

# Innovation in the National Health Service - the acquisition of the Heart Hospital



REPORT BY THE COMPTROLLER AND AUDITOR GENERAL  
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# Summary

## In this section

|   |   |
|---|---|
| The National Health Service acquired the Heart Hospital in September 2001 | 1 |
| The acquisition was opportunistic, novel and involved a number of risks   | 2 |
| The acquisition was a good deal   | 4 |



The Heart Hospital

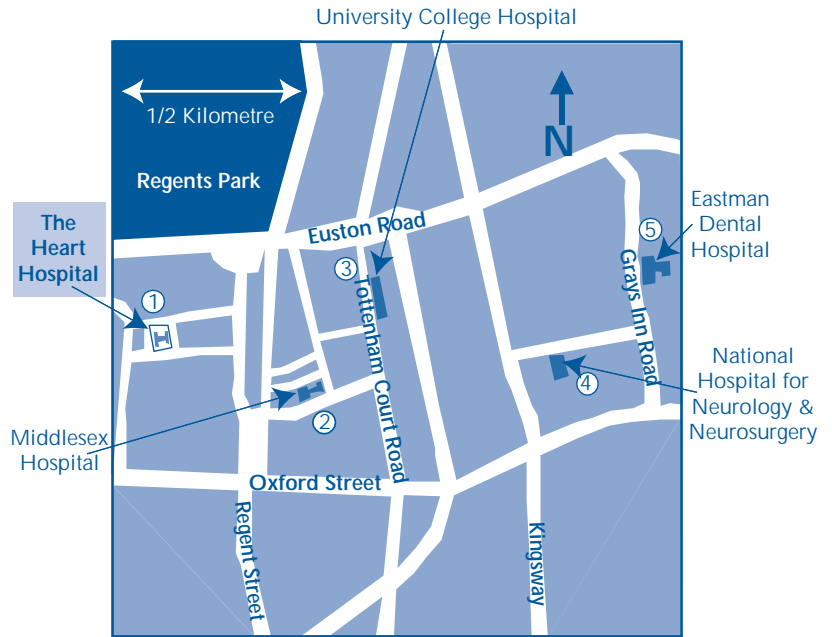
- 1 The Department of Health estimates that coronary heart disease affects around 1.4 million people across the United Kingdom and is the biggest cause of premature death in England, responsible for around 110,000 deaths each year. Tackling coronary heart disease is therefore one of the Department of Health's main priorities for the National Health Service (NHS). Treatment and care in hospital forms a vital part of the strategy to tackle coronary heart disease, alongside improved diagnosis of cardiac problems and prevention techniques such as encouraging people to take more exercise and eat more healthily.
- 2 There is a shortage of cardiac treatment and care capacity in the United Kingdom which has manifested itself in some patients with coronary heart disease experiencing long waits for cardiac treatment in the NHS. In August 2001, some patients in England were waiting around 15 months for cardiac revascularisation, a procedure used to improve the blood supply to the heart.

## The National Health Service acquired the Heart Hospital in September 2001

- 3 In September 2001, to improve the capacity for cardiac treatment in North Central London, University College London NHS Hospitals Trust (the Trust) acquired an entire private sector hospital - the Heart Hospital. The hospital is in the medical district centred on Harley Street in central London. It had been owned and operated as a cardiac facility by the NHS until 1991 when the property was sold and cardiac services moved to the Brompton Hospital.
- 4 Between 1996 and 1998 the hospital's owners, Parkway Holdings Limited (Parkway) invested approximately £45 million in acquiring the hospital, refurbishing it, and in purchasing new medical equipment. Despite this investment, the Heart Hospital was operating at only one third capacity, leading to financial losses and Parkway's decision to sell the hospital.
- 5 With an annual budget of around £300 million the Trust, based in the Euston area of central London, is one of the largest in the country. At the time of the acquisition the Trust managed six NHS hospitals including the multi-disciplinary University College and Middlesex hospitals and four specialist hospitals covering dentistry, neurology, tropical diseases and obstetrics. Before the acquisition, the Trust's cardiac services were based in the Middlesex Hospital in an environment dating from the 1930s. **Figure 1** shows the location of the Trust's hospitals and the location of the Heart Hospital.

**1 The Location of University College London NHS Trust hospitals**

*The Heart Hospital is situated a short distance away from the Trust's other hospitals*



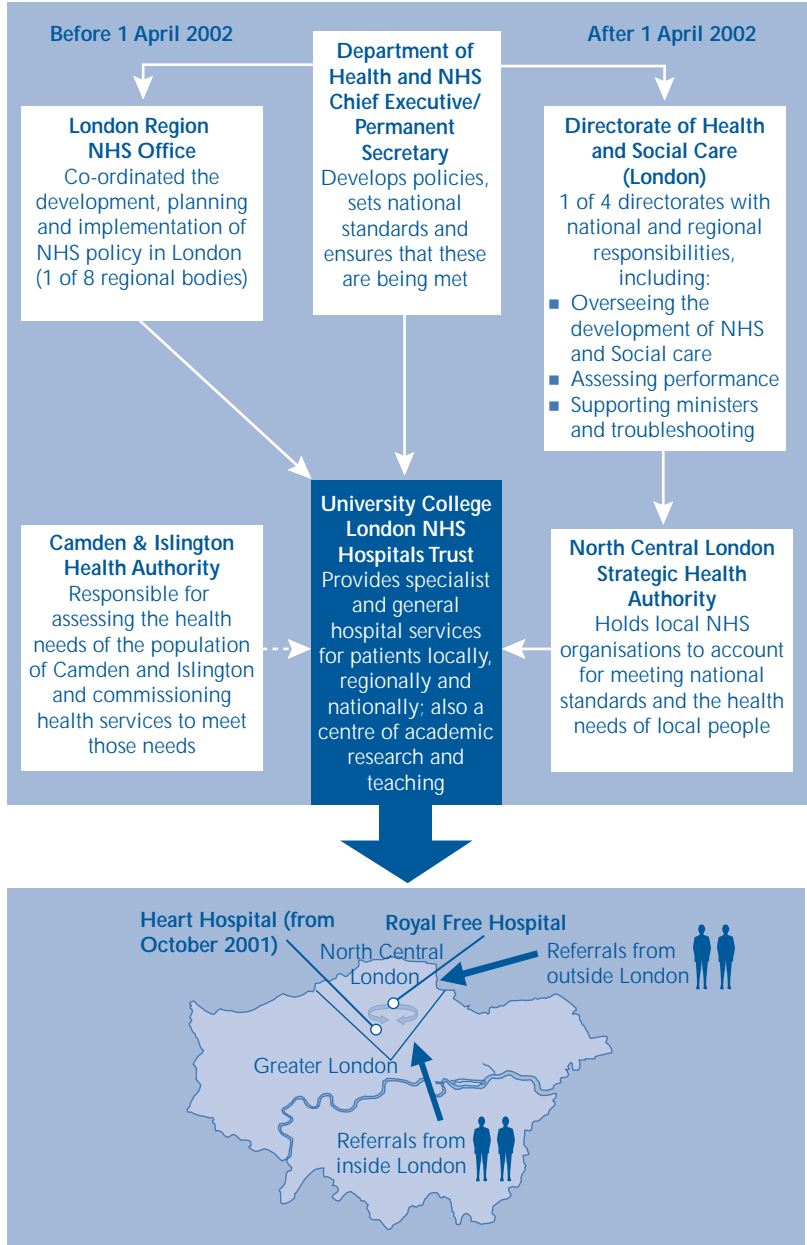
- 6 As with other NHS Trusts, the Trust is a free-standing body which owns and manages its own hospitals and is accountable to the Secretary of State for Health. The Trust's key relationships within the NHS at the time of the acquisition and at the date of the report are set out in **Figure 2**.

**The acquisition was opportunistic, novel and involved a number of risks**



- 7 The acquisition of the Heart Hospital was not planned as part of the Trust's business strategy. The Trust became aware of the potential opportunity on 18 April 2001 during an exercise to explore ways of using private sector capacity. The Department of Health had recently analysed the relative priorities for the NHS and identified the treatment of coronary heart disease as a key priority. The Trust's case for the acquisition was therefore based on the potential benefits to cardiac care and did not address the broad issue of spending on cardiac care against other NHS spending.
- 8 The Trust had no defined process or guidance to follow as carrying out the acquisition of an operational private hospital was a novel undertaking for the NHS. Decision-making on major capital projects in the NHS is usually time consuming, partly because of the number of stakeholders involved, and the Trust considered that it needed to move quickly to secure the one-off opportunity. It therefore needed to mobilise support for the acquisition at a high level and to develop a quicker process for obtaining the necessary assurances and approvals.

**2 The Trust's key relationships within the NHS**

*The Trust works with a number of bodies in the NHS to provide cardiac treatment for patients from within and outside London*



**NOTE**

-  Referrals from within North Central London
-  Referrals from outside North Central London

Source: National Audit Office/Department of Health

- 9 At the time of the deal the Trust had an underlying financial deficit and it was concerned that acquiring the Heart Hospital would not lead to any worsening of this. The Trust also had to transfer its existing cardiac services into the Heart Hospital at the same time as integrating the private and public sector staff on one site and recruiting new staff, who are in short supply.

## The acquisition was a good deal

- 10 We therefore examined whether the acquisition of the Heart Hospital was likely to provide value for money. We conclude that the Trust's acquisition of the Heart Hospital was a good deal for the following reasons:

- The acquisition was consistent with important healthcare goals and business strategies.
- The Trust secured a robust deal at a favourable price for the assets.
- After taking over ownership of the Heart Hospital the Trust managed the transition period successfully and, in the 12 months following the acquisition, the hospital delivered the planned additional benefits to NHS patients. In its business plan, the Trust identified the ongoing risks and the actions required to manage these effectively so that the Heart Hospital can achieve full capacity by the target of 2003-04.

## Achievement of important goals

- 11 The North Central London Strategic Health Authority has to achieve an annual target of 1903 procedures to improve the blood supply to the heart, called revascularisations, by 2010. Without the acquisition its total annual capacity would have been between 1500 and 1600 a year - a maximum of 1200 by 2006 in a new hospital in Euston planned to replace the Trust's University College and Middlesex hospitals and some 350 in the Royal Free hospital, which is not part of the Trust. With the transfer of the Trust's cardiac services to the Heart Hospital (with an expected capability of 2800 revascularisations by 2003-04) and the continuation of medical revascularisation activity at the Royal Free, the target would be exceeded by 2003-04. The Heart Hospital would then have extra capacity to contribute more widely to the achievement of national treatment targets.<sup>1</sup>
- 12 The acquisition also gave the Trust the opportunity to provide a better environment for patients - eliminating mixed sex wards, providing high quality 24 hour catering and higher quality facilities, such as en-suite bathrooms, than it had been able to before. In addition, the greater space available and dedicated cardiac staff have allowed it to carry out more preventative and diagnostic work, including advice on smoking, diet and exercise and the introduction of rapid access chest pain clinics.



<sup>1</sup> Cardiac activity at the Royal Free Hospital is now expected to cease in 2005-06, freeing up capacity for other - as yet to be determined - forms of treatment.

- 13** There are some risks, particularly the clinical risk to patients with complex health problems who might need access to other specialist facilities which would be available in a general hospital. The Trust consulted on this issue and has taken action to manage this risk, for example, by employing staff with renal expertise. There is also the potential risk that attracting specialist doctors and nurses to allow the Heart Hospital to operate at full capacity might lead to reductions in staff elsewhere to an extent that compromises outcomes elsewhere in the NHS. The evidence from September 2001 to September 2002 suggests that around half of new nursing recruits are coming from either within the Trust, from temporary agencies or from the private sector and that no other Trust has to date lost material numbers of staff to the Trust.

### Securing the deal

- 14** The Trust decided on an upfront purchase of the property leases and equipment. It decided to complete the deal quickly because it concluded that the Heart Hospital was about to enter administration and that Parkway might receive offers from other bidders. It persuaded decision-makers to make sufficient central funding available despite time pressures which meant that the normal capital investment process could not be followed.

- 15** The limited time available for analysis constrained both the business case assessment and the completion of full due diligence. The Trust Board and senior NHS managers exercised oversight on the deal at crucial points in the process, however, and decided that the risk assessment was sufficiently robust to support the eventual deal. The Trust subsequently defended its position robustly during negotiations and the final contract was sound. By comparison with available valuations, the £27.5 million paid represented a good price for the assets. Analysis of the cost per procedure was carried out but was not central to the decision making as it was clear that the other options available to the Trust, such as building new capacity, would have been more expensive.

- 16** Other business costs incurred are being borne at the regional level so as not to have an adverse impact on the Trust's financial position. These include:

- i operating losses of some £9 million until 2003-04 when the Heart Hospital is expected to operate at full capacity and to have achieved efficiency savings; and
- ii overhead costs of some £2.6 million until the vacated space in the Middlesex Hospital was fully occupied (see paragraphs 3.28 to 3.31).

### Managing the transition to secure the planned benefits

- 17** The Trust established effective control of the hospital and completed the physical transition smoothly with minimal disruption to its existing patients. The Trust facilitated the quick transfer of services by putting in place a Director who was experienced in planning such a move and set up a project board which included representatives of both the Heart Hospital and the Middlesex Hospital.



- 18 A speedy transition was necessary to maximise staff retention. The Trust's negotiations with Parkway were commercially confidential and formal staff consultation only took place after the acquisition was announced in August 2001. It was then offered to all on a rolling basis. Some staff told us that their concerns about potential redundancy and relative pay and conditions were only dealt with several weeks after this. The Trust's senior management put conscious effort into communicating and told us that, with the benefit of hindsight, having a formal communications plan would have been helpful to them.
- 19 The employment terms, conditions and contracted rights of all the staff concerned remain unchanged unless voluntarily altered. Analysis of pay levels shows that the average salaries and salary ranges of the 162 private sector staff transferred to the Trust were only slightly above NHS levels. When different terms and conditions such as overtime pay are taken into account there is little difference, as shown in **Figure 13** (on page 29). The Trust intends to examine the advantages and disadvantages of offering harmonisation of pay, terms and conditions to staff transferred to it from the Heart Hospital in the medium term. Some of these staff told us that the main attraction of working in the private sector, rather than the NHS, was not pay but rather that the private sector was better resourced.
- 20 The Heart Hospital is already treating more NHS patients and reducing waiting times faster than when services were concentrated in the Middlesex Hospital, broadly in line with the business plan. The standards of the private environment have been maintained.
- 21 The achievement of the full benefits of the acquisition is dependent on the Trust's continued management of:
  - Ongoing losses, until full activity levels and ambitious efficiency targets are reached.
  - Recruitment and retention of specialist doctors and nurses - full activity is dependent upon achieving full staffing levels and needs to continue to take into account the Trust's aim of not having an adverse impact on other Trusts' activities through its own recruitment.
  - Utilisation of the vacated space in the Middlesex Hospital. A Diagnostic and Treatment Centre, that is a dedicated unit for safe, high volume diagnostic and treatment elective services, was fully opened in the space at the end of November 2002, just over a year after the acquisition. The Trust's Business Plan for the centre estimates that it will treat some 3000 patients per year by 2003-04.

# Recommendations

- 22 The Heart Hospital acquisition exemplified an entrepreneurial approach to improving public services that the Department of Health is seeking to encourage and a number of similar transactions have been announced. The National Audit Office is supportive of innovation where, as in this case, the risks have been well thought through and appear manageable. As well as making recommendations relevant to this and similar transactions we suggest some wider recommendations for the Department of Health in its efforts to encourage innovation.

## Ensuring continued success - recommendations relating to the Heart Hospital

- 23 The rewards to the Trust from securing the acquisition have been great as others bore the costs while the Trust took ownership of the assets. This has allowed the Trust to transform its ability to meet its cardiac targets. Since the acquisition the Trust's quality rating has been upgraded by the Department from two star to the top three star category. The Trust retains discretion over the precise flow of patients, who are treated on the basis of clinical priorities. Generally, it aims to meet targets for patients in the North Central London Strategic Health Authority and then to treat patients from across London and from across the country when it has the capacity to do so and where the need is greatest. **The Trust Board and the Department of Health should exercise effective oversight over the Trust to make sure that treatment of different groups of patients is balanced.**
- 24 The high quality working environment at the Heart Hospital may attract specialist doctors and nurses away from other parts of the NHS. National and regional shortages mean that this could potentially have an adverse effect on other NHS services although we have seen no evidence at the date of this report of this happening. High turnover rates in London and a collaborative approach to recruitment amongst health service providers across London will have helped avoid this problem. **The Trust should nevertheless continue to monitor staff changes on a monthly basis, assess any impact on other Trusts and make efforts to expand the overall supply, for example by attracting staff back into nursing.**
- 25 In order to eliminate losses by 2003-04, the Trust needs to meet demanding activity targets and efficiency savings. The Department of Health plans to introduce payment by results from 2005-06 and this would mean that providers of care would only receive funding for the activity they actually deliver. Those that under-perform would have their funding reduced in-year.<sup>2</sup> **The Directorate of Health and Social Care (London) should therefore consider the possibility of encouraging full activity and the achievement of efficiency savings by linking payments to the Trust to its performance.**

## Replicating success - recommendations relating to similar deals

- 26 Both the Department of Health and the Trust Board had confidence that the Trust team, led by the Trust Chief Executive, could undertake a successful acquisition and, therefore, delegated responsibility to them for negotiating the deal. In doing so, the Department of Health recognised that not all public sector managers possess such skills and that it may not be sensible to follow the same model in other cases. The Department's Private Finance Unit has experience in offering advice to those undertaking deals with the private sector. **The Department of Health should draw on this expertise to develop guidance to cover the skills and experience needed in commercial transactions and draw it to the attention of those who may find themselves overseeing such deals.**

2 "Reforming NHS Financial Flows: Introducing Payments by Results", Department of Health, October 2002.



- 27 The Trust's approach to this acquisition was driven by the timetable and decisions were taken on the basis of limited information. In such circumstances, managers should always seek - in the time available - to gather sufficient information to enable them to take a robust decision. Given limited time, the Trust focused on the key business benefits and the major risks associated with the expected transaction. The Trust mitigated potential risks by including a clause in the contract allowing it to pull out in the event of specified, significant problems. **Faced with a similar situation the principals should also make sure they understand the major risks and aim to negotiate contractual protection in the event of the risks maturing.**
- 28 The Trust believed it needed to act quickly so that the opportunity to acquire the Heart Hospital was not missed. It therefore consciously decided to select a small negotiating team, with the London Regional Director as an external reviewer, to facilitate quick decision-making. The Trust also suggested that NHS funds would only be available for a limited period of time to maintain momentum in the negotiations. **Parties involved in similar deals in the future should also develop a clear negotiation strategy at an early stage to help achieve their key objectives.**
- 29 The Department of Health agreed to fund a Value Added Tax liability falling on the Trust as a result of tax deferment available to the private sector owners but not to the Trust as a public sector body. Funding settlements for departments include allowances for circular flows such as Value Added Tax, which provide a neutral effect when moving between government departments. An element of the Department's budget should, therefore, cover such costs. Individual Trust budgets do not include allowance to cover these liabilities when they arise and without the Department's agreement to fund the liability, the acquisition could not have taken place. **The Department of Health should formalise the practice adopted in this case for putting those undertaking commercial deals on a level footing with the private sector.**
- 30 Communication with staff is important in undertaking deals, such as the acquisition of the Heart Hospital, which lead to significant changes for staff. The Trust put effort into communicating with staff about the impact of the acquisition as soon as the deal was announced. Some staff felt that they suffered uncertainty for longer than was needed. The Trust recognised subsequently that producing and implementing a communications strategy would have helped it ease the transition. **The Department of Health should develop guidance that sets out the internal and external communications responsibilities of organisations involved in major service changes and which includes examples of good practice.**

### Encouraging innovation in the NHS - wider recommendations for the Department of Health

- 31 The Department of Health was able to provide £27.5 million to fund the acquisition because of underspend in other capital expenditure projects. If there had not been underspend on these projects, the acquisition might not have been possible and the Trust may have found it difficult to meet national targets for cardiac care, a key priority for the NHS. Capital funds will always be finite. **The Department should ensure that the allocation of capital funding is clearly linked to its own strategic priorities.**
- 32 Consultation and review in the Health Service is usually extensive and serves a useful purpose. It can, however, make it difficult to act quickly if a consensus is needed or if the logistics of consultation take a long time. In this case key decision-makers were prepared to take responsibility outside the usual processes. **The Department of Health should develop a formal fast track decision-making process for circumstances in which time critical opportunities might otherwise be lost and make all parties aware of the need to co-operate fully and quickly to make the most of innovative opportunities.**

# Part 1

## Identifying the opportunity to acquire the Heart Hospital

- 1.1 When the University College London NHS Hospitals Trust (the Trust) identified the potential opportunity to acquire the Heart Hospital in April 2001 it considered that the high quality staff and facilities of the hospital would bring important gains to the National Health Service (NHS). This part of the report considers whether the potential acquisition was consistent with Trust and NHS goals and strategies extant at the time of the acquisition.
- 1.2 We conclude that utilising the capacity of the Heart Hospital should enable the Trust to meet national targets and standards for the treatment of coronary heart disease in full and earlier than could otherwise have been the case. In addition, the acquisition was a logical extension of the national drive to use excess private sector capacity and fitted the Trust's existing business strategies. The overall benefit from acquiring this extra capacity needs to be judged in the context of some risks arising from the Heart Hospital's separate location from other Trust buildings and the potential impact on other NHS cardiac capacity if the recruitment of staff to the Heart Hospital from elsewhere in the NHS leads to an adverse effect on other NHS services.
- 1.3 In July 1999, the Department of Health set a target to reduce the number of deaths due to coronary heart disease and stroke in the under-75s by 40 per cent by 2010 (saving 200,000 lives over the period).<sup>3</sup> In March 2000, the Department followed this with a National Service Framework for coronary heart disease.<sup>4</sup> This set out a number of standards aimed at reducing the number of deaths due to coronary heart disease - estimated at around 110,000 people per year in England - through better prevention, diagnosis and treatment. Treatment is a particular priority as this is the final part of the care cycle and therefore many patients' last chance of survival. In recognition of an urgent desire to improve treatment, the National Service Framework established local and national targets for the number of procedures used to improve the blood supply to the heart, called revascularisations.
- 1.4 There are two main types of revascularisation:
- A Coronary Artery Bypass Graft (CABG) which is a surgical procedure involving bypassing blockages to the coronary arteries by grafting on a length of artery or vein to bring a fresh supply of blood to the heart muscle; and
  - A Percutaneous Transluminal Coronary Angioplasty (PTCA) which is a medical procedure involving the introduction of a balloon on a catheter through the skin (percutaneous), into a blood vessel (transluminal) and into the coronary arteries to widen them.
- 1.5 The National Service Framework required local areas to develop implementation plans to achieve a target of 1500 revascularisations per million population by 2010, with a guideline equal split between surgical and medical procedures.<sup>5</sup> At the time of the acquisition, changes were planned to the regional administrative framework of the NHS in London and these were taken into account in interpreting the National Service Framework target at a local level. The North Central London Strategic Health Authority (North Central London) in which the Trust now falls has a population of 1.2 million, translating into a target of 1800 revascularisations per year by 2010. As North Central London's hospitals (including the Trust's hospitals and the Royal Free Hospital in Hampstead) treat patients from both inside and outside North Central London, the target activity level is slightly higher

<sup>3</sup> "Saving Lives: Our Healthier Nation", Department of Health, July 1999.

<sup>4</sup> The National Service Framework for coronary heart disease is the NHS' blueprint for tackling heart disease. It was prepared by a group led by Professor Sir George Alberti, President of the Royal College of Physicians and it sets out the standards and services which should be available throughout England. See Appendix 2 for more detailed information about the National Service Framework.

<sup>5</sup> At the time of the acquisition, the NHS was divided into eight regions and the London region was divided into 14 local Health Authorities but the region was in the process of introducing five Strategic Health Authorities based on geographically defined sectors (to replace the local health authorities). UCLH Trust is now part of the North Central Sector of the London region.