CASE STUDY

LOCAL IMPROVEMENT FINANCE TRUST - LIFT -

- **PROCUREMENT:** PORTFOLIO APPROACH

LIFT COMPANY PARTNERS: COMMUNITY HEALTH PARTNERSHIPS (40%) AND PRIVATE SECTOR SUPPLIERS (60%)

INVESTMENT: OVER £2.5BN (INCL. £448M WITH MERIDIAM)

FACILITIES DELIVERED: 330 (INCL. 41 BY MERIDIAM)

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THE SYSTEM-WIDE, PUBLIC-PRIVATE APPROACH TO REGENERATION THAT WORKS

The UK's Local Improvement Finance Trust was launched as a vehicle for procuring public private partnerships aimed at regenerating health estates in England. Now 17 years in operation, LIFT has been independently verified as providing value for money in delivering and managing portfolios of high quality facilities, through 'true-partnerships' between public and private sectors.

Picture this problem: A public sector authority is responsible for a substantial group of assets, many of which are now decades old and becoming run-down and in dire need of repair, but insufficient funds are available to reverse their decline. Private investment is considered a solution, but that too is problematic because each site is too small and the risks too high to attract investors offering finance on affordable terms.

This scenario would appear applicable to numerous different sectors of local and national government, in any number of countries worldwide. And so it was for the National Health Service (NHS) in England – an organisation which in some cases provides health services from buildings over 100 years old.

The NHS was suffering from having a vast estate of aged health facilities. In many cases, new buildings were needed, particularly so where old facilities were no longer fit for purpose, often in the most deprived areas of the country.

But a solution was developed. LIFT – Local Improvement Finance Trust – was launched in 2001, as a vehicle for procuring public private partnerships, predominantly aimed at regenerating and improving facilities of primary and community healthcare in England, which it has done with remarkable success.

Independent analysis of the first 10 years of LIFT was published in 2014 (the first LIFT partnership was formed in 2004) by economic and financial consultant Amion for NHS. Its report[1] found that the initiative had injected over £2.2bn into developing health estates, opening 314 new facilities with 872,000 square metres of floor space for health services and other partners.

LIFT has now reached a maturity that allows inspection of the reasons behind this success. Fundamentally, it's a **system-wide portfolio approach**. LIFT partnerships have been developed to finance, deliver, manage and maintain health estates across whole regions or defined areas of England – creating the greater scope and scale needed to attract private investment.

The initiative was not mandatory. Primary Care Trusts – now replaced by regional Clinical Commissioning Groups (CCG) – were given the option of using LIFT. Where it was taken up, public-private LIFT companies were formed, with the UK Government's Community Health Partnerships (CHP) as the public sector partner, allied to private sector asset delivery and management partners. Each partnership is different in detail, but generally, CHP takes a 40% equity stake in the LIFT company and the private sector partner 60%.

To date 49 LIFT companies have been formed, according to latest figures from CHP, generating over £2.5bn of investment and delivering 330 new health facilities that serve 60% of the population of England. In six LIFT companies, the private sector delivery

partner is the Meridiam owned Fulcrum Infrastructure Group. Fulcrum's portfolio includes 41 community healthcare facilities, representing close to £450m of investment, across areas of West, South West and South London, as well as Oxford, Bristol and Merseyside.

"The fact that CHP as the public sector partner has always been a 40% stakeholder and the lead tenant in LIFT developments has been crucial to the initiative's overall success," says Fulcrum's Chief Operating Officer Darrell Boyd.

"It's a true partnership. **The public partner has seats on the board** of each LIFT Co and so has a tremendous influence on what's done. It also helps transparency and trust. Public and private sector partners are aligned and work together in the interests of the health service's clinical and estates strategies in each local area."

The LIFT regime also has the advantage of projects being driven by the developer rather than a contractor. "This ensures the design and build is focused on the **long-term view** – on best whole-life value and what the facilities will ultimately have to do to serve the public," Darrell says.

The greater value of LIFT developments to the public purse – in comparison to conventional third-party developments – has been independently verified. In 2005, a report[2] by the National Audit Office confirmed LIFT as demonstrating **value for money**. The then head of the NAO, Sir John Bourn, said: "I welcome LIFT as an attractive new way of improving primary health and social care facilities. This is an excellent example of a government department doing something different and new to come up with an effective solution to an established problem."

The 2014 Amion report studied the **social and economic impacts** of LIFT; finding that nearly a third of the investment – £790m – had been spent in the top 10% most deprived areas. Around 30,000 people were employed in construction and maintenance of the new facilities, £1.31bn of the work was carried out by SMEs and 80% of it by companies local to the new developments. Perhaps most importantly, the report found LIFT has helped the NHS towards its aim of **delivering better health**

LIFT: HOW IT WORKS

Private sector partners of LIFT companies – partnerships with the UK Government's Community Health Partnerships (CHP) – raise the finance required to develop new healthcare facilities. They then deliver the new buildings, managing their own 'design and build' supply chain and then manage and maintain their portfolio of facilities for the duration of the partnership, usually a period of 25 years.

Through this model of ownership and management, LIFT estates are not allowed to deteriorate. The contract structures ensure the buildings remain in the same good condition throughout, so they will have the same or greater residual value at the end of the concession period.

The buildings are leased back to the NHS, with repayments to LIFT companies made via rental agreements paid by regional Clinical Commissioning Groups and health service providers.

Through these LIFT 'Lease Plus Agreements', the tenants receive the additional benefits of service provision – building engineering and maintenance and equipment lifecycle costs (and cleaning and catering in some cases). LPAs also include availability clauses, applying penalties if facilities are unavailable, but LIFT companies pass these responsibilities onto maintenance supply chain partners.

In most cases, LIFT companies own the land and the NHS has the right to buy back the facilities at the end of the lease term. But in some cases – usually larger projects – the NHS retains the land and grants the LIFT company a 25-year lease to own and operate facilities and receive rental payments.

For further details, refer to : http://fulcrumgroup.co.uk/

services by improving the quality of its facilities.

This comes as a result of the partnerships securing value from the point of view of the public as well as private sector. Key aims of the NHS include improving the delivery and efficiency of health services by amalgamating and delivering more of them from modern community healthcare centres. There is also a recognised need to provide 'acute care paths' from these local facilities, partly to relieve pressure from over-stretched hospital Accident & Emergency departments. In many cases, LIFT is the vehicle helping CCGs to hit these targets.

There are further measures of value generated through the LIFT approach. "Faced with a portfolio of individual construction projects and a pipeline of work, companies of the supply chain became very interested in looking at how they could **deliver value and win repeat work**," Darrell says.

"Managing our supply chain we've typically driven down construction costs from around £2,500 per square metre to less than £1,000 over the course of LIFT programmes. As an efficiency this has been shared with the public sector partner CHP and has been passed on in the form of reduced lease costs to the CCGs.

"We've been able to challenge some long-held beliefs reflected in guidance on the space needed to deliver health services, so making buildings more efficient and increasing the net lettable space available in a given gross internal area. The buildings are designed to meet modern clinical needs with a minimum of space wasted."

They're also delivered to a high standard of quality for health service tenants. Renova is the name of the Fulcrum/CHP LIFT Co for Halton, St Helens, Knowsley and Warrington on Merseyside. Commenting on work

delivered by Renova, the Senior Executive Director for NHS Knowsley, Ian Davies, said: "Renova is very serious about continuous improvement. Every project has gotten better each time, delivered on budget and without compromising on the quality and functionality of the design. So essentially **you get a better building each time at a lower cost**."

Continuous improvement is one of a number of benefits of the portfolio approach of LIFT, says Fulcrum Chief Executive Clive Pitt. "Portfolios of projects are more attractive to investors. A healthily competitive market is generated for obtaining debt funding and within the health sector, a system-wide approach creates an **environment for finding innovative solutions** to different challenges. With public and private sector partners on LIFTCO Boards, each understands the other's position better and develops an appreciation of what does and does not work from the other's perspective," Clive says.

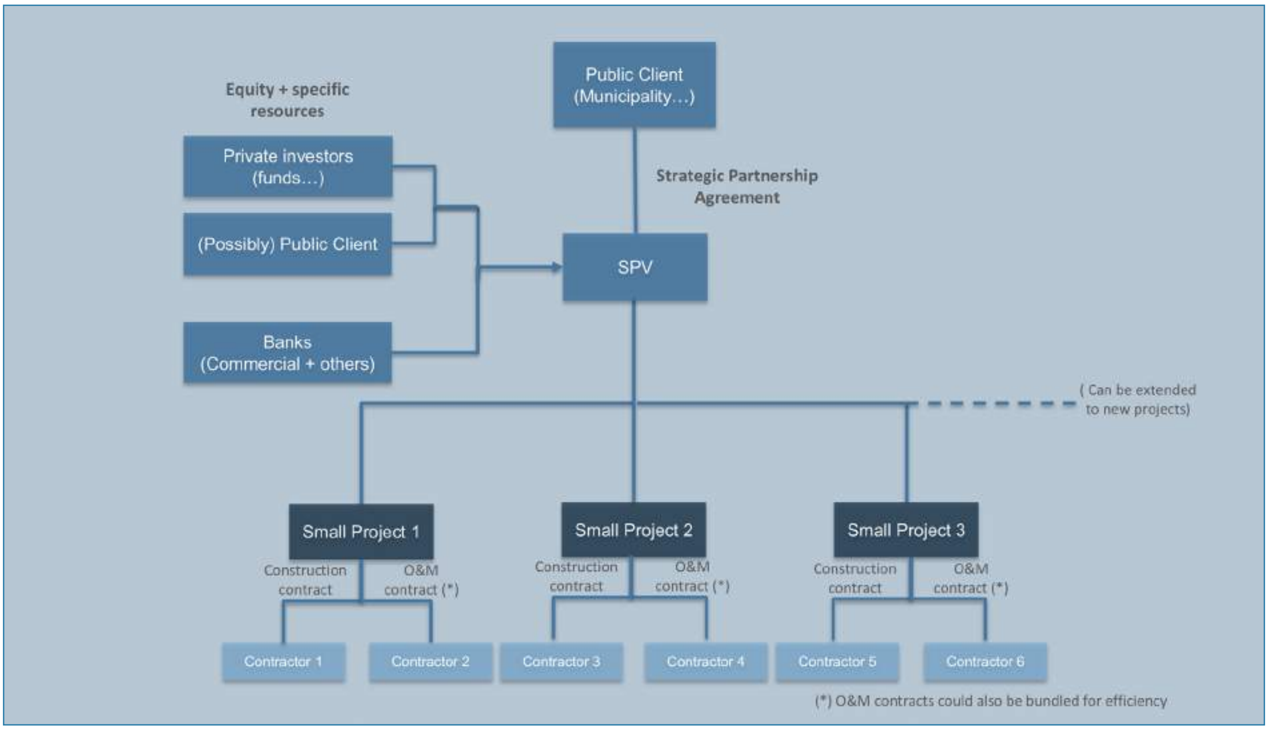
"In dialogue, in the LIFT scenario, the partners work together to manage and minimise risks to make things happen and with co-located delivery teams everyone has a **common goal and aligned interest**. Politically, projects can be very complex at a local level, but working closely with CCGs and local councillors, we've soon learnt how we can support them. Problems are rarely insurmountable when politicians and the local community are engaged properly."

The LIFT approach applies to other estates, adds Darrell Boyd. In some cases, LIFTCOs have delivered new educational facilities, job centres, leisure centres and other local authority buildings.

"Is it repeatable in other sectors and countries? Absolutely," Darrell says. "It needs political drive, but PPP is now a mature market in the UK. New procurement vehicles are being developed in England, across wider regions and covering larger health and local authority estates. The approach being adopted is very similar to LIFT, which is delivering a lot of value for Government, NHS health services and local communities."

[1]The Impact of the Local Improvement Finance Trust Programme, NHS, March 2014
[2]https://www.nao.org.uk/report/department-of-health-innovation-in-the-nhs-local-improvement-finance-trusts/

A BUNDLING APPROACH PARTICULARLY SUITABLE FOR SMALL PROJECTS



ADVANTAGES:

1 - EFFICIENT DELIVERY:

• Each project is too small to be bankable as standalone.
• Possibility to launch the first projects without waiting for a critical mass of projects.
• Leverage return of experience on initial projects for the following projects.
• Individual Requests For Proposals for Construction and O&M contracts will allow the most qualified and competitive package for each individual project to be selected.
• Staged process can be implemented: for each project: 1) initial study (cost supported by SPV, at risk) 2) validation by Public Authority, 3) if validated, further studies and RFPs.
• In some geographies (France for example), speeds up the process by minimizing the administrative steps (vote would normally be required at each stage, for each Contractor's contract).

2 - COST EFFECTIVENESS:

• Portfolio approach makes it more attractive to investors/lenders (size + diversification).
• Mutualize structuring costs (contracts...) over all the projects.
• Drives Construction Costs down (-30%) as well as Lease costs (-15%) (see LIFT studies over 17 projects, 7 years, 120 MEUR).

3 - PARTNERSHIP:

• Private Partner brings not only financing but also its expertise in Procurement, Project Management and Coordination between the projects.
• Strong incentive for the Private Partner to perform well: SPV returns depend on performance KPIs, opportunity to get a pipeline of projects if the Public Authority is satisfied.
• True partnership: Public Authority can take equity in the SPV (and the associated share of the profit), transparency, alignment of interests, better mutual understanding.

4 - LOCAL IMPACT:

• Attractive to local SMEs (smaller size of individual projects gives SMEs the ability to participate in tenders).