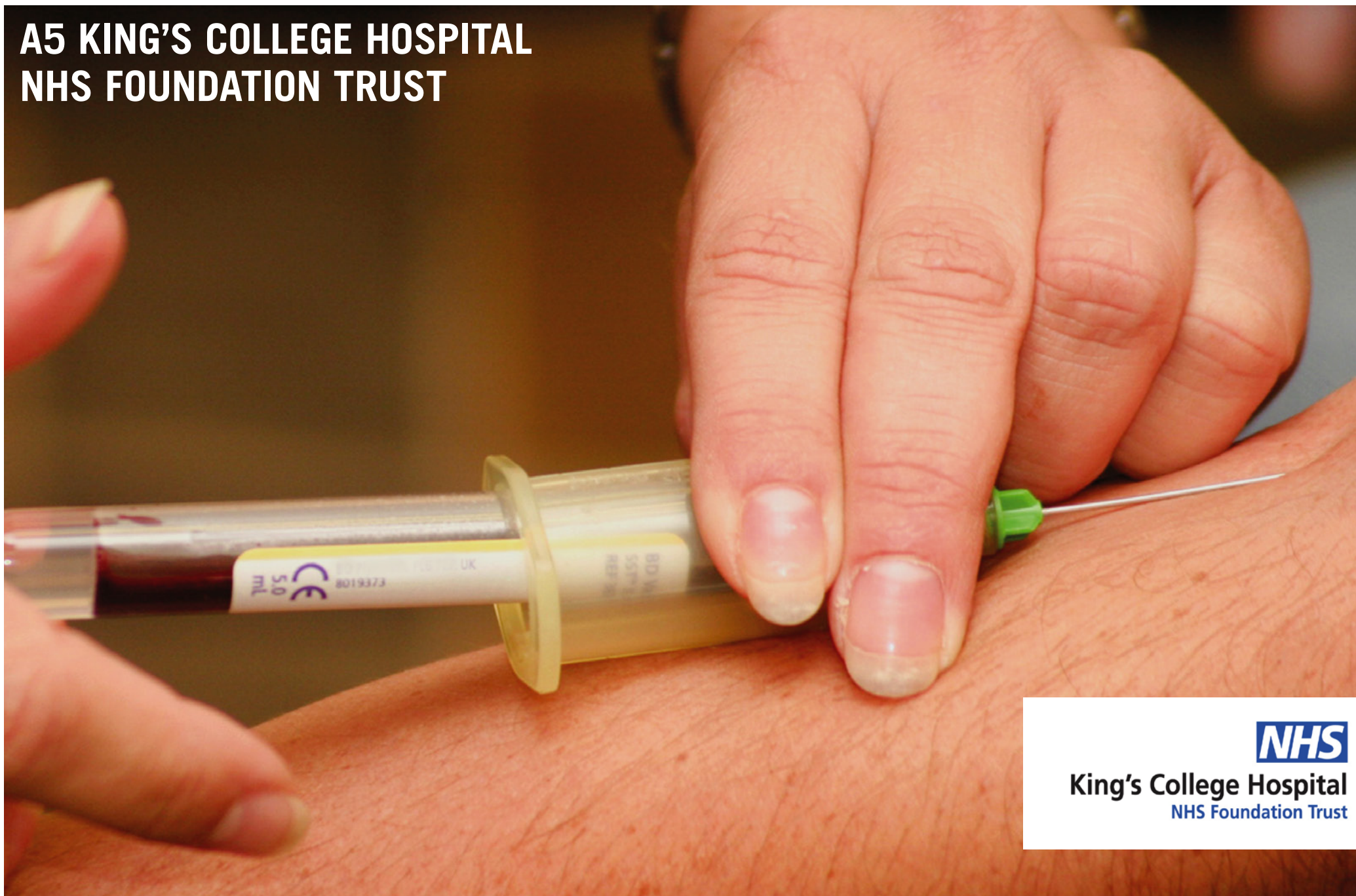


# A5 KING'S COLLEGE HOSPITAL NHS FOUNDATION TRUST



**NHS**  
King's College Hospital  
NHS Foundation Trust

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## A5 KING'S COLLEGE HOSPITAL NHS FOUNDATION TRUST CROWDFUNDING FOR A NEW MULTI-MILLION POUND INSTITUTE OF HAEMATOLOGY

“There is a need to develop funding opportunities and financing options for the public sector. There has to be an understanding that funding from central Government and local Government is going to be limited for the foreseeable future, but that investment is still desperately needed in many parts of the country for different things. My message is to ask Ministers to be open to the opportunity that crowdfunding will provide, leaving aside the politics of whether or not things ‘should’ be funded in that way, to allow local individuals to help shape their local communities.”

**JANE FRANCIS FORMERLY NHS KING'S  
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## CONTEXT

**A5.01** The Institute of Haematology is a project sponsored and operated by the partners of King's Health Partners (KHP), a leading academic health sciences centre where world-class research, education and clinical practice are brought together for the benefit of patients.

**A5.02** KHP exists to translate cutting-edge research and existing best practice into excellent patient care. KHP has significant strengths in haematology across clinical care, research and education and a history of clinical academic leadership successfully driving developments in these areas with internationally competitive haematological clinical services and research programmes.

**A5.03** KHP's vision is for an Institute of Haematology and a wider Clinical Academic Network that brings together the partner's strengths in clinical service, research, and education, to deliver exceptional outcomes for patients.

**A5.04** The Institute of Haematology will be hosted and delivered by King's at its Denmark Hill campus. It will be a single large building hosting laboratory, inpatient, outpatient, research and education uses operated by the KHP partners and third parties.

## AIMS AND OBJECTIVES

**A5.05** The proposed Institute of Haematology comes at a time of rising demand for high-quality healthcare across the country, and at a time of increasing capital constraints and affordability challenge within the NHS, impacting viability and limiting structuring and financing options.

**A5.06** Using crowdfunding for the Institute of Haematology has the potential to strengthen community linkages and to create a sense of genuine ownership between small investors and the Institute.

**A5.07** In terms of financial benefits, there is potential for crowdfunding to reduce cost of finance when combined with industry investment, philanthropic investment and partnership with the University.

**A5.08** It is expected that through community investment, enabled by crowdfunding, there will be a stronger alignment of interests between investors and the users of facilities, allowing for more flexibility in dealing with change over time.

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“I think there is a lot more public awareness, since the financial crisis in 2008, that local authorities and public sector bodies can ill afford to do things that they would like to do and there is more interest in the public to try and support and to help their local public sector bodies.”

**JANE FRANCIS FORMERLY NHS KING'S COLLEGE HOSPITAL**

**A5.09** Using crowdfunding to fund part of this multi-million pound project could attract good publicity if it all goes well, also potentially increasing charitable donations. Crowdfunding could also have a positive impact on the delivery of this project:

**A5.10** The possibility of bad publicity in the case of negative issues arising and/or failures will incentivise all parties to be on their best behaviour.

## PERCEPTIONS AND PRACTICALITIES OF CROWDFUNDING

**A5.11** The King's College Trust understands that crowdfunding has gained traction mainly thanks to new technologies and social media in the last couple of years. Peer-to-Peer lending platforms are now better known in the mainstream and there is a general desire to invest in things that are good for society.

**A5.12** Crowdfunding also promotes a more proactive approach to citizen engagement and participation by offering socially conscious investors the opportunity to invest into a project they believe in.

**A5.13** We do note limits to the active engagement of crowdfunders, which is not necessarily negative from the King's College Trust's point of view, e.g. the perception of involvement of the community into the crowdfunded projects versus their actual level of involvement.

**A5.14** In effect, the structure of the project, the governance, and the amount raised through crowdfunding will determine the level of influence crowdfunders can have on these sorts of projects. For the Trust, the perception of community involvement will have a positive impact through public relations.

**A5.15** There is no lack of financing sources for infrastructure projects and our research findings, facilitated by the team at the School of Sociology and Social Policy in Leeds, suggests that crowdfunding will not significantly lower the cost of finance.

**A5.16** The benefits crowdfunding brings are therefore mostly non-financial:

- It is hoped that through the community investment, there is a stronger alignment of interests between investors and users of facilities, allowing for more pragmatic and less expensive solutions in dealing with change over time;

- Another benefit crowdfunders could add to the project is a potential interest in re-investing their profits into the project, or in the community, if they are given the opportunity;

- Finally, crowdfunding adds a public relations element to the project. The innovative nature of the project structure will attract good publicity, possibly leading to more donations. In addition, it forces everyone to be on their best behaviour to avoid bad publicity.

## BARRIERS AND CHALLENGES

**A5.17** For the above benefits to materialise, early engagement with the Department of Health and Social Care (DHSC), NHS Improvement, and other KHP stakeholders is advised to enable general principles for use of crowdfunding and ultimately to seek a 'standard form' for procurements.

**A5.18** In addition, careful marketing and coordination needs to be deployed to ensure that fundraising benefits from the crowdfunding process rather than being adversely affected by it.

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“The question that I’ve been asked is: ‘What impact will the crowdfunding project have on our charitable arrangements?’. I think there has been a nervous myth at the moment that we might be taking money away from the charitable income that we would generate. But I think exploring the opportunities will actually open up wider funding opportunities rather than robbing one to pay the other.”

**JANE FRANCIS FORMERLY NHS KING'S COLLEGE HOSPITAL**

## **A5.19 KHP FACES THE FOLLOWING CHALLENGES IN DELIVERING THE INSTITUTE OF HAEMATOLOGY:**

- The NHS faces capital constraints, and consequently any finance provided, whether crowdfunded or not, needs to avoid capital budget, leading to particular contractual structures being needed. In particular linking the finance into a bundled contract with a construction contract and maintenance contract, i.e. DBFM contracts that need to go through public procurement in an NHS Trust setting;
- As a result the crowdfunding would be sourced by the winning bidder not the Trust (the Trust is not the borrower). This means that there are complexities as to how much control the Trust can exert over the use of crowdfunding;

- Inter-creditor issues with other lenders, given the financing requirement for this project, far exceeds the amount that crowdfunding can raise at a single point in time;
- This could be overcome by central Government acting as an underwriter of future debt raises to allow larger amount of crowdfunding contribution phased over a construction period.

“If the public body was looking to use crowdfunding it would have to pass the ‘value for money’ test. I think that the rules around PFI are quite constrained, and they can be quite complicated in terms of ownership and bond holder structures, those sorts of things. So I think if there was a more straightforward model for crowdfunding, even slightly constrained in terms of the returns on investment, then I think there would be a ‘value for money’ case and it would be more straightforward.”

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## **MAIN FINDINGS**

**A5.20** KHP has concluded that given the complexity of the programme it will not actively prioritise the inclusion of a crowdfunding element within the delivery model at this time, but that it may revisit this in the future and will continue to liaise with its advisors to monitor opportunities involving crowdfunding.

**A5.21** The scale and complexity considerations with the Institute project suggest crowdfunding of social infrastructure should be focused on smaller and less complex projects than the Institute of Haematology in the first instance.

**A5.22** If its use for the Institute is desirable, however, then its application can be done via a single tranche or a ring fenced element within a larger financing structure.

**A5.23** In sum, the Trust has considered the use of crowdfunding for the Institute of Haematology but will not be pursuing it at this time.

**A5.24** The primary reason for this is that the KPMG analysis facilitated by the *Financing for Society* project shows that the affordability of the Institute of Haematology for King's College Trust and KHP partners is very tight, with net financial contributions from the Institute forecast only just to cover the cost of debt service associated with its construction.

**A5.25** The view that crowdfunding would not offer any material reduction in financing cost from plentiful supplies of private finance and institutional capital means that community involvement becomes a “nice to have” rather than a core benefit.

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**A5.26** The Trust would first like to pursue securing as much charitable and industry donations towards the project as possible, which will drive down the overall cost of finance.

**A5.27** The constraints in this sector do not relate to the availability of finance, nor to the cost of finance, since the NHS is viewed as an undoubtedly strong covenant and could access financing at competitive rates from a wide range of sources.

**A5.28** Rather, the constraints relate to limitations imposed on the ability of NHS organisations to borrow, linked to the international definition of national debt, and a clear objective in Government policy to control levels of public sector borrowing.

**A5.29** The DBFM model enables the delivery of projects by a non-public sector partner, which then makes a facility available to NHS clients. For major schemes, however, considerations to the inclusion of crowdfunding within procurement of such a transaction should be investigated in future research.

**A5.30** Scale was a key issue for the Trust to consider. In order to satisfy large funding requirements with crowdfunding, multiple fundraises would be necessary, split over time. Since the outcome of subsequent fundraises would be uncertain at the time of construction commencement, contingency financing would need to be in place should future fundraising not be successful in order for construction to commence.

**A5.31** For pilot schemes therefore, it may be prudent to limit the use of crowdfunding to an amount considered viable (on a project specific basis) for a single fundraising event, with any additional requirement provided from alternative sources.

**A5.32** Identification of smaller projects, or self-contained elements within the Institute, which could be ring fenced and to which crowdfunding could be applied may enable an early proof of concept to be delivered more quickly than the Institute of Haematology timescales would permit.

**A5.33** Complexity was also a key consideration. A complex scheme with multiple sponsors, multiple end-users, and multiple uses, with the added complexity of a new and novel form of financing, makes highly complex schemes challenging to get off the ground.

**“I think a central repository [of case studies] and sharing of information is essential. There is within the NHS various groups that share information and experience, and highlight challenges and problems, and how to resolve them as well [...] The NHS may well be making the same decisions, or the same mistakes, that perhaps some other department might have resolved.”**

**JANE FRANCIS FORMERLY NHS KING'S  
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## LOOKING AHEAD AND NEXT STEPS

**A5.34** The next steps in the process are:

- Early engagement with DHSC, NHS Improvement, and other KHP stakeholders;
- Further engagement and market soundings with established funders, sponsors and other platforms;
- Identification of smaller projects or self-contained elements within the Institute of Haematology that could be ring fenced and to which crowdfunding could be applied may enable an early proof of concept to be delivered more quickly than the Institute timescales would permit.

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## RECOMMENDATIONS

“I think there’s a need to balance the commercial expertise that you would find in the private sector with commercial expertise in Government. So I would expect there to be support from Treasury and other financial departments of the Government to support King’s in understanding what the options are. But I would also expect there to be a need to look commercially outside of Government at what the private sector is doing.”

**JANE FRANCIS FORMERLY NHS KING'S COLLEGE HOSPITAL**

**A5.35** UK Government could further facilitate the use of community investment through acting as an underwriter, allowing crowdfunding to be raised in tranches over the construction of a project without risk to the procuring authority of finance not being forthcoming.

**A5.36** This would allow significantly larger projects to be crowdfunded without long term impact on the public sector balance sheet and should be explored further.

**A5.37** In addition, Government should consider what their approach will be on how to use crowdfunding within a public procurement process, focussing on public procurement of DBFM type structures.

**A5.38** The use of crowdfunding in procurements have the potential to be used more broadly in social infrastructure.