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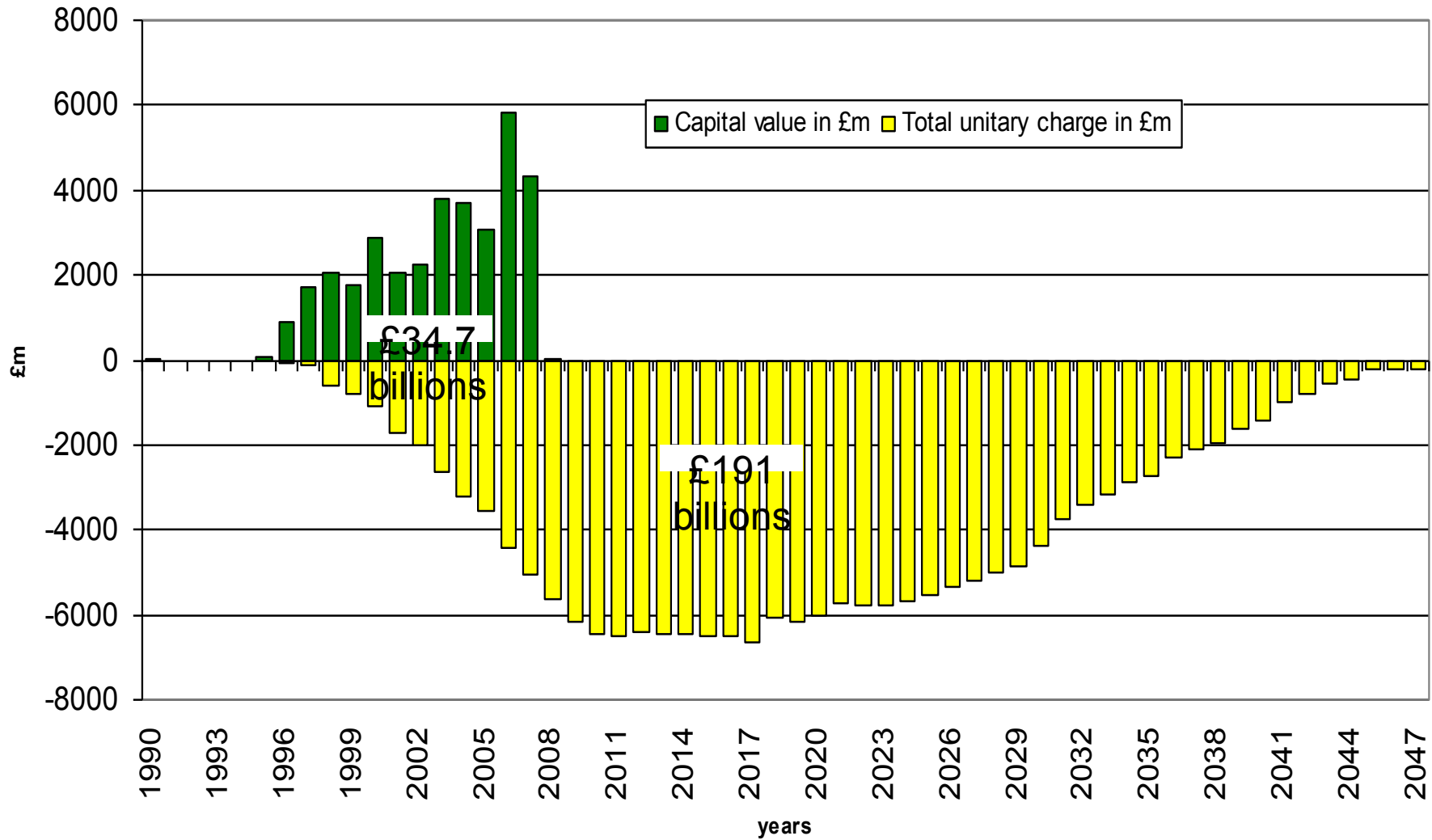
# PFI: LESSONS FROM THE UK NHS

- PFI : a discredited Public Policy
- Affordability
- VFM: cost and time overruns
- Accountability
- Cost of finance

# NHS HOSPITALS

- 159 PFI hospitals
- Capital value 13.6 billion (2009-10)
- Aggregate of all PFI availability payments is 42.8 billion (2009-10) , service charges 30.7 billion (2009-10)

### Capital value and unitary payments for signed PFI projects in Northern Ireland, England and Wales (1990-2008; n=500)



Source: HM Treasury (2008). Signed Projects List (March 2008). Available at: [http://www.hm-treasury.gov.uk/ppp\\_pfi\\_stats.htm](http://www.hm-treasury.gov.uk/ppp_pfi_stats.htm) (Accessed: 24 November 2008).

# LOSS OF MONITORING TRUE COSTS

- Data issues
  - 1. No account of additional contributions to PFI schemes - land sales and receipts, NHS capital, Treasury “smoothing mechanisms”
  - 2. PFI payments not broken down by sector
  - 3. PFI payments do not provide split between FM and availability - therefore disguise true cost of capital
  - 4. Inconsistent definitions of PFI estimates of capital (capital not defined)
  - 5. Revisions to contracts and payments not provided

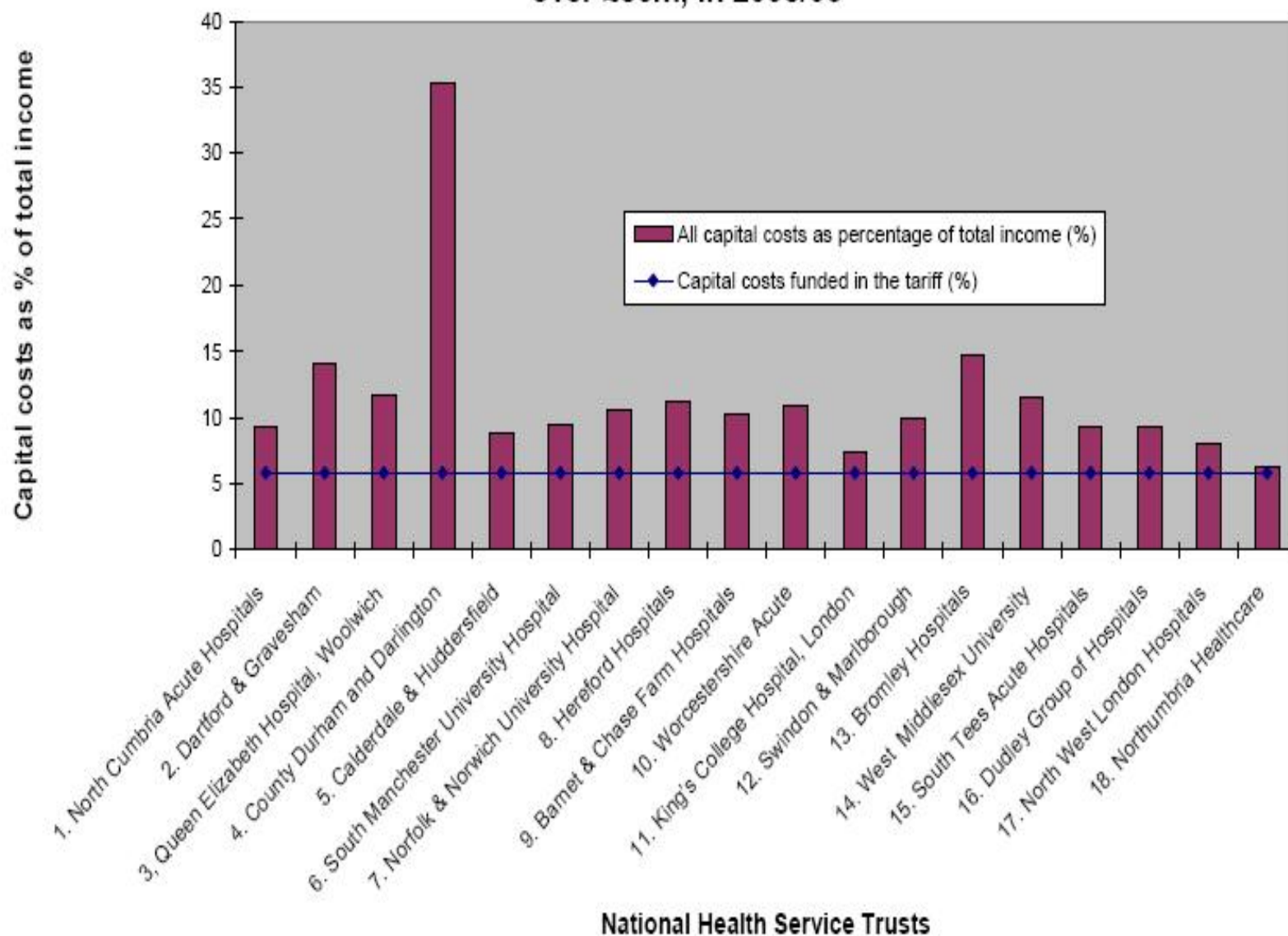
**Annual revenue implications of capital costs for 19 PFI hospital schemes  
comparing costs before and in the first year in which the PFI scheme is  
operating: ring fenced charges**

<b>NHS Trust</b>	<b>Before PFI (Capital charges as % of income 1998-9)</b>	<b>After PFI (Capital charges + Availability fee as % of projected income in 1st year of operations)</b>
Dartford & Gravesham	6.7	32.7
Swindon & Marlborough	3.8	16.4
Greenwich Healthcare	2.1	16.2
West Middlesex University Hospital*	9.3	15.5
Carlisle Hospitals	4.0	14.7
Hereford Hospitals	3.8	14.6
South Tees Acute	5.6	13.2
Calderdale Healthcare	3.4	13.1
The Dudley Group of Hospitals*	8.3	12.8
University College London Hospitals*	6.2	12.5
Worcester Royal Infirmary	5.3	12.4

All calculations include payments to Treasury on existing and retained estate.

\* Refers to 1999-2000

## Capital costs for Trusts with PFI schemes with a capital value of over £50m, in 2005/06



**Changes in bed numbers at NHS trusts  
under PFI development Values are average  
no' s of beds available daily (all specialties)**

<b>Trust</b>	<b>1995-96</b>	<b>1996-97</b>	<b>Planned</b>
Bromley Hospitals	610	625	507
Calderdale Healthcare	797	772	553
Dartford & Gravesham	524	506	400
North Durham Acute Hospitals	665	597	454
Norfolk & Norwich	1,120	1,008	809
South Manchester	1,342	1,238	736
Worcester Royal Infirmary	697	699	390
South Buckinghamshire	745	732	535
Hereford Hospitals	397	384	250
Carlisle	506	507	465
Greenwich	660	566	484
<b>Total</b>	<b>8,063</b>	<b>7,634</b>	<b>5,583</b>
<b>Percentage change from 1995-96</b>		<b>(-5.2)</b>	<b>(-30.8)</b>



# LOSS OF CONTROL OVER PLANNING

‘Unattractive economics’

“An incremental investment of £200m might require productivity improvements leading to perhaps 1,000 job losses which might be significantly greater than 25% of the workforce ... [This] is probably only achievable by reducing the numbers of doctors and nurses ... in the local health care market.”

PFI Futures March 1998

Newchurch & Co

- “The involvement of private finance in taking on performance risk is crucial to the benefits offered by PFI, incentivising projects to be completed on time and on budget, and to take into account the whole of life costs of an asset in design and construction.”

- HM Treasury. *PFI: meeting the investment challenge* July 2003

# TREASURY COMMITTEE REPORT, AUGUST 2012

- Main benefit claimed was transfer of construction cost risk . However in a PFI contract which lasts 30 years it is not necessary to transfer that risk
- No convincing evidence ..that PFI projects are delivered more quickly and at lower out- turn costs than projects using conventional procurement methods. .

# TREASURY COMMITTEE 2011

Increase in private finance costs mean that PFI financing method is now inefficient

- We are concerned that VfM appraisal system biased to favour PFI
- Some of claimed risk transfer may also be illusory

# TREASURY COMMITTEE ON PUBLIC EXPENDITURE RULES

- Efforts to meet fiscal rules at national and European level may have contributed to misuse of PFI
- Lack of capital and Departmental Expenditure Limits ... have encouraged and may encourage poor investment decisions...

# COMMERCIAL CONTRACTS

- “Contracts [....] have an important function in specifying the risk-sharing arrangements that apply in the face of unplanned events on either the purchaser or the provider side. In short, contracts are a means of steering transactions and sharing or allocating risk.”

- “There is a cost to the Government’s use of private finance, involving the extra cost of the private sector securing funds in the market, but a great part of the difference between the cost of public and private finance is caused by a different approach to evaluating risk.”

- HM Treasury. *PFI: meeting the investment challenge*

July 2003

- “We have sought on a number of occasions to gain an understanding of the relationship between the returns which contractors earn from PFI projects and the risks they actually bear. At present the available information is limited and rather mixed...”
  - Select Committee on Public Accounts. *PFI construction performance*. 35th report, session 2002-03

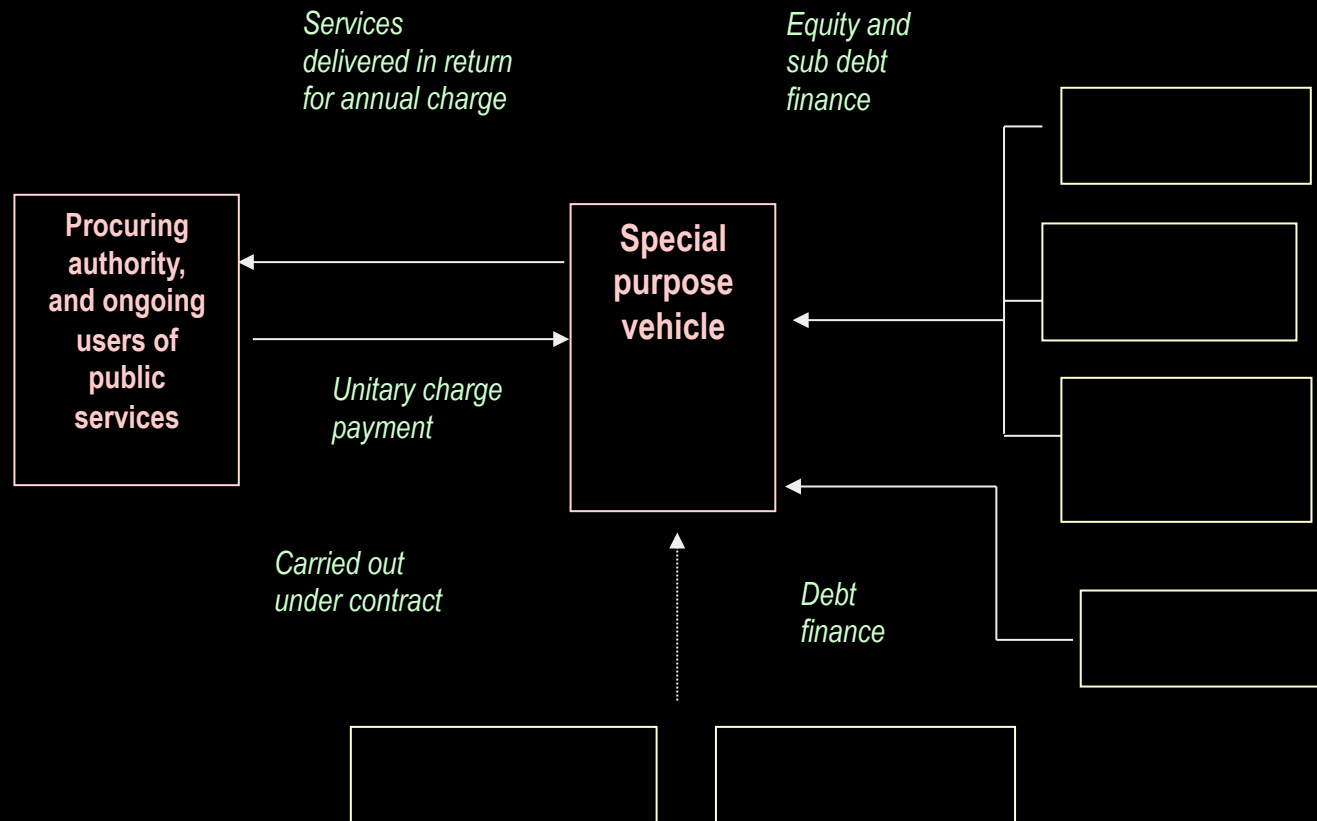


# PROJECTED DIVIDENDS ON SIX PFI PROJECTS

	Equity Input (£m)	Projected Dividends (£m)
New Royal Infirmary Edinburgh	0.5	167.9
Hairmyres Hospital	0.0001	89.14
Hereford Hospital	0.001	55.671

Source: Response to Scottish Futures Trust Consultation Paper by Jim Cuthbert & Margaret Cuthbert  
March 2008

# The contractual structure of PFI deals



# How PFI contracts obscure the audit trail

- PFI contracting makes it difficult to identify who bears risk
- PFI firms are shell companies that do not bear risk but pass it on to others through sub-contracts
- The main providers of private finance are heavily protected from risk
- Commercial confidentiality used to conceal contracts

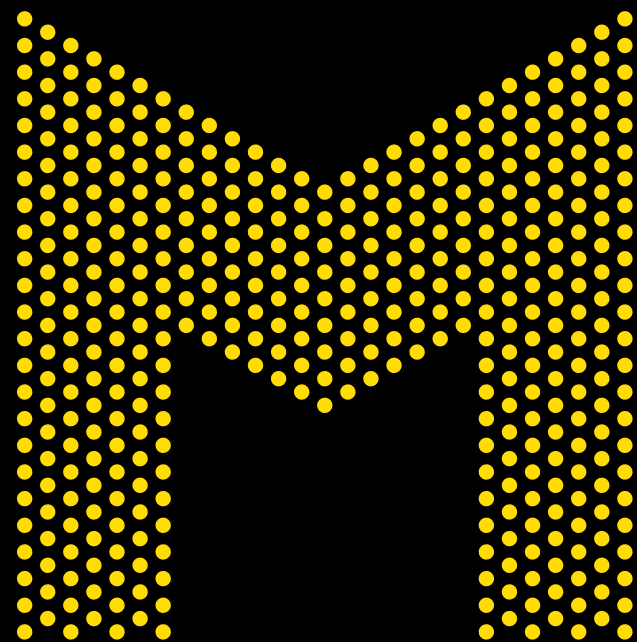
The Governments of South Africa, Uganda, Botswana, Tanzania, Mozambique, Nigeria, Kenya, Egypt, Senegal, Morocco, Malawi and Mauritius are all at various stages of setting up specialist units to promote greater use of PPPs and PFI in infrastructure.

*Source: The Infrastructure Consortium for Africa: Annual Report 2007.  
(The ICA was launched by the G8 in 2005. Members are amongst others the G8 countries, the World Bank Group, the African Development Bank, the European Commission and the European Investment Bank.)*

“Portugal: one of largest PPP programs in the world, cumulative investments about 20 percent of current GDP, or about 13 percent of GDP of depreciated investments.

# HEALTH AND SOCIAL CARE ACT 2012

- Abolishes the NHS in England
- End of Duty on Sec of State to secure and provide health care for all
- New discretionary powers for providers to determine what services are provided and what will be charged for
- New powers to borrow, cut services and charge for services



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