The Private Finance Initiative (PFI) and the NHS

The BMA is committed to an NHS funded from general taxation providing care free at the point of delivery and advancing the social goal of providing healthcare fairly and transparently. The BMA wishes to reverse the current government's policy, and that of the main opposition parties, which actively promotes a market approach in the NHS, with its emphasis on competition and private sector involvement at the expense of co-operation and a public service ethos.

What is the Private Finance Intitiative?

Though a scheme created up by the Conservatives in the 1990s and heavily criticised by the Labour Opposition of the time, the Private Finance Inititiative (PFI) was seized upon by New Labour as the preferred means to build new schools, hospitals and motorways. The private sector is contracted to provide this new infrastructure and then leases the fruits of its labour back to the state for 25 or 30 years.

For the NHS this has meant that since 1997 almost 90% of contracts signed for new hospitals have come through PFI, totalling around £12bn, with the private sector designing, building, financing and operating new hospitals. In return the relevant NHS trust pays an annual fee to cover the capital cost, including the cost of borrowing, and any non-clinical services that are provided by the private consortium.

Underpinning the Government's unerring faith in the PFI is the assumption that private companies are more efficient than the state - *ergo* PFI is cheaper than public procurement. Perhaps more importantly, PFI contracts provided a means to take debt off the Government's balance sheet and thus help significantly in efforts to meet a key fiscal rule established by the Treasury under Gordon Brown's leadership. This states that public sector borrowing should not exceed 40% of GDP. But since its introduction and, now more than ever, the PFI looks like a busted flush.

Why is the Private Finance Initiative bad news for the NHS?

The argument that the PFI provides value for money when compared to publicly-procured alternatives and that it works to transfer risk and associated costs to the private sector are deeply flawed.

The cost of the protracted PFI tendering process must be met by NHS trusts and itself entails significant expense. Research suggests that the first 15 NHS trusts to take on PFI projects spent £45 million on the requisite advisors and lawyers needed to complete the deals, amounting to 4% of their capital value.[1] Cancelled projects are a further litany of PFI and add to its drain on the public purse. The University Hospitals of Leicester Trust scrapped its PFI scheme in the planning stages and with it took £23 million of public money that had been wasted on initial preparations. Moreover, even tinkering with operational PFI contracts comes at a huge expense to the taxpayer and, ultimately, the NHS. The Commons Public Accounts Committee found that such changes cost £180 million in 2006 alone.[2]

As for the ability of the PFI to transfer risk away from the public sector, research has found that hospital trusts are often forced to pay a 'risk premium' – conservatively estimated at 30% of the total construction costs – to ensure projects run to time and budget.[3] So, while it is true that the private sector absorbs the cost of over-runs etc, additional charges are written into the contracts to account for this. Again, the private sector benefits at the expense of the public sector.

Whilst the private sector profits from PFI the NHS is left with crippling debts.

PFI is not value for money

Of more concern is affordability over the long term. This is starkly demonstrated in the context of the Payment by Results (PbR) system. PbR tariffs include an element for capital costs based on 5.8% of trust income. Yet it is suggested that the capital costs of trusts with PFI schemes average 8.3% with some rising to 10.2%[4] thus creating significant shortfalls.

Therefore, rather than providing a financial panacea, PFI is exacerbating financial difficulties for many trusts and resulting in the need for cuts and service reduction. The current economic climate will see a further squeeze on NHS funding and even greater pressure to look for ways to reduce spending and balance the books. Consequently, PFI will be a millstone round the neck of many NHS trusts - not good for the NHS and not good for patients.

The concern that services and patients will be disadvantaged by association with PFI is also founded on the fact that PFI contracts bind hospitals into a pattern of service provision which could prove inappropriate for the future needs of the local health economy. Trusts may be left contractually obliged to pay considerable sums of taxpayers' money for a building no longer fit for purpose for the needs of its population.

The future's not bright for PFI

The perversities of PFI have become more acute over the past few months. The move last month to International Finance Reporting Standards completely undermines the Treasury's financial sleight of hand and PFI's ability to keep public liabilities off the balance sheet – though the Government's fiscal rules mentioned above have already been shot to pieces as a result of bailing out the banks. Moreover, the economic downturn and banking crisis has thrown the scheme into further disrepute whilst highlighting more generally the failure of the market. Two of the biggest lenders in terms lending for PFI schemes have been RBS and HBOS, now propped up with taxpayers' money to the tune of several tens of billions of pounds.

Now, in response to this downturn the Government has injected £4bn in extra capital to ensure that some £13bn of PFI schemes in the pipeline will go ahead. As a result, public finances are bailing out the PFI - a dark irony given PFI's introduction as a means to solve the problem of insufficient public finance for public infrastructure programmes. In effect, the government intends to lend taxpayers' money to banks in which the taxpayers is already a majority stakeholder (including those already involved in PFI schemes) at preferential rates. The banks will then charge the taxpayer, via the PFI contracts taken by its own consortia, higher than average rates of interest for the use of taxpayers' own finances!

Time to throw out PFI

The PFI provides a salutary example of why recent Government dogma concerning the benefits of private sector involvement and a market approach to public sector reform should not be accepted uncritically. The espoused advantages of PFI have no clear evidence base and experience suggests that PFI will deliver poor value for money for both the NHS and the taxpayer. For patients, the instability and financial pressures caused by PFI may threaten their local health economies, undermining integration and imposing swinging financial burdens on already stretched NHS. With the government having to reassess its economic policy in light of the failures of the market, perhaps now is the right time to put a stop to the PFI's drain on the public purse.

The BMA urges the Government to restore the NHS to a service based on:

- **public provision, not private ownership**
- **co-operation, not competition**
- **integration, not fragmentation**
- **public service, not private profits**

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1 Unison, http://www.unison.org.uk/pfi/caseagainst.asp - accessed October 2008

2 Committee of Public Accounts, " HM Treasury: Making Changes in Operational PFI projects" (September 2008) http://www.publications.parliament.uk/pa/cm200708/cmselect/cmpubacc/332/33202.htm

3 Edwards P, Shaoul J, Stafford A, et al ACCA *Evaluating the operation of PFI in roads and hospitals* 2004) http://www.accaglobal.com/publicinterest/activities/research/reports/accountability/rr-084 Executive summary (accessed October 2008)

4 Hellowell M & Pollock AM, *Private finance, public deficits : a report on the cost of PFI and its impact on health services in England* (CIPHP, 2007) http://www.health.ed.ac.uk/CIPHP/Documents/CIPHP_2007_PrivateFinancePublicDeficits_Hellowell.pdf