



Treasury Chambers, Parliament Street SW1P 3AG

The Rt Hon Kenneth Clarke QC MP
Secretary of State for Health
Department of Health
Richmond House
79 Whitehall
London
SW1A 2NS

30 October 1989

D Clarke

A COMMERCIAL APPROACH TO NHS PROPERTY

I am now able to reply more fully to your letter of 5 September. I am grateful to your officials for explaining in more detail to me what you have in mind.

2. You have rightly been encouraging health authorities to take a more businesslike approach to the management of their property assets, as elsewhere. I fully endorse your wish that they should derive the maximum benefit from their surplus land. To this end, we have introduced some important and far-reaching changes in the Health and Medicines Act 1988. They are now able to lease surplus land and property, including the possibility that the terms of the lease may give them a share in the profits which the tenant makes. They are also able to make more flexible arrangements for the disposal of surplus land, so as to ensure that sale proceeds are maximised. I very much support these changes, and look forward to seeing how they work.

3. Your proposal would take this process a step further by allowing health authorities to take an equity stake in property development ventures. I think it is right to be cautious about this at this stage. Property development is a risky business, of which health authorities have by and large very little experience. Large losses can be made as a result of sudden changes in market conditions, which may not be foreseen even by the most experienced practitioners. If, in such circumstances, such a joint venture were to lose a lot of money, this could be both financially and

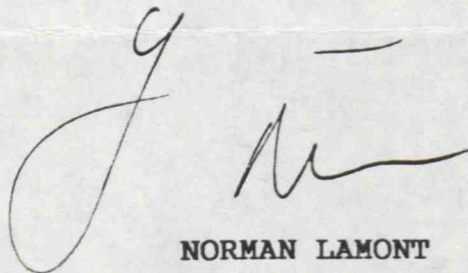


politically embarrassing for the Government. In the nature of things, the Government and health authorities would not be able to spread their risks in the way that a commercial property developer could.

4. My own feeling therefore is that we should allow a little more time to assess the practical effects of the Health and Medicines Act before considering this further step. If at that time specific examples can be produced of cases where the wider power would offer better value for money, then I should be happy to consider them. But I think this would be a premature step now.

5. I would of course be happy to discuss this with you if that would help.

6. I am copying this letter to the Prime Minister, other members of H Committee and Sir Robin Butler.



NORMAN LAMONT