



Public Private Partnership and a modern NHS

Case Study



Fulcrum
TOGETHER WE CAN



Public Private Partnerships work

Fulcrum, a private sector investor in the NHS, believes that Public Private Partnerships (PPP) – rather than private finance initiatives – offer a better way to develop modern health services. Here, Fulcrum explains why it thinks that the PPP NHS LIFT project should be the basis for many more NHS developments.

Public Private Partnerships work

Fulcrum has been working with the NHS organisations on LIFT projects for the past seven years. It has invested in more than 40 developments which have a total capital value of close to £460m. An analysis of the work over that period shows

- 25% reduction in construction costs
- 20% reduction in rental costs for the NHS
- £6m surplus – the result of cost efficient buildings and returns on investment shared between the public sector and Fulcrum
- 50% increase in the public sector's level of customer satisfaction with the quality of the buildings and how they are managed.

Fulcrum manages four LIFTCos – three in London and one, Renova Developments, in North West England.

Case study – Renova, the NHS LIFT company for Halton, St Helens, Knowsley and Warrington

Between 2004 and 2011 general practitioners, NHS and local authority staff worked with members of the Renova team on seventeen new primary care, community health and social care buildings. They used world class techniques borrowed from the

manufacturing industry to plan, design and build the new facilities, at a total cost of over £100m.

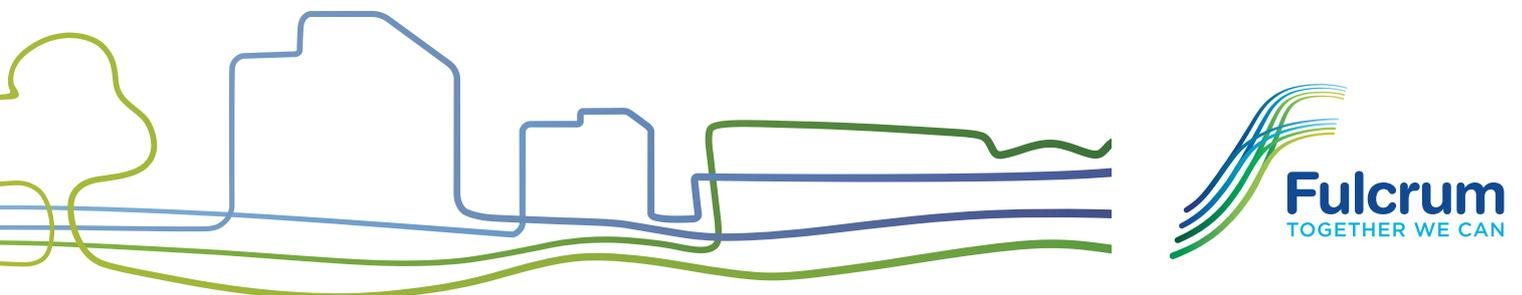
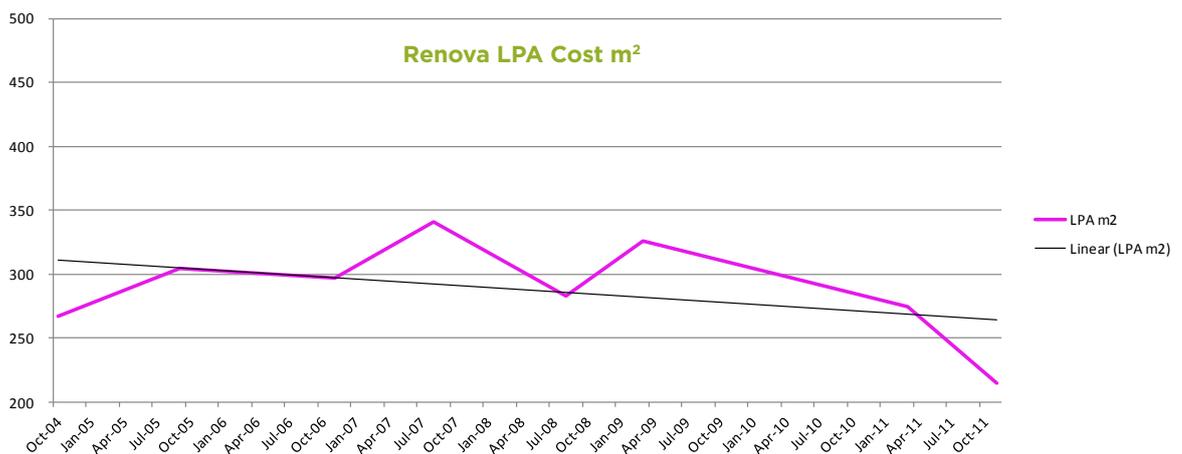
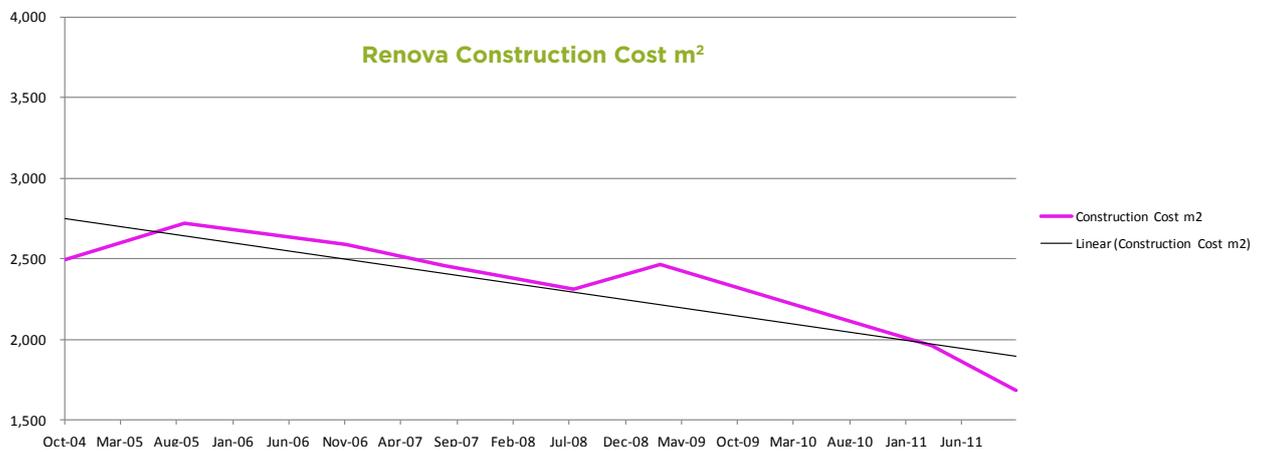
The architects, construction companies and other suppliers who are part of Renova's supply chain have worked together for several years. Renova brings the professional and team experience of its supply chain to work with its public sector partners. As a result, design



and construction processes improve with every project, and construction prices fall as does the rent charged (LPA cost) to the public sector. This is clear from the figures below.

Reduced costs

Refining the development process and standardising design processes / interior specifications to create efficient, flexible clinical space capable of replication



Collaborative Care at the heart of the community

across projects, has saved money. Contractors and the partners, reviewing the progress of projects together, have identified, corrected and eliminated errors and made processes more efficient.

Customer Satisfaction

Each year, the public sector partners have rated several aspects of Renova's work, including value for money, quality and innovation and improvement. The table below shows that, year on year, for each tranche of projects (T1 - T5), satisfaction with the services provided has risen across a range of indicators.

Ian Davies, Senior Executive Director of NHS Knowsley said: "Renova is very serious about continuous improvement, each project gets better each time. Renova always manages to deliver in budget, without

compromising on the quality and functionality of the design. So essentially you get a better building each time at a lower cost."

Renova won the Best LIFT Area awards for its work in 2007, 2008 and 2009.

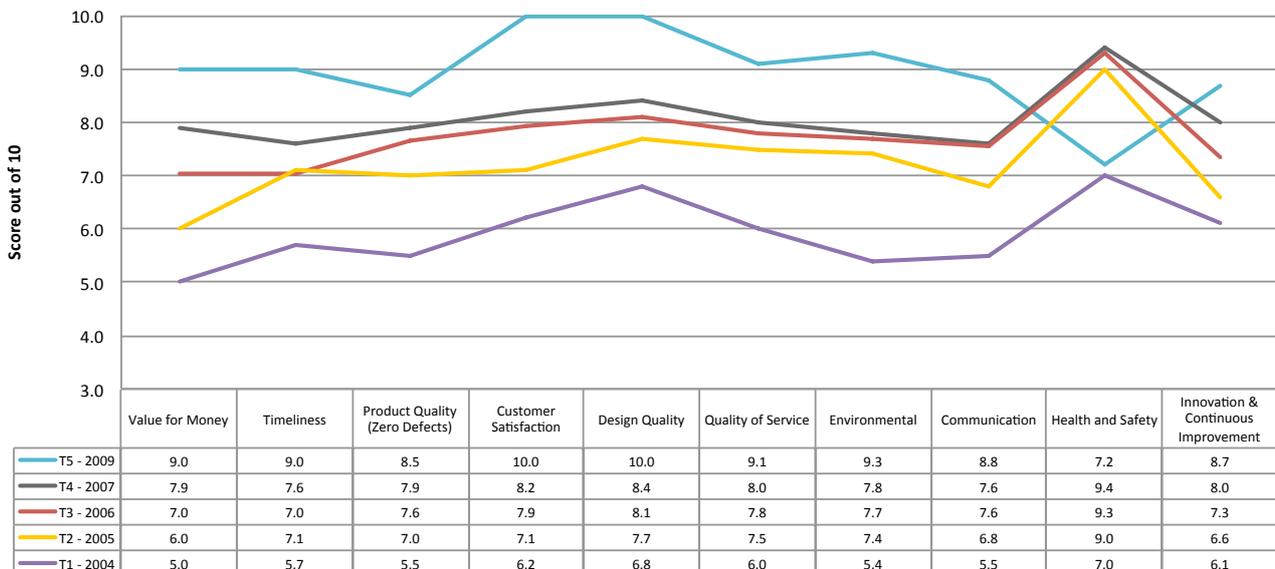
Why do PPPs work?

The partnerships work because they are about joint planning, joint management, joint ownership and shared benefits. Four features mark out PPPs:

Openness

Information is shared between the parties - financial models, costs, projected returns and surpluses - everything.

Renova Customer Satisfaction Score (out of 10)



T1 -T5 Are the first five groups of buildings that Renova have completed

Consultation and communication

Value for money

The long-term nature of the partnership means that the private sector partner is incentivised to deliver continuous improvement and savings so that the public sector value what has been done and want to commission new projects.

Value for money is calculated for the partnership as a whole, not only the private sector partner, and takes into account both qualitative and quantitative considerations.

Market testing continues throughout the project – lower costs mean greater long-term surpluses.

Well established supply chain partners learn how to work effectively with each other and collaborate to reduce costs and mistakes.

Innovative developments can support major service changes and increase the cost benefits of both.

Shared surpluses

Commercial returns benefit both public and private sector partners. The public sector share can be re-invested in improved services. Many of the pension funds that Fulcrum's money is invested into are pension funds that provide for many UK Public Sector pensions.

Engagement

Public sector leadership of the partnership means it focuses on delivering what people and the NHS need.

Mutual understanding of the partners' interests and concerns leads to solutions which meet everyone's needs.

Local public sector directors on project boards connect it directly with client needs and problems and the enhanced understanding enables more creative solutions to problems.

Central government director involvement in a programme or project connects it to national policy: he or she also acts as a 'critical friend' for the local public sector team.

Taken together, they mean the partners trust each other and generate brighter, faster solutions to the challenges of modern health care.

The type of private sector investor involved in the partnership is an important factor, too. Traditional PFI projects drew interest from consortia made up of companies with diverse interests. By contrast, PPPs are attractive to investors like Fulcrum's parent company, Meridiam Infrastructure (a business of 25 years standing supported by long term pension plans). Their objectives are more closely aligned with public sector objectives; they can help shape the project and so reduce risks, rather than just putting a price on them; they value long-term relationships. The project is more likely to focus on services, rather than construction.

How do the partnerships work?

Although the idea is a simple one, the legal structures which support PPPs are quite complex, as the figure below suggests. They ensure all parties are protected. However, Fulcrum's experience is these structures provide the right framework for complex projects that involve several different agencies.



Partnerships and the future

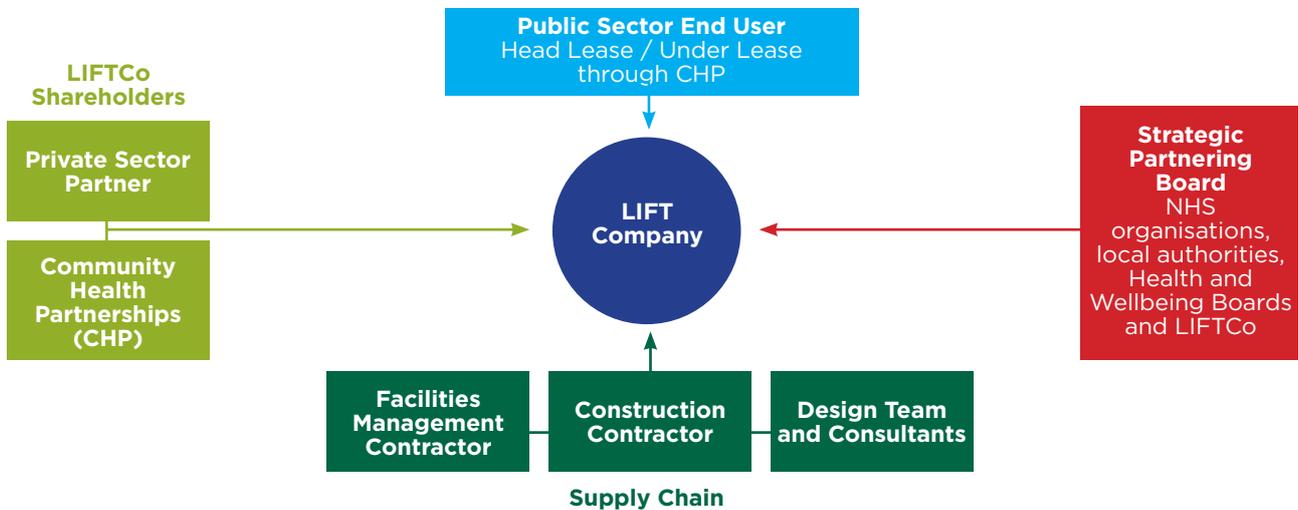
In the example below, the shares in the PPP, the LIFT Company, are held 60% private sector and 40% public sector. When both sectors work together they can both bring skills and qualities to the partnership to make projects work for local people.

PPP – and a modern NHS

PPPs provide strong and flexible support for health care developments. People rightly expect more closely integrated health and social care services and public

sector organisations put a high priority on these developments. However, they are complex and time consuming to deliver. Fulcrum and Renova's recent experience is that it is the quality of the partnership between the public and private sector which helps to facilitate these larger schemes.

Experienced investors like Fulcrum understand the market and can be more flexible than would be possible under PFI. This has meant, for example, that



- Fulcrum has acquired land at risk to ensure that the best sites are secured for the public sector
- Projects have benefitted from a genuine and productive partnership between public and private sector staff, who put their combined skills and expertise to work for the NHS
- Fulcrum has helped its partners make better use of its existing buildings rather than encouraging them to simply commission new facilities
- Fulcrum has taken space at risk in some of our recent projects
- Leases with public sector tenants include break clauses which fall before the end of the borrowing term - unthinkable under PFI

Fulcrum can do this partly because it can spread risk across its portfolio but also because of the strength of its relationships with public sector partners.

Fulcrum is owned by Meridiam, a specialist European Investment Management Company that is committed to develop projects promoting urban regeneration. Fulcrum owns 60% of Renova Developments along with the local NHS and the Department of Health. Meridiam have a long track record of working in partnership with local government, health authorities and transport bodies across Europe and North America. Meridiam share the public sector ethos of improving the lives and environment of local communities through the development of innovative solutions and by the application of commercial financing models. Backed by many of Europe's leading pension funds, Meridiam brings a longer-term perspective to regeneration and commitment to partnership working, eschewing the short-term profit taking models used by private equity and hedge fund investors.





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