The Private Finance Initiative – the problem or the solution?

NHS hospitals have always been built, and often also designed, by private companies. In 1993 the Conservatives introduced the PFI policy, which was then endorsed by Labour when they came to power. It was seen as a means of both reducing public sector borrowing and of achieving better value for money for individual schemes.

WHAT IS THE PFI?

The aim of the Private Finance Initiative is to encourage private investment in major public building projects.

Under the PFI, building projects that would previously have relied on public money, are financed by the private sector. It largely replaces the traditional method, which involves the use of public funds to build hospitals. The NHS Trust concerned draws up the detailed specifications for the hospital and a private sector company builds the hospital according to these specifications. The contract is simply for the construction of the building and no support services such as cleaning, catering and maintenance are involved. Once the hospital is built, the private sector's involvement in it ceases. The private sector company is paid through a number of lump sums, which it receives during the course of the construction period.

The NHS Trust does not set out to acquire an asset (the hospital) but to purchase a service. And it does not contract with a single firm but with a consortium of firms, including a construction firm, a bank or financier, a facilities management contractor and one or more providers of non-clinical services, and it does so for a period of 30 years. This is because the typical PFI contract is a Design, Build, Finance and Operate (DBFO) contract – the private sector designs the hospital, builds it, obtains the funding for the construction and operates some of the non-clinical support services. The private sector is paid an annual fee by the NHS Trust throughout the contract period, which is linked to maintaining set performance and quality standards.

The first new PFI hospital was opened by the Prime Minister in Carlisle in June 2000. A further 18 schemes are currently either under construction or being fitted-out, and 15 more schemes have been given Government approval. Most recently, ministers announced that a new network of 'elective care centers' would be established to provide routine operations way from other hospital services – and many of these are likely to be built through the PFI. All in all, by 2008 the NHS will have projected £4.2 billion worth of new investments through the PFI.

In addition, a number of schemes have been approved which will be financed in the traditional way. Indeed, the bulk of NHS investment is still financed publicly. Together, these amount to a substantial increase in the number of major hospital schemes being built.

IS THE PFI BETTER THAN PUBLIC FUNDING

The appeal of PFI for the government is that the cost of the hospital does not appear as an immediate lump sum payment in public expenditure. The Government has claimed that all hospitals built through the PFI offer better value for money than the publicly financed option. The evidence for this is thin.

The Government's own figures suggest that the advantages of using the PFI are small and in nearly all cases depend on unproven estimates of the value of transferring certain risks, such as higher than expected maintenance costs, to the private sector.

The Tories are sticking to the line that the NHS will remain free at the point of use. Privately delivered care in privately owned, managed and operated hospitals cannot conceivably be classified as a public service. Virtually all the principles of the NHS will have been eroded. Furthermore, "free" care in a privately owned and operated hospital, competing for appointments and beds with private patients, is unlikely to be sustainable. The longer-term effect of PFI projects will mean that the NHS will have been privatized and NHS Trust marginalised.

SOME OF THE PROBLEMS ASSOCIATED WITH PFI's

Experience so far suggests that the costs of the PFI to taxpayers and patients are likely to be high. The costs of the schemes are rising dramatically compared to original plans. The average increase in estimated cost from the outline business case is 72%.

The new hospitals generally contain 20-40 % fewer beds than those they replace. Beds in Hereford and North Durham are projected to fall by around 40%. This general trend is in line with long-term developments within hospitals, i.e. shorter lengths of stay and a shift from inpatient to day surgery.

Over-budget PFI hospitals are being bailed out by taking money from community services. West Kent Health Authority cut funding allocated to child health, physical disability and mental health services after endorsing the local PFI project.

Most PFI projects include both private and public use of equipment and facilities. Whenever a PFI project has financial difficulties, the pressure will be on to increase income generation from private patients and users. Most PFI projects are including income-generating proposals ranging from car parking, hotel and shopping facilities with new or higher charges.

The costs of PFI contract negotiation have been estimated to be seven times higher than for traditional tendering. Bromley Hospitals Trust spent £3m on PFI negotiations.

There has been considerable criticism of the design of hospitals now being built. There is little evidence of innovation and, according to the Government's own architectural adviser, there is little evidence of architectural merit either.

Karen Jennings, UNISON'S National Secretary for Health, said "Contrary to what the Government says, PFI will not add a single extra bed, or recruit one more nurse or doctor, than hospital projects delivered by traditional public sector build.

"As for making the money go further, yes it will – straight into the pockets of overpaid management consultants, lawyers and accountants, instead of being reinvested in the NHS and patient care. Private contractors will be rubbing their hands together at the thought of the huge profits to be made out of these schemes. Large chunks of this £2.3 billion investment will simply disappear in share dividends."

"The NHS is crying out for extra capacity but we are deeply disappointed that, by tying itself to the private finance initiative, the government are lining the pockets of big businesses when this money should go directly to patients and the staff who care for them"

The main weaknesses of the PFI, however, lie in service planning. The National Bed Inquiry report emphasised that hospitals need to be planned with greater regard to community services. There are uncertainties about the proper role of hospitals in the future and about how they link together. For these reasons, it does not make sense to plan the development of one hospital in isolation.

The Government has made steps towards recognising this. In a recent statement, the Secretary of State for Health required all hospital plans to be made with reference to other health services in each locality.

Given the state of many hospital buildings and the relatively low level of investment in recent years, there is a strong case for an expansion of hospital building.

WHAT WILL A PFI HOSPITAL BE LIKE?

Most of the staff – certainly the domestics, catering, porters, security and maintenance staff – will be employed by a private contractor. Quite possibly they will be joined by the receptionists, secretaries and laboratory technicians. In some hospitals, you won't meet an NHS employee until you get to the ward. It will probably have a private wing and maybe even a separate private hospital next to it. If it is an edition to a larger hospital, the consortium may well have taken over the running of the old part too. Equipment and facilities will be shared between NHS and private patients. On the evidence of PFI schemes so far, new PFI hospitals will have fewer beds than the services they replace.

The medical care will remain free, for now, but even within the public part of the hospital there will be a growing introduction of charges, perhaps presented as optional extras. If you want better food or more privacy then you have to pay for it.

COULD THE SYSTEM BE MADE TO WORK MORE EFFECTIVELY

There is no evidence to suggest that the PFI is wrong in itself. But it is important to recognize that the way the NHS plans and builds its facilities needs to change before it is left with too many buildings that become outdated while still on the PFI contracts. In particular, there should be:

A more coherent planning process for NHS facilities, balancing building investments with services in people's homes and elsewhere.

A more creative approach to new NHS buildings, for example by opening them out to design competitions and greater involvement of local people in planning services.

Lower construction costs (but private contractors already build the facilities) or they build to "cheaper" designs i.e. lower quality buildings with a shorter lifespan.

A more efficient way to operate facilities – this means job cuts and "flexibility of labour"

Squeezing additional money from income generation – this means increasing private use of facilities and services and / or increased user charges.

If these are not achieved, the only other alternative is a squeeze on jobs, terms and conditions combined with higher user charges and increased private use.

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FUTURE PFI PROJECTS

The next thirteen PFI projects are listed below. The tenders for the 13 schemes are expected to be advertised in the OJEC (Official Journal of the European Communities) within the next six months and confirm the Government's commitment in the NHS Plan to work in partnership with the private sector to deliver new hospitals on time and on budget.

DETAILS OF THE SCHEMES:

St Helen's and Knowsley - £288m:

Involving four NHS Trusts, this scheme will include four primary care resource centers, intermediate care beds across a range of care settings, a hospital diagnostic and treatment centre, and emergency and acute care. The scheme will increase the overall bed numbers by 197, clinical staff numbers will increase by 352.

Wakefield - £200m:

The scheme, which is being taken forward by three NHS Trusts, involves the development of a new acute centre at Pinderfields Hospital, with integral diagnostic and treatment centre and on-site rehabilitation facilities. A separate diagnostic and treatment centre is to be built at Pontefract General Infirmary, with accident and emergency, midwife-led delivery, and rehabilitation facilities. There will also be developments to the primary care infrastructure of Wakefield and District. The scheme will increase the overall bed numbers by 6 and clinical staff numbers will increase by 284.

North Staffordshire - £254m:

This scheme is being progressed by North Staffordshire Hospitals NHS Trust and North Stoke Primary Care Trust and principally involves a combination of new build – including DTC – and refurbishment for a new acute hospital developed around the existing City General Site. A community hospital development worth approximately £20m in North Stoke will deliver intermediate care and diagnostic facilities. The scheme will increase the overall bed numbers by 155 and clinical staff numbers.

Peterborough - £250m:

The scheme, which is being taken forward by four NHS Trusts in the locality, involves the reconfiguration of health services to provide expanded primary and intermediate care services. Access will improve thanks to increased capacity and provision of community based intermediate care beds, GP and nurse specialists and primary care-based diagnostic and treatment services. There is also development of an "Acute Hub", including a high-tech diagnostic and treatment centre, by combining three sites on to one, with reprovision of existing Mental Health facilities. The scheme will increase the overall bed numbers by 144 and clinical staff will increase by over 200.

North Middlesex - £74m:

The scheme, being led by North Middlesex University Hospital NHS Trust, involves the reconfiguration of acute services, including a Diagnostic and Treatment Centre and an Emergency Care Centre incorporating accident and emergency and an emergency assessment unit. Clinical staff numbers will remain about the same, as it will maintain the current number of beds at 482.

Paddington - £327m:

The Paddington Health Campus is a partnership between the Royal Brompton & Harefield and St Mary's hospitals, together with Imperial College. The Campus brings together on one integrated site major improvements in acute care for the local community, together with services from two of the country's leading specialist heart and lung hospitals and a major centre for specialist children's services. It builds on Imperial College's substantial teaching and research programmes. It will replace the outdated buildings with state of the art facilities and its wide range of services will have excellent links with improved primary care facilities and with the clinical network across north-west London. The campus will contribute to the wider regeneration of Paddington now underway. The scheme will increase bed numbers by 50 and clinical staff numbers will definitely increase.

Leicester - £363m:

The scheme, being taken forward by University Hospitals of Leicester NHS Trust, involves the reconfiguration of three acute hospitals in Leicester to streamline and develop services within two emergency acute hospitals and a centre for planned care and rehabilitation. The scheme will increase the overall bed numbers by 375 and clinical staff by 1920.

Oxford - £60m:

The existing facilities are not sufficiently adequate to deliver the Cancer Plan. The scheme, which is being led by Oxford John Radcliffe Hospitals NHS Trust, is to develop an integrated cancer centre on the Churchill Hospital site for outpatient, chemotherapy, radiotherapy and inpatient treatment fro clinical and medical oncology, surgery, clinical haematology and medical physics. The scheme will also create three additional operating theatres and six linear accelerator sites. The scheme will increase the overall bed numbers by 128 and clinical staff will increase by 180.

Chelmsford - £110m:

This scheme involves the centralization and modernization of acute services from St John's Hospital onto the Broomfield site. This will bring a large isolated maternity unit onto the main site, significantly reducing the clinical risk and inefficiencies posed by split site working. This includes a proposal for a dedicated Diagnostic and Treatment Centre, which will enable the trust to meet its day case targets. The scheme will increase the overall bed numbers by 100 and clinical staff numbers will increase by 240.

Hull - £53m:

The scheme is being taken forward by Hull and East Yorkshire Hospitals NHS Trust and involves the development of a new integrated oncology and clinical haematology unit at Castle Hill Hospital. This will replace the isolated radiotherapy facilities and in-patient oncology wards at the Princess Royal Hospital, from which all other acute in-patient services are being withdrawn under separate reconfiguration schemes now completed or underway. The relocation to Castle Hill Hospital will bring together oncology services and the main cancer surgical specialities, so allowing best use of specialist staff and physical resources to meet with the requirements for the continuing development of the Hull Cancer Centre. In addition the trust has recently gained medical school training status and will be developing academic facilities accordingly. The scheme will increase the overall bed numbers by 38 and the clinical staff numbers will increase by 118.

Walsall - £44m:

The scheme involves building a new Children's unit, DTC and Pathology Department on the existing acute hospital site. The scheme will increase beds by 11 and clinical staff numbers will increase by 240.

Whipps Cross - £313m:

This scheme, being developed by Whipps Cross University Hospital NHS Trust, involves the upgrading of older, unsuitable buildings, and the building of additional facilities. The existing outmoded accommodation has Nightingale wards and mixed sex accommodation which require upgrading. The scheme will increase the overall bed numbers by 62 and staff numbers will increase by 515.

Salford - £175m:

The scheme, being led by Salford Royal Hospitals NHS Trust and Salford Primary Care NHS Trust, is a combination of new build and refurbishment at Hope Hospital, as well as five new primary care centers. The overall bed numbers across Salford will increase by 215 and clinical staff numbers will increase by 353.