

Much-needed Capex for the NHS and dependable returns for long-term investors: the investment case for NHS infrastructure sounds like a no-brainer. So why aren't more deals being done? asks **Ann McGauran**

# Dealing in the basics

**H**ow keen is the private sector to invest in the NHS, and what factors make deals attractive to both parties?

The landmark Carter and Naylor reviews respectively tackled unwarranted variations in productivity and performance in NHS acute hospitals, and how the NHS could make best use of land and buildings. Both reports intimated the NHS is not as efficient as it could be. Naylor's vision was for £10bn of investment in estates using property disposals, private capital for primary care and Treasury cash.

The private sector said it could drive some of the change more quickly than the NHS was able to do, but progress on implementing Naylor's recommendations stalled last year due to the election.

## Who's in the game?

Three of England's largest primary care property organisations - Assura, Octopus Healthcare and Primary Health Properties - pledged to commit £3.3bn of upfront capital investment.

In addition, the Project Phoenix programme to create a number of public private partnerships to help the NHS dispose of assets is currently going through the business case stages with the Treasury and the Department of Health.

Ryhurst is an estate company that has evolved from delivering new facilities to the NHS through the Private Finance Initiative (PFI) to providing a full range of property management and development services. It is bidding with others to be part of Project Phoenix, and already has a record of delivering strategic estates partnerships (SEPs).

According to Ryhurst, the key principles of SEPs include an equal partnership that ensures the NHS or other healthcare partner retains control and influence over

decision making, reduction or reuse of surplus estate to create efficiencies and savings, and equitable risk and reward for both parties.

The company has established partnerships with Lancashire Care NHS Foundation Trust, Cheshire and Wirral Partnership NHS Foundation Trust, Isle of Wight NHS Trust and North West Anglia NHS Foundation Trust.

## Enthusiasm to lend

Managing director of Ryhurst Stephen Collinson confirmed there was enthusiasm amongst investors to lend, and added: 'We're approached a lot by different types of potential funders.'

He said that following concerns about the perceived costs of PFI funding, the markets have had to find other ways of offering support. NHS buildings can be re-financed to generate a capital return back to the trust, with the asset sitting with the lender for a period of time and the trust repaying the loan through occupancy charges. Other approaches include direct ownership of assets, which the NHS then leases from the private landlord. There can also be investment in land on long

leases, with an investor finding occupiers who can provide a revenue return back to the trust, commercial occupiers and other clinical users.

Collinson added: 'Further approaches include acquisition of assets and then sharing the value of that with the trust down the line. So there are a lot of different ways in which pension fund investors who want to see a long term return and steady contribution back into the fund can invest. Long-term certainty is what makes these deals attractive to the private sector.'

Short-term investors 'would be looking to negotiate terms with the NHS to sell on that asset perhaps', he added. 'If you're a developer you will be looking to take the asset either in partnership with the NHS or take the risk completely from the NHS and look to find occupiers for that development whether it be housing, commercial or retail, that gives you an income opportunity from using that land so every partner gets some stake in that.'

What's stopping more NHS providers from making use of private investment? According to Collinson, the concern the NHS often has 'is the perceived phrase 'selling the family silver' - losing an asset that might in time appreciate in value'.

Joint ventures are a strong partnership model, he believes, 'because there is a mutual dependency there....We don't get paid if we don't do what the NHS wants'.

Dr Victor Chua, a partner with healthcare strategy consultants Mansfield Advisors, highlighted the ability of NHS trusts to borrow at a low interest rate from the Independent Trust Finance Facility, whereas 'a hedge fund is going to want something like nine to 11%'.

He said that while the NHS is 'starved of capital spending... what you find is a lot of hospitals are going to the private sector for funding, but it tends to be more of a last resort kind of thing'.

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When it comes to funding, the private sector will only be competitive 'if it can do the clever solutions', he emphasised.

Some private sector operators provide not only capital equipment to the NHS, but also the people to run it, Chua added. In specialities involving expensive equipment and staff, the private sector has 'managed to create solutions that are comparable in cost or even cheaper than the government would have spent'.

### Encouraging collaboration

According to laboratory performance business LTS Health, pathology is one of the areas where there's a role for private sector investment in the NHS. The company is running the national programme with NHS Improvement for the reconfiguration of pathology services.

Francisco Munoz is LTS's board director and head of consulting services. He said the private sector can provide 'really useful investment and help in some key areas'. These include challenging the 'protectionism' that he believes stops NHS trusts collaborating with each other, around consolidation of IT and equipment platforms, and in logistics and transport. What begins to emerge, he says, 'is

an opportunity for the private sector to provide a full integrated facilities management service for the development of pathology services'.

The model that he believes will 'probably prove to be a big opportunity for the private sector' would be providing capital and investment for the development of a facility and 'then possibly the procurement and implementation of all the other areas in co-operation with NHS trusts – all the non-pay elements'.

In his view, the advantage is that it allows the NHS to 'keep the debt off' balance sheet – doing it through a long-term lease contract or any other sort of revenue-based managed services contract'. Another model 'goes more towards the outsourcing option', he added.

While the returns for the private sector are 'probably going to be relatively low', the benefits include guaranteed revenues over the life of what is likely to be a ten to 20-year contract for a new facility. The private sector will be taking some of the risk on the demand for the service, but the downside risk is normally capped, according to Munoz, 'so there will always be a minimum level of guarantee in terms of income'.

NHS trusts in pathology partnerships

will be looking for more flexible contracts that factor in the need for changes to the operating model and procedures – and this does pose a risk for the private sector. But 'it's about how the private sector, once it has provided a model, can keep optimising that model to realise savings and facilitate change,' Munoz concluded.

Collinson believes that while government loans, public money and grants would be a cheaper way for the NHS to achieve its aims, 'that isn't always available and conditions attached to loans and grants mean that it isn't always feasible'.

His view is that as long as arrangements are 'transparent' and the NHS has appropriate advice and can make its decision accordingly and can demonstrate value, 'we should be doing the best we can to maximise benefits to the patients'.

He concluded: 'if that means using private money, charitable money, grant money or pension funds then we should do so because the NHS (funded) through taxation is struggling financially. We seem comfortable in using private money in other parts of the NHS. I don't really know why we're not as comfortable using it on the estate.'