

NHS CAPEX BUSINESS CASES

FRONTIER'S FIVE GOLDEN RULES



BUILDING BACK BETTER IN THE NHS

The first page of the Conservative Party manifesto for the 2019 general election promised “20 hospital upgrades and 40 new hospitals”, while the Labour Party pledged to commit £2bn “to modernise hospital facilities” ... and then COVID-19 hit. Although the precise implications of the pandemic for the health system are still unclear, it has not reduced the financial resources available to the NHS or the conviction that new hospitals are required.

At least 27 NHS trusts currently have specific plans to build new hospitals. The two waves of construction are known as Health Infrastructure Plan (HIP) 1 and HIP2. HIP1 trusts are expected to be spending money building new hospitals between

now and 2025; HIP2, between 2025 and 2030.

Alongside – and maybe because of – this enthusiasm for new hospitals, there is increasing public-sector scrutiny to make sure taxpayers get good value for money. If this is a once-in-a-generation chance to modernise the NHS, HM Treasury (HMT), the National Audit Office, civil servants and politicians want to be certain that the money is spent wisely on the right things.

That brings business planning to the forefront. Hospitals that are officially on the HIP1 and HIP2 lists still need to prove they are worthy of the money that has been allocated – but not given – to them. Some that are not on the lists have been told they could jump the queue if they developed a more convincing

case. Ultimately, NHS England, the Department of Health and Social Care (DHSC) and HMT will decide how to prioritise spending. Which business cases will be chosen?

BUSINESS CASE PREPARATION

At a minimum, a good business case will be developed in line with the Treasury’s Green Book and Five Case Model. But this guidance is necessarily framed at a very high level: it applies to everything from hospitals to flood defences to a new visitor centre at Stonehenge. In order to help, DHSC has provided more-specific pointers in the form of the Comprehensive Investment Appraisal Model and guidance. It says:



The economic dimension of the Five Case Model is the analytical heart of a business case where detailed appraisal takes place. It should be prepared alongside the other dimensions of the Five Case Model, not in isolation. It considers the value of different options to the UK and, where appropriate, the impact on different groups of people or parts of the UK.

DHSC, Comprehensive Investment Appraisal Model and guidance



The importance of the economic dimension of business cases is often overlooked – and is a common reason why they fail when exposed to scrutiny by HMT and others.



Confusion often arises over the differences between financial and economic cases. In light of government policies aimed at reducing regional inequalities

and promoting individual opportunity (levelling up), achieving net zero carbon emissions (climate commitments) and promoting

the UK on the world stage after Brexit (Global Britain), it is clear that addressing economic outcomes alongside robust financial outcomes will be an important factor in deciding which business cases are approved, and which fall down the queue.

At Frontier we have authored many business cases – ensuring that the economic dimension is the solid foundation on which the rest of the dossier is built. In 2019 we helped obtain Treasury approval for one of the largest recent capital spending projects outside defence – a £1.4bn investment in new animal health facilities near Weybridge. Over the past decade we have helped put together over 20 NHS business cases for everything from new hospitals and extensions to existing facilities

to new ways of treating illness or preventing ill-health in the first place.

BY HOW MUCH WILL COVID-19 IMPACT ON FUTURE CAPEX FUNDING FOR NHS?

- 1 (least impact)
- 2
- 3
- 4
- 5 (most impact)

POST ANSWER

Here are some of the lessons we have learned.

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GOLDEN RULE #1

Be clear what's required at each business case stage

THERE ARE THREE STAGES IN THE PROCESS OF CREATING A NEW BUSINESS CASE: STRATEGIC, OUTLINE AND FINAL BUSINESS CASES (SOC, OBC AND FBC).

Each phase demands greater detail and precision. The SOC has the least onerous requirements, but delays and

sometimes cancellations are caused when it is written without considering what will ultimately be needed in the FBC.

The figure below illustrates the increased depth and detail expected under HMT's Five Case Model at each stage of a project's progress.

	SOC	OBC	FBC
Strategic	60%	80%	100%
Economic	40%	70%	100%
Commercial	20%	60%	100%
Financial	30%	60%	100%
Management	10%	50%	100%

For example, even at the SOC stage it is important to have clear long lists and short lists of options. These must be genuine alternatives, not fig leaves to disguise a pre-determined outcome. And they need a well-defined articulation of the key benefits. It is too late, at the FBC stage, to backwards-engineer some options or introduce significant new gains.

Extending that example, if the capital investment is intended to deliver greater efficiency or quality of estate, at the **SOC** stage there needs to be:

- A high-level assessment of the current efficiency opportunity and alternative, credible options for realising that opportunity
- Data analysis on the current standard of estate, e.g. the estimated cost of eliminating the backlog of building maintenance within your trust under the different options
- A comparison of this cost relative to other trusts – for example, is your trust at the left-hand end or right-hand end of the picture below?

Source: HM Treasury "Guide to Developing the Project Business Case"

Greater detail is required at each stage in the business planning process. Quantitative analysis along these lines may be sufficient for the SOC alongside a summary of the wider benefits. However, at the OBC and then the FBC stage this analysis needs to be deepened, and the broader benefits must

be examined quantitatively (e.g. the impact on staff productivity, greenhouse gas emissions, the

local economy, etc). Importantly, this quantitative analysis needs to be carried out with increased

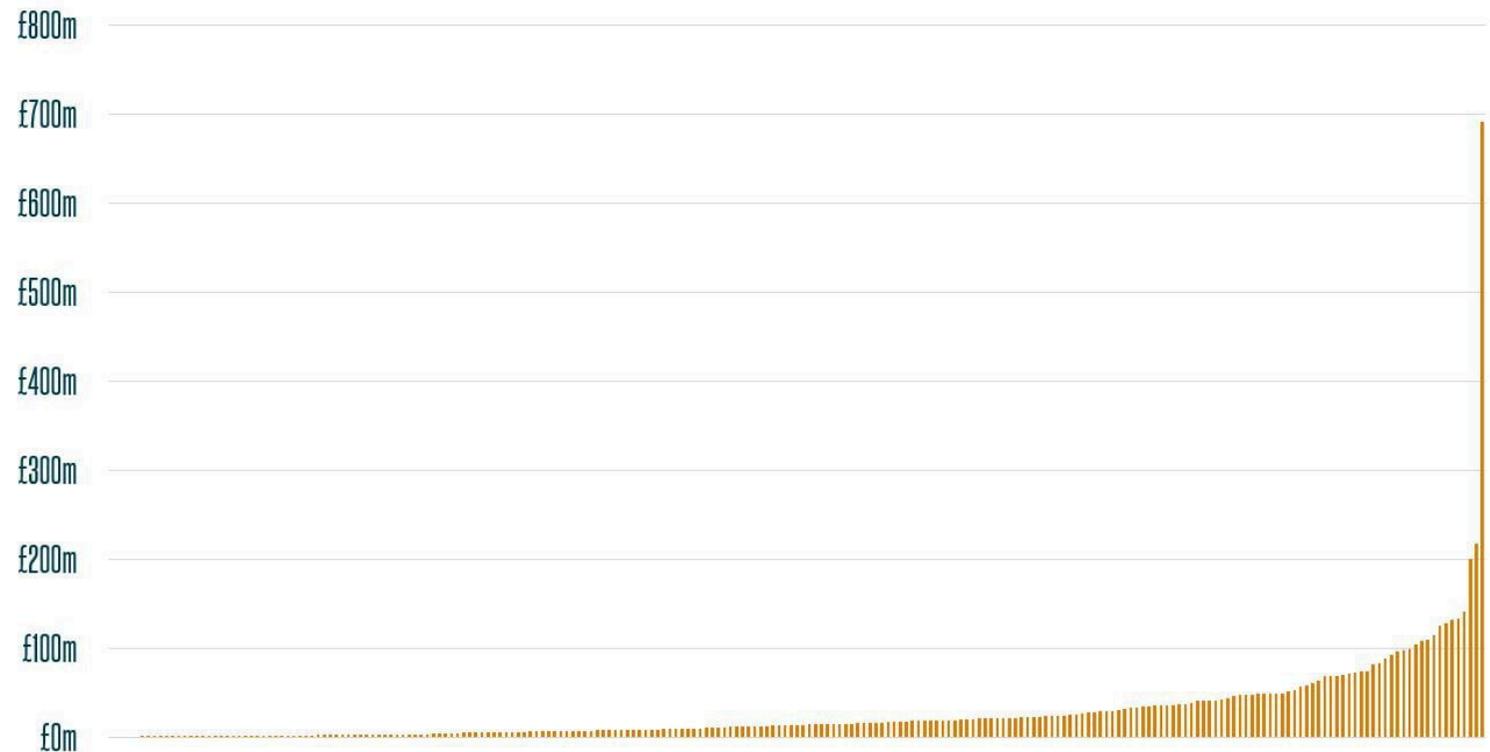
rigour – the subject of golden rules 2, 3 and 4.

WHAT'S A GOOD RETURN ON INVESTMENT RATIO?

- 1:1:1
- 2:1
- 10:1

POST ANSWER

COST TO ERADICATE NHS ESTATES MAINTENANCE BACKLOG, BY TRUST



Source: Frontier analysis of NHS estates (ERIC) data available here <https://digital.nhs.uk/data-and-information/publications/statistical/estates-returns-information-collection/england-2018-19>

GOLDEN RULE #2

Present credible alternatives

URGENT

IT IS USUALLY QUITE EASY TO TELL WHEN ALTERNATIVES HAVE BEEN INCLUDED IN A BUSINESS CASE SIMPLY TO BE KNOCKED DOWN. BUILDING GENUINE OPTIONS REQUIRES A PROPER PROCESS OF STAKEHOLDER ENGAGEMENT.

Brainstorming at a Board strategy session or awayday is rarely sufficient to generate credible alternatives. That is particularly the case if the government is focused on the wider benefits of a particular project, not just its core benefit.

Large NHS capital investments, particularly those involving new hospitals or the relocation of existing services, call for extensive stakeholder engagement. That exercise should be used to develop genuine options and to help score them. For the process to

be robust it needs to be systematic. For example, Frontier has used multi-criteria decision-making techniques to score options based on stakeholder feedback.

Most importantly, one of the options needs to be an analysis of the “do nothing” counterfactual that is clearly evidence-based. Too many business cases assert that “do nothing” leads to disaster when, more often than not, there is evidence that services will be maintained even if new investment is withheld or delayed. Combining econometric or other statistical evidence with properly grounded qualitative analysis (e.g. robust case studies or interview findings) to document how various elements of quality are changing over time, along with their evolution



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under the counterfactual, helps to make a solid case. The advantage of statistical analysis is that it can be used to properly document how the trends that have led to the proposed investments - controlling for wider economic or other changes - may realistically evolve over the coming years.



GOLDEN RULE #3

Focus on key benefits

ONE OF THE MAIN DIFFERENCES BETWEEN THE NARROW FINANCIAL CASE AND THE WIDER ECONOMIC CASE IS THE LATTER'S FOCUS ON THE ANTICIPATED BENEFITS OF AN INVESTMENT.

While balancing the books in the financial case is hugely important, it rarely distinguishes proposed projects. After all, proposals do not get to the OBC stage - let alone the FBC phase - if the financial case does not add up. Therefore, those deciding which projects to ultimately approve - or which to put first in the queue - will be looking closely at the mooted benefits.

It is tempting to throw everything into the benefits case: shorter waiting times, improved health, greater wellbeing, higher productivity,

new jobs, reduced inequalities, lower greenhouse gas emissions, etc, etc. However, it is almost always better to focus on a smaller number of well-evidenced, clearly described benefits than to try to hit every policy goal.

Understanding the likely benefits may require a theory of change, a logic model or similar that maps out how the proposed investment will produce the anticipated gains: what are the drivers and how do they play

out? Then we must think about the best metrics to demonstrate the size or scope of the benefits and the sources of evidence for each of them.

Take our estates efficiency example from Golden Rule #1.

By the **OBC stage** we will need to undertake more detailed analysis of potential benefits:

- Above we use a simple backlog maintenance cost
- Now we could calculate a

slightly more sophisticated risk-adjusted backlog maintenance cost per occupied floor are

- This can then be benchmarked against other trusts for a more sophisticated comparison, to ensure the case for investment is robust and also to understand more about the “do nothing” counterfactual

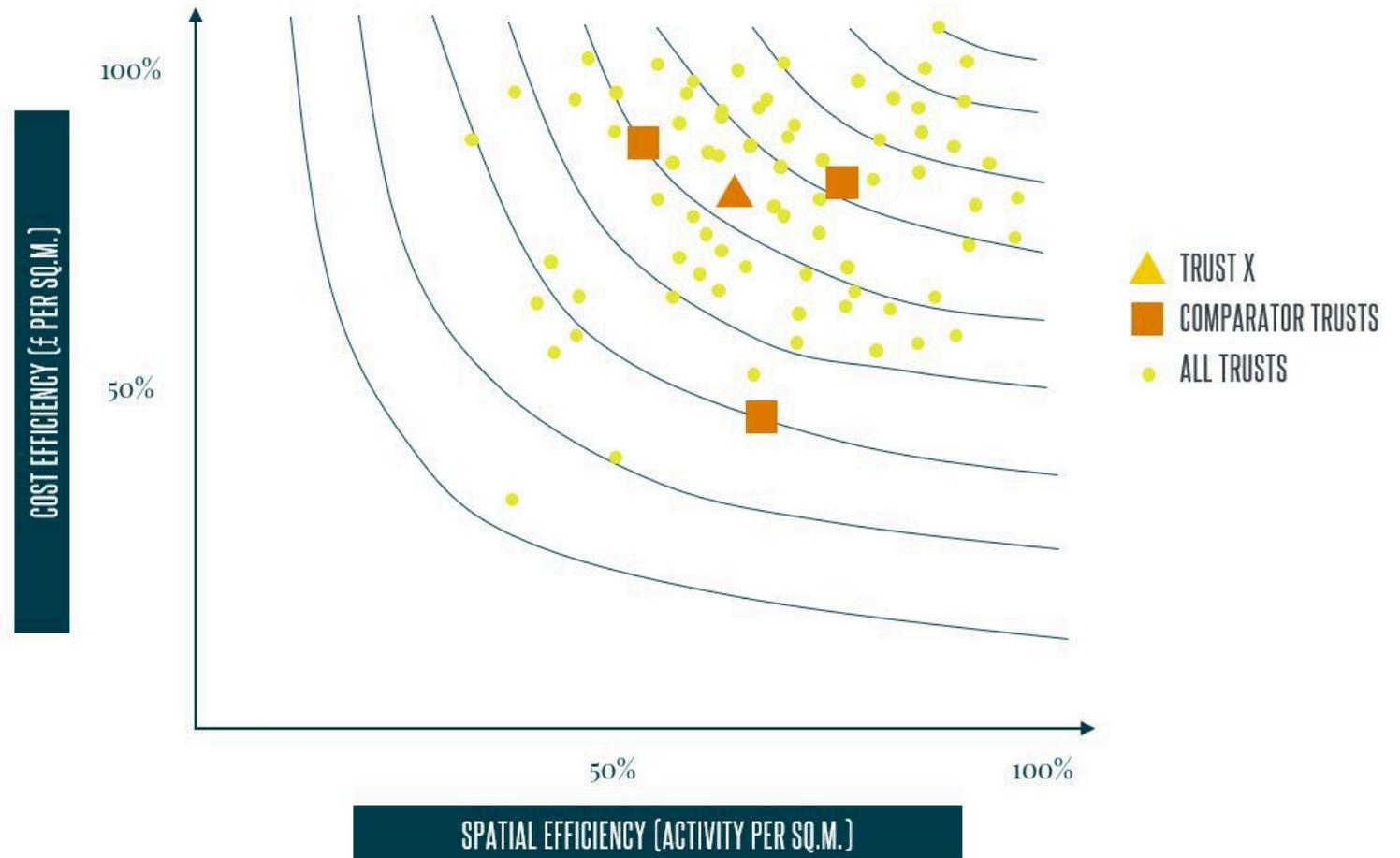
Example: Comparison across trusts of risk-adjusted backlog maintenance, controlling for floorspace



Source: Frontier Economics

At the FBC stage the analysis could be improved further. We could use statistical techniques to benchmark across a range of efficiency measures, controlling for trusts' differing constraints and working environments, to estimate how close the trust is to the efficiency frontier.

Example: Analysis of distance to the efficiency frontier (at top right) across two dimensions of efficiency



Source: Frontier Economics



GOLDEN RULE #4

Consider wider economic benefits

IN DISCUSSING ABOVE THE PREPARATION OF A BUSINESS CASE, WE MADE THE POINT THAT ONE OF THE MAIN DIFFERENCES BETWEEN THE FINANCIAL AND ECONOMIC CASES IS THEIR TREATMENT OF A PROPOSED INVESTMENT'S WIDER BENEFITS.

Clearly, in the first instance these accrue to the health sector. For example, new surgical premises can lead to a reduction not just in

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broader



cataracts but also in falls and hip replacements thanks to better vision. But the positive economic and social outcomes are much broader – a healthier and happier older population able to work longer, travel, take better care of family and friends, etc.

How improved individual wellbeing adds up at a local, regional or national level (e.g. the impact on inequality, growth, etc) is another important consideration.

As noted above, picking a few of these wider benefits, carefully quantifying them and providing clear evidence of the causal link to the proposed investment helps to distinguish a solid business case from one that will rise to the top of the list.

WHICH OF THE FOLLOWING WIDER ECONOMIC BENEFITS DO YOU THINK IS MOST IMPORTANT IN YOUR AREA?

- Reducing inequalities
- Reducing greenhouse gasses
- Raising local economic growth
- Improving community cohesion

POST ANSWER

GOLDEN RULE #5

Ensure consistency with policy context
and priorities

BUILDING ON GOLDEN RULE #4, THE BUSINESS CASE AND CORE BENEFITS EXPECTED FROM A PROJECT NEED TO BE FRAMED IN A WAY THAT ADVANCES CURRENT CENTRAL POLICY PRIORITIES.

In the NHS right now, there are arguably two: the shift to population- and system-based healthcare services and the response to COVID-19. Understanding how the proposed investments promote those priorities will be important to the success

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of the current HIP1 and HIP2 business cases.

The shift to population- and system-based services means that business cases can no longer look at new investments in isolation. They will need to demonstrate how the proposed projects fit into wider plans for the local healthcare system. The costs and benefits for the trust making the immediate investment must be weighed alongside the spillover effects on all other local and regional healthcare providers. This assessment needs to be built into the SOC, the stakeholder engagement process and the models designed to capture costs and benefits.

COVID-19 will place increased emphasis on several dimensions of business cases: whether the proposed investment can be adapted flexibly to rapid changes in health needs; its impact on the ‘security of supply’ of health services, including the ability of staff to work effectively in emergencies; and the degree to which the project helps

address relevant local aspects of health inequality.

Clarity over where the investment fits into policy objectives at the SOC stage provides a strategic rationale that guides the rest of the case.

DO YOU THINK THAT HIP1 AND HIP2 WILL MEET THE EXPECTATIONS OF THE POLICY MAKERS?

Yes

No

POST ANSWER



OTHER CONSIDERATIONS

WE ACKNOWLEDGE THAT FIVE GOLDEN RULES CANNOT COVER EVERYTHING THAT IS NEEDED FOR A BUSINESS CASE TO SUCCEED. MANY OTHER FACTORS – INCLUDING HOW LOCAL AND NATIONAL STAKEHOLDERS INTERACT – WILL BE IMPORTANT.

However, in our experience a business case that does not have solid analytical foundations is unlikely to flourish even if it is widely supported. A flimsy proposal is even less likely to succeed in the current environment when there are so many cases with strong local and national support.

There is a final reason for building a strong analytical case. It is actually one of the most important – but never mentioned – reasons for the Green Book, the Five Case Model and all the gateways and processes around business cases: in putting together a business case, the trust and its stakeholders learn more about how they create real public value. Understanding how you benefit your local community affects not just the specific investment under

consideration but the whole strategy of the institution. A serious business case not only illuminates one investment decision but acts as a catalyst for senior management to address broader strategic questions and improvements that may have nothing to do with the project at hand.

WHICH OF THESE ‘GOLDEN RULES’ IS THE MOST IMPORTANT?

- Rule #1
- Rule #2
- Rule #3
- Rule #4
- Rule #5

POST ANSWER

Frontier has worked closely with many trusts and other NHS organisations on these important issues.

On the next page you can meet the team and get in touch to discuss further >>>

MEET THE TEAM



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