

Director of London hospitals in UK details benefits of PFI/PPP approach in massive project

After three major attempts at hospital redevelopment and with buildings over 100 years old, the University College London Hospitals (UCLH) were in desperate need of resuscitation. Peter Burroughs, executive director and director of capital investment for the National Health Service (NHS) Trust at the hospitals, detailed the “issues, problems, heartache and excitement” associated with the project at a Council-sponsored breakfast on October 23, 2002 in Toronto.

The 25-year NHS veteran was put in charge of managing the massive redevelopment and consolidation of eight separate hospitals into a single west-London location. In PPP terms, the project is one of the largest in the UK's history, totalling over CA\$800 million, 1.2 million square feet, spanning an eight-year timeline. The project was actually born in 1996 with the publishing of a Request for Expressions of Interest, to which an amazing 105 consortia responded. Mr. Burroughs pointed out, however, that the complexity, scope and timeframe of the project resulted in only three consortia short-listed.

He said that despite the “grave concern” over a change in leadership following the May 1997 general election, the Labour Government kept the project in place and encouraged it to “take off” along with many other PFI initiatives. The UCLH project is one of 26 hospital projects commissioned or being constructed under the UK's Private Finance Initiative (PFI). With another 40 projects approved, the healthcare portion alone amounts to CA\$90 billion.

The private consortia at UCLH is structured under a Special Purpose Vehicle (a common practice in the UK) called Health Management Plc. It is a “one-off” company not permitted to

do any business other than what is stipulated in the contract. Responsibilities include securing financing, designing and building the facility, managing it through a facilities management company and maintaining it for the life of the 40-year agreement (see page 3 for a breakdown). In the original Request for Proposal, information technology, medical equipment and real estate development of surplus properties were treated as options beyond the core proposal. In the end, all three were not included as part of the main project – the Trust will sell or develop surplus properties itself, while IT and medical equipment will be procured separately.

A service level agreement sets minimum standards that are much higher than most NHS-run facilities for such things as portering, cleaning and food services. Starting in 2008, and every five years thereafter, the project can be evaluated using an internal benchmark or the Trust can decide to go to a full market test. On the public side, the Trust is required to vacate the old building and hand it over for demolition in three months or it will incur penalties.

Mr. Burroughs stressed that the expertise of the consortia was demonstrated in overcoming the challenges associated with the site, including Underground lines from circa 1863 that run throughout the vicinity of the basement.

The financial component consists of 90 percent senior debt, held completely by Abbey National, and 10 percent shared equity. Health Management plc will build the new facility by 2008 and lease back to the NHS Trust for 32 years, after which it can revert back to public ownership or renew the agreement. Payments are at a fixed price, with indexes established to account for inflation. Mr. Burroughs said that the 2000 contract terms are

“ahead of the gain” in comparison to the current retail price index and GDP.

Mr. Burroughs highlighted several advantages of the PPP process at UCLH:

1. Purchase of office block. One of the first things that the private sector partner (consisting of AMEC, Interserve and later Balfour Beatty) did was purchase a one-acre adjacent office complex, with the mindset that consolidation would result in greater efficiencies. He said that this was a “very innovative solution that we hadn't considered before.” The consolidation and rationalization of buildings will ultimately result in an overall reduction of 270,000 square feet. The Trust estimates that as a result, over five percent (CA\$23 million) of the annual operating budget will be saved.

2. Flexible configurations. The designer proposed that each ward be structured with adaptable walls and equipment so an increase or decrease in patient demand can be accommodated easily.

3. Maintenance and availability. The hospital is divided into three categories (critical care, wards and office space). The service level agreement stipulates maximum downtime for each area (e.g. two hours for critical care), after which Health Management plc will pay escalating penalties.

4. Involvement of all staff in design. Over 300 staff were involved in consultations on how to design the facilities and operate the services, which were embraced by the private sector.

5. Extended procurement and a proactive contract. Mr. Burroughs said that many new hospitals are out of date before they are built due to a lengthy procurement process. The unique agreement signed by UCLH allowed for

numerous changes throughout the process at previously agreed-upon pricing structures.

6. Employee relations. Mr. Burroughs noted there has been a “massive shift in working practices” as a result of private sector involvement. With a pre-completion transfer, he said the intention is to have the public and private staff culturally harmonized before the new facility is opened. Public sector union pension rights and protection were preserved, with a unique system of secondment for public staff utilized by the private sector partners.

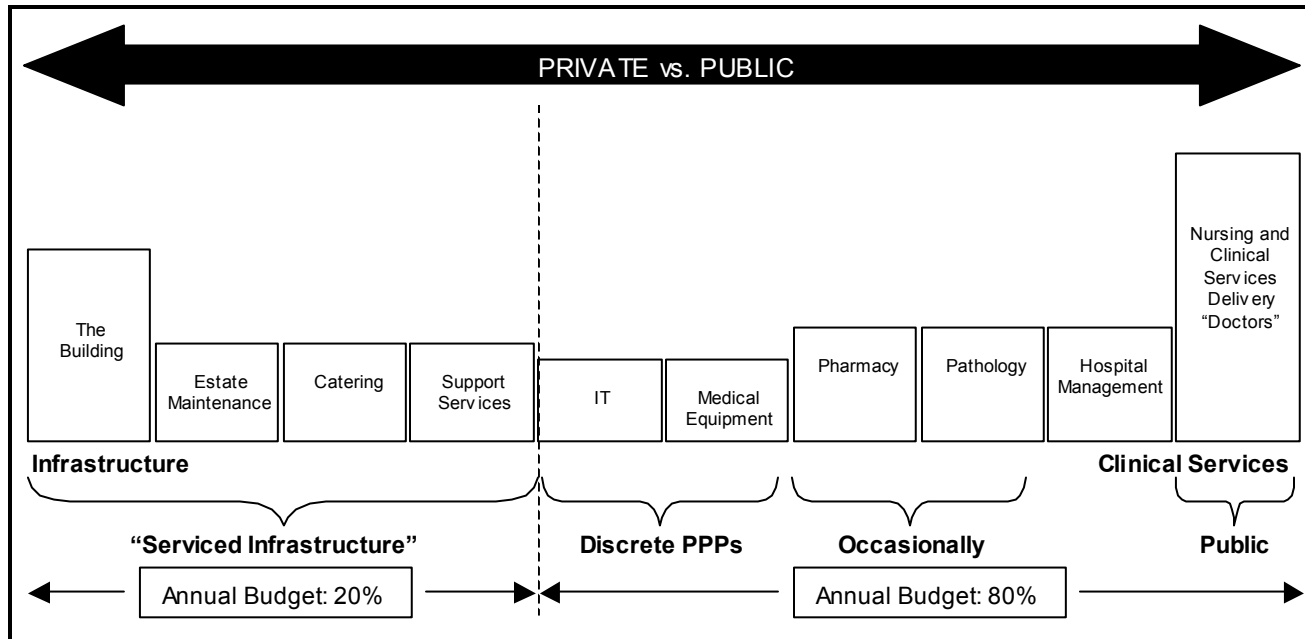
Mr. Burroughs also mentioned some challenges associated with the UCLH process as well as the PFI initiative as a whole. He said that the PFI health market is still maturing in the UK, both from a financial (e.g. improved lending terms) and legal point of view, although the newest standardized contracts transfer the risk better than before. The private sector has raised serious concerns about the length of negotiations and the “big costs” involved in some of the projects (the UCLH) deal took 10 years to sign. In the end, he believes that PFI is a better means of procurement. “It is producing sustained development, rather than the patchwork system over the past 25 years,” he said. As for value for money, he said that his project (and PFI in general) has been very effective. “It results in a patient-focused, purpose built facility on time and on budget that is maintained for 32 years.”

Mr. Burroughs concluded by saying that he has been “very pleased with the results. He remarked: “I am involved in one of the best health projects in the UK - without PFI and PPP, we would still be waiting.”

UCLH Financial Fact Sheet (CA\$)

Capital Construction Cost	
<i>Main</i>	\$358 million
<i>EGA Wing</i>	\$77.5 million
Unitary Fee	\$62 million
Availability Element	\$43 million
Facilities Management	\$19 million

The Public/Private Sector Interface in the Provision of Healthcare at UCLH



Private Sector Services/Facility Management at UCLH

Service	New Build (Phases 1&2)	National Hospital for Neurology and Neurosurgery	Eastern Dental Hospital	Remainder of Existing Estate
Flexible support services	✓	X	X	✓
Catering	✓	X	X	✓
Linen/Laundry	✓	✓	✓	✓
Security	✓	✓	✓	✓
Supplies	✓	X	X	✓
Waste	✓	✓	✓	✓
Estates	✓	✓	✓	✓

For more information:

University College London Hospitals:

www.uclh.org

UK Office of Government Commerce:

www.ogc.gov.uk

National Trust PFI Standard Contract:

www.doh.gov.uk/pfi/contract.htm

Peter Burroughs spoke at an event on October 23, 2002, as part of The Canadian Council for Public-Private Partnerships' continuing breakfast series on topical PPP issues.