



## **Help Desk – Private Sector Involvement**

### **Case Summary :**

**University College London Hospital (UCLH)  
Redevelopment – Improving the Standard of  
Healthcare by Public Private Partnership**

## **University College London Hospital (UCLH) Redevelopment – Improving the Standard of Healthcare by Public Private Partnership**

Commissioning Body: UCLH National Health Service (NHS) Trust

Consortium: Health Management (UCLH) Plc  
(AMEC Project Investments, Balfour Beatty Limited and  
Building & Property Limited)

Capital Value: £422m

Contract Length: 40 years

### Introduction

The UK's National Health Service (NHS) faces numerous problems stemming from its stock of outdated buildings and services. Refurbishment and new development costs are high. To meet changing needs and demands and to ensure that facilities are as modern, efficient and cost effective as possible, the Government encourages health service trusts (the local health providers) to give more responsibility for the provision of facilities and support services to specialist private sector managers, thus allowing their own staff to concentrate fully upon the provision of high quality health care. In particular, Public Private Partnerships (PPP) are proving particularly effective in improving healthcare by:

- a. **promoting private investment** in the capital assets and operational management of hospitals;
- b. **improving value for money (VFM)** by allocating risks to those best able to manage them in the public or private sectors, thereby providing incentives for sustained and effective performance improvement; and
- c. **upgrading and rationalising** health service authority property.

The essential element of PPPs in healthcare is that the NHS defines its needs in terms of “outputs”, i.e. the nature and level of the service required, and invites private sector bidders to present their solutions to meet these service needs. This allows the private sector to make the fullest possible use of its experience and skills in order to bring innovative solutions to the needs of the health service.

## The UCLH Case - Background

The UCLH NHS Trust, comprising eight hospitals<sup>1</sup> spread across central London, is one of the UK's largest providers of healthcare services, medical research and training. Many of the facilities providing clinical care and services, however, are housed in antiquated, inflexible and cramped buildings, most of which should have been replaced 30 years ago.

Patients and staff have to shuttle back and forth between hospitals for tests and treatment. Further, having clinics, wards and operating theatres dispersed on different sites results in the unnecessary duplication of facilities, equipment and support services costing up to £12m a year, equivalent to 5% of the budget - enough to pay for another 2 000 heart bypass graft operations or 3 000 hip operations.

In 1995, a major redevelopment scheme was proposed to replace the old, scattered buildings and to modernize the services through the construction of a new hospital, developing new sites for existing services and refurbishing existing buildings. Substantial investments were also planned for acquiring new equipment and IT systems.

The UCLH Trust, however, could not afford to commit to the necessary level of investment on its own. It thus undertook detailed evaluation of the risks, benefits and VFM of various funding options including:

- the 'minimum only' option (minimum development required to sustain facilities which could deliver UCLH's core services, meet requirements of clinical practice, maintain accreditation and keep up with the Patient's Charter);
- the conventional funding option; and
- the PPP option.

The PPP option proved, overall, the least costly and offered the best VFM. Thus the UCLH PPP scheme, the largest and most complex PPP project in the UK healthcare sector, was adopted.

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<sup>1</sup> The Trust includes: University College Hospital, Eastman Dental Hospital, National Hospital for Neurology & Neurosurgery, the Middlesex Hospital, Hospital for Tropical Diseases, Elizabeth Garrett Anderson & Obstetric Hospital, the Heart Hospital and the Royal London Homoeopathic Hospital.

## The Aims and Project Design of UCLH Redevelopment Scheme

The UCLH redevelopment scheme aims to modernize the Trust's services to meet changing demands and to improve upon the standard of care provided to patients. To achieve this, most of the services currently provided at three of eight scattered sites will be centralized into a new 669 bed acute hospital in central London. Construction began in November 2000 with the main hospital scheduled for completion in April 2005 and the remaining facilities due in June 2008.

The UCLH scheme is a typical DBFO (design, build, finance and operate) scheme. Thus the private sector partner, the Health Management (UCLH) Plc consortium, is responsible for:

- designing the facilities (based on the output requirements specified by the Trust);
- building the facilities (to time and at a fixed cost);
- financing the capital cost; and
- operating the facilities.

During the contract, the Trust will utilize the building and the non-clinical services provided. The terms of the contract detail the range of services and the performance standards against which the services will be monitored, for example, response time and service levels in maintenance, cleaning and portering services. No payments are made by the Trust until services are provided to the agreed standard. A penalty point system will be implemented whereby the performance standard must be strictly maintained to ensure full payment thereafter. Upon expiry of the agreement, the building in agreed condition will be reverted to the Trust. If further capital investment is required in future, beyond what is specifically provided for in the original agreement, the contract will provide for the manner in which this should be handled.

The Trust is still the owner of the hospital and remains responsible for providing high quality clinical care to NHS patients. While it continues to be the employer of the NHS clinical staff, some 450 non-clinical staff will be transferred to work for the facilities management company. The Trust, the unions and the consortium have worked out together a change management programme for conducting consultation and providing counselling and support down to individual staff level. No alterations to employee terms and

conditions will be made unless previously agreed with the trade unions. Any surplus staff issues arising from improvement in efficiency will be addressed through natural wastage.

### Selection Process

The UCLH project followed the NHS PPP process (guidelines prepared by the NHS that all NHS Trusts should follow when implementing PPP projects) and required the Trust to:

- establish the strategic context, assess the options and, for a major scheme (with a capital value of £25m or over) such as this, to make the case for change in a Strategic Outline Case before obtaining approval;
- identify and develop a preferred option through an investment appraisal, and make the case in an Outline Business Case;
- prepare for procurement by turning the approved option into a detailed specification of outputs, outcomes and desired allocation of risks between the Trust and the successful bidder;
- advertise the project, identify potential bidders and the best privately financed solution;
- select a preferred bidder with whom negotiations could be completed, involving stakeholders (e.g. staff and trade unions) in the assessment of proposals;
- complete the definitive investment appraisal and Full Business Case to obtain final approval from the HM Treasury;
- finalize, award and implement the contract; and
- evaluate and monitor the project.

## The Advantages of PPP over Traditional Project Management

### ***Innovative Financing***

Instead of funding the £422m project merely through public money, a combination of external funds was used – some in the form of senior debt from Abbey National Treasury Services borne by Health Management (UCLH) Plc, and some from the shareholders, the NHS funds and cash contributions from the sale of existing Trust sites.

Under PPPs, services not assets are purchased. In financing the capital cost, Health Management (UCLH) Plc will receive the return through leasing the building back to the Trust and providing facilities management and other non-clinical support services, such as catering, security, stores, cleaning, laundry, car-parking, pest-control, building services and estate management for a period of 40 years in exchange for an annual fee of £32m (comprising of £22m for availability and £10m for facilities management).

Under such arrangement, savings of over £30m is envisaged over the life of the project. Thus, the PPP option is 6.7% less costly than the public sector comparator (PSC), which is the estimated cost of meeting the same output and user requirements demanded of the private partners but through a publicly funded solution.

### ***Risk Allocation***

The fundamental principle in PPP risk allocation is that each individual risk is identified and then allocated to the party best able to manage that risk. The PPP project allocates most of the risks associated with the development and operation of the new building to the private contractor. For example, the accommodation provided must be fit for purpose and reflect fully the Trust's output specifications. If there are flaws in the solution (e.g. the hospital design is not fit for purpose) then the contractor will experience severe financial penalties and will have to rectify the problem at its own expense. With its capital at risk, the contractor would have a strong incentive to perform well throughout the life of the contract.

### ***Management of Change***

The project offered management a chance to project future demands for services based on changes in population, advances in medical treatment and

the provision of community-based services. It encouraged reflection upon the standards of clinical services delivered and the development of new standards for non-clinical support. Above all, it initiated changes that will resolve current operational difficulties, eliminate unnecessary duplication in operations and meet future demands for hospital services, teaching and research. Thus the project will increase the number of beds available, reduce the number of sites utilized and facilitate more effective management of bed capacity. The new building, covering fewer square metres and with more hi-tech equipment, will also be easier to run. Under the scheme 54 000 inpatients, a 10% increase over the existing number, and 284 000 outpatients, a 14% increase, can be treated each year.

(The Annex details the targets to be achieved by the UCLH Redevelopment project.)

### Challenges / Lessons Learnt

The lessons learnt from this case include:

- a. **Value for Money testing** – Although the public sector can obtain money more cheaply than the private sector can borrow, the private sector can offset any higher financial costs by providing better VFM through its commercial acumen, innovation and more effective management of the risks associated with procurement and ongoing operations. Best VFM is achieved through the optimum combination of whole life costs and benefits. Generally, commissioning bodies must take three separate VFM decisions:
  - whether to proceed with the project at all;
  - whether to proceed using PPP; and
  - selecting the best private sector partner.
- b. **Achieving affordability** – although many of the risks are allocated to the contractor, the public sector must still ensure that the desired high standards and good designs can be secured within the constraints of affordability.
- c. **Inclusion of property** – the NHS did not previously own the site for the new hospital and, prior to financial close, the Trust had to acquire the site's freehold and leasehold interests. Moreover, with the new hospital being located in one of London's main thoroughfares,

closely surrounded by other buildings, and with an eight-year period of construction, a collaborative approach to risk sharing, especially during the construction phase, was required.

- d. **Consultation** – in the UCLH redevelopment, consultation with the public after the publication of the Outline Business Case and with health authorities and general practitioners over the details of the redevelopment facilitated better design and acceptance. Working with patients, staff, the local community and other health providers to plan the new UCLH was essential. Consultation not only helped with tapping views on how to ensure the adaptability for potential changes in clinical practices, but also with forecasting interim services and transitional arrangements during the relatively long construction period of eight years.

#### Applicability to Hong Kong

Hong Kong's healthcare sector may consider leveraging the benefits of PPP in the following aspects –

##### *Hospital / Community Care Centre Building*

As at 2001, there were about 4 beds per 1 000 population. Due to the ageing population, there is a continuous need both to build more hospitals and to develop ambulatory and community care programmes to reduce reliance on in-patient services.

##### *Hospital / Clinic Improvements*

Many facilities are outdated and unable to cope with the increase in patient activities over the years. Some suffer from space shortages while others require refurbishment or redevelopment as a result of centralization and the networking of hospital services among hospital clusters to achieve further economies of scale. Many existing hospitals and specialist clinics have to seek separate funding from the Finance Committee for redevelopment, relocation or expansion. While these works are currently managed by the Architectural Services Department, a PPP approach may provide a more co-ordinated and cost-effective way to upgrade and refurbish old buildings and maintain them thereafter.

### *Public / Private Interface*

The Hospital Authority is continuously strengthening the co-operation and interface with the private medical sector for the development of collaborative models in service provision, information sharing and training programmes to facilitate the upgrading of medical skills. If adopted in Hong Kong, PPP schemes could foster further Public / Private collaborative initiatives for the benefits of patients and medical staff in both sectors.

### *IT Facilities*

The management of health service and patient activity information is critical for effective service delivery. Acquiring IT services through PPP could enhance the use of IT in the service delivery process. It would also enable the Hospital Authority to focus its resources on improving healthcare while the necessary IT development and maintenance activities could be taken over by new PPP measures.

Efficiency Unit

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## **Targets – UCLH Redevelopment**

The UCLH project will provide the most significant programme of improvements ever seen in the NHS at a single site. It will provide:

- the facility to treat more patients in a leading, world class environment;
- better treatment in a better environment;
- improved facilities for patients and better working conditions for staff;
- centralized patient records and quicker diagnostic test results;
- better access to public transport;
- flexibility to respond to changing circumstances locally, regionally and nationally; and
- a leading edge in medical research and training.