

PRIVATE HEALTHCARE REMITTAL

Summary of hearing with Cleveland Clinic on 15 April 2016

Introduction

1. Cleveland Clinic said that in the hearing it would try to address the key issues informing its entry to the market and the position with regard to 33 Grosvenor Place.

New entry

2. Cleveland Clinic said that it was a complicated entry to the market. The leasehold on 33 Grosvenor Place was obtained in October 2015. The main complexity related to the conversion from its current use as a commercial office building to that of a hospital. In this context, Cleveland Clinic said that there were four key steps in that conversion; three of them tied to the Grosvenor Estate and one tied to the Westminster City Council. Of those relating to the Grosvenor Estate, the first was obtaining vacant possession of the building, the second was obtaining approval for design modifications to the structure and the third was obtaining a common understanding of the gearing of the ground lease that supports the building and the relationship with the Grosvenor Estate. The fourth issue, relating to the Westminster City Council, was obtaining planning consent. [✂]
3. Cleveland Clinic said that its original plan was to submit its application for planning consent on 31 March 2016. Cleveland Clinic confirmed that it had not yet submitted its planning application or obtained any of the necessary consents from the Grosvenor Estate.
4. Cleveland Clinic then provided more detail about the current position in relation to each of the consents.
5. With regard to vacant possession, all of the tenants in the building had been approached to vacate the building by the end of 2016. There were four protected tenants in the building that were protected under the Landlord and Tenant Act 1954. The current tenants were all commercial businesses. Cleveland Clinic said that negotiations had not yet been finalised. [✂]
6. With regard to obtaining approval for design modifications to the structure, Cleveland Clinic said that it had hired a local architecture firm with a track

record of success in obtaining planning consents for complex projects and that was also familiar with both Grosvenor Estates and Westminster City Council. Cleveland Clinic said that it had taken its design to a point where it was ready to submit its planning application to Westminster City Council. [✂]

7. [✂] It was noted that Grosvenor would typically be more used to granting leases of a shorter duration for residential or commercial use. Cleveland Clinic explained that this was a particularly complex negotiation because there were no historical examples or benchmarks to refer to (Cleveland Clinic noted that there had not been any major, significant private hospital entry into the central London market over the last 30 years). While establishing the value for office or residential use was easy to assess, conversion to a hospital was not.
8. Cleveland Clinic said that another approach to valuing a hospital would be to look at a reasonably efficient operator and assess what profit they make out of that business model and use this to proxy the land value. However, hospitals run on different business models and, therefore, identifying what a typical, efficient hospital operator is would be difficult.
9. [✂]
10. Cleveland Clinic said that 33 Grosvenor Place was not a listed building. However, it was within a conservation area. There were a lot of parties that may have a view on what happens to the exterior. [✂] In making its planning application, Westminster City Council would want to know that Cleveland Clinic had held public exhibitions detailing its plans for the building.

Service provision

11. Cleveland Clinic explained that it had a tripartite mission of research, education and clinical care and that this impacted on the way it made investments, the duration of time it was there, how it staffed that facility and how it expected to operate.
12. Cleveland Clinic said it expected to have some fully employed doctors and some doctors that are employed part-time when they are not working in their NHS practices. It said this hybrid model was typical of its operations in the USA. There were only two of its facilities in the USA where physicians were exclusively employed (its main campus in Cleveland and Florida). Cleveland Clinic said it would provide high-end complex, tertiary partner care for people with complicated problems at 33 Grosvenor Place.
13. The four main services Cleveland Clinic would provide at 33 Grosvenor Place would be: heart and vascular care, neurological care, digestive disease and orthopaedics. Cleveland Clinic confirmed that it was not intending to provide

oncology services and that, while it could re-visit that decision, it would be a number of years or decades before it would do so. Cleveland Clinic added that it would be extraordinarily difficult to be able to provide radiation therapy on site, particularly post operation. It also said that things like positive and negative pressure rooms for patients who need bone marrow transplants and the retrofitting of the pharmacy for provision of chemotherapy would be a very high barrier to entry.

14. Cleveland Clinic said, in relation to its plan to enter the market, that one of its assumptions was [✂]
15. Cleveland Clinic would be very focused on efficiency, with high-technology facilities. Its prices, as the new entrant to the market, would be lower than the larger players in the market would be able to demand.
16. Cleveland Clinic said that it planned to provide some 200 beds (100 to start with) and that it would not be providing the full range of services. As such, its effectiveness as a counterbalance (to HCA) would be limited. Cleveland Clinic said that, looking ahead to 2022-2024 when it had entered the market and ramped up its services, it would be smaller than The London Clinic. Cleveland Clinic said that its entry would have an effect in the market, both in quality and otherwise (ie price), due to the delivery of excellent care. However, it also expected that HCA would expand aggressively during this period of time, and that Cleveland Clinic would be a relatively small player. While Cleveland Clinic was not afraid of competition, it would be worried about others having the ability (based on their size and scale) to make it difficult to compete in the marketplace.
17. [✂]
18. Cleveland Clinic expected that the majority of its patients would be insured patients. Cleveland Clinic would also treat overseas patients. Its current planning assumptions were that these would constitute about 5% of its patients. It expected to serve the ex-pat community living in London that were aware of Cleveland Clinic's very strong international brand.

Risks to entry

19. Cleveland Clinic said that the largest risk to entry to the market was if doctors were not able to choose to move fluidly between facilities. In this context, Cleveland Clinic was concerned that its competitors would try to put models in place that would align physicians, particularly those looking for access to ITU beds, with their own facilities. This would make it difficult to develop relationships with those physicians and also restrict the patient flow.

Cleveland Clinic indicated that it believed this was already happening. Cleveland Clinic said that it expected to source 90% of its physicians and consultants from the UK.

20. Cleveland Clinic also said that a key planning assumption that had changed was that HCA would be restrained in the marketplace from its growth appetite of protecting its market share (ie that the CMA would impose a divestment remedy and/or constraints on further HCA expansion). Cleveland Clinic said that it expected HCA to aggressively expand over the period during which it would be establishing itself in the market.
21. [✂]
22. Cleveland Clinic said that it had had preliminary conversations with the private medical insurers and that the response to these had been very positive.
23. Cleveland Clinic is a not-for-profit organisation accountable to its board of directors. Cleveland Clinic noted that the London market was a costly market to enter. In this context, the board of directors would be considering the impact on its overall financial operations of the ongoing costs of entry (discussed above) and the relevant risks on an ongoing basis. [✂]