or other Government-funded Gap Fund for schemes that are not financially viable for an investor alone or where NHS land is not available. The Gap Fund can act as an infrastructure grant for abnormal infrastructure or capital housing grant.

Q; Given the salaries associated with the staffing, how do you define affordability based on salary? Max. % of salary or are there other metrics you consider?

The ONS caps affordable rent at 30% of a person's monthly income. Typically, this means that only NHS staff above a certain band point (e.g. band 8b) can afford a postcode's median rent.

The White Paper recommends developing a methodology for establishing rents that supports recruitment and retention reflective of health and care salaries, not simply a discount to open market rents. For example, this could include an appropriate mechanism for adjusting rental discount as household income increases through career progression, with incremental rental income over the anticipated base level used to further discount rents in other homes within the scheme.

Q: What is your view on exploring a salary sacrifice/tax beneficial model for key workers to bridge some of the viability gap? Maybe linked to the decarbonisation agenda aka electric car schemes?

Many Trusts already operate a salary sacrifice scheme for KWA. For example, as a part of a re-settlement package, international nurse recruits are often provided accommodation at cost to the Trust, for a time-limited period at the start of their employment (e.g. 2 months). Following that, those same staff will have salary deduction for fully-inclusive accommodation costs following their paid-for months and are encouraged to source their own long-term accommodation by a certain milestone (e.g. 12 months), if not earlier. It would be interesting to explore whether such scheme could be broadened without creating taxable benefits.

Viability concerns are perhaps more a function of affordability pressures than occupancy demand in of itself. There is no doubt that demand for homes for NHS workers outstrips supply: rent increases over time based on inflation compared to a rigid salary regime remain the key risk factor for investors.

A number of State Revenue Support Schemes could be utilised to address this issue, which the Task Force should explore. One of which is to explore the possibility of a HM Government-sponsored revenue fund for Key Worker homes that addresses the salary/rental market indexation delta. Where HM Government can introduce a scheme to top up salaries to cover the rental indexation delta commensurate with individual salary bands and geographical location, it will provide investors with further comfort, lower finance costs and improve viability.

Equally, and returning to the genesis of the programme, it will allow NHS workers the opportunity to work where they live rather than having to move somewhere else in the UK just to be able to remain in the workforce.

This however creates some potentially open ended liabilities for the taxpayer and may be more challenging that capital grant which is easier to quantify and tighter caps on rent inflation.
More detail is available in the 'State Revenue Support Schemes' section of the White Paper.

Q: Do staff surveys show that they are happy to rent? What about staff that want long term homes and wish to buy

Staff surveys or 'Voice of the Customer' surveys will help to capture demand data and will be specific to each Trust. This will help Trusts to design their Key Worker Accommodation (KWA) according to the needs of their target user cohorts.

Typically, based on our early insight so far, the following findings have emerged:

- Indeed, on the whole, the longer-term aspirations for staff is to buy their own place. For those who are not interested in one-site or nearby KWA, the main reason is because they are already a homeowner.
- However, for those who are interested in on-site accommodation, the majority would prefer to rent, with a broad range of tenure lengths: less than 6 months, 6-12 months, 12-36 months and 36+ months.
- Our early findings have also shown that there is demand for a range of tenure types, with KWA potentially filling the gap for 1-2 bedrooms flats and apartments or cluster flats, where local areas accommodate more for other tenure types (e.g. three bedroom houses).
- In terms of staff cohorts interested and suitable for KWA, these include:
    - Trainee nurses in need of accommodation for either short stay or up to 36 months.
    - Junior Doctors in need of accommodation when working over a certain number of hours, short stay or up to 3 months.
    - Short-term accommodation to support incident management, short-term workforce gaps and contractors.
    - Band 5/6 nurses looking for family homes
    - Band 1/2 domestic and portering colleagues looking to minimise the cost of commuting.

Long term rental for staff moving to the area or as part of a re-settlement package (e.g. international nursing recruits).

NEXT STEPS

Q: Is there news from the ministerial task force?

The Joint Task Force is currently being put together, and the two ministers, Rachel McLean and Lord Markham, are looking at the shape of that task force. It is likely to include a number of pilot projects, and potentially some working groups to crowd source some of the expertise we have seen coming forward through the White Paper.

We expect an announcement direct from DHSC and we will provide an update through the NHS Homes Alliance as it is a live conversation.