Private finance contracts threaten UK health care

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Britain's Conservative Party health secretary Andrew Lansley recently stated that more than 60 Private Finance Initiative (PFI) hospitals were on the brink of financial collapse. At the same time, the Department of Health stated it has been contacted by 22 National Health Service (NHS) trusts who say the cost of PFI contracts is spiralling into billions of pounds. The impact of this on health care available to the population cannot be underestimated as trusts are forced to look for ways to make savings.

The PFI system was launched in 1992 by the Conservative Party government of John Major. But it was the New Labour government of Tony Blair, elected in 1997, that escalated PFI, after initially criticising it whilst in opposition. Effectively privatisation by stealth, its aim was to hand over large sums of public funds to private corporations for building projects, which were then leased back to the NHS on lucrative contracts.

Currently, the UK has 700 PFI contracts with a further 61 projects in procurement. The first 667 PFI/Public Private Partnerships had a capital expenditure of £74 billion, yet the total nominal cost to the public sector is around £210 billion.

Such has been the vast expense to the public purse of the PFI schemes that Labour's last health secretary, Andy Burnham, who was in charge of 221 PFI projects, was forced to acknowledge last year: "We made mistakes. I'm not defending every pen-stroke of the PFI contracts we signed."

Under PFI, huge contracts were signed and building work begun on hospitals at a cost far exceeding their worth. All "non-core" services are carried out by private corporations, with only clinical services remaining with the NHS. In England, 101 of the 135 new NHS hospitals built between 1997 and 2009 were paid for under PFI. Repayments are often for 25 years or longer, occasionally as long as 60 years, at a high rate of interest. The price tag for repayments will reach £8.6 billion next year alone, with the total of £121.4 billion owing on public projects that are worth only £52.9 billion.

Private investors have reaped a bonanza. The amount of money paid back by health trusts under PFI is far higher than the original cost of building new hospitals and ensures public money will be funnelled into private corporations for decades to come.

A hospital in Bromley, south London, will cost the NHS £1.2 billion, more than 10 times its worth. The policy of loading huge amounts of unaffordable debt onto public hospitals is nowhere more evident than the 35-year contract signed in 2006 between University Hospital Birmingham and Consort Healthcare (a consortium including Balfour Beatty, HSBC, and the Royal Bank of Scotland). Under its terms, a new hospital in Birmingham valued at £647 million, planned for completion this year, will actually cost £2.6 billion by the end of the contract.

The cost of the PFI scheme that financed the Central Manchester Hospitals complex in Manchester, including £73 million of enabling schemes funded by the NHS, was £500 million. The complex was financed and built by the Catalyst consortium, and the completed project is now managed by a French-owned conglomerate, Sodexho.

In July 2003, the Central Manchester Community Health Council criticised the complex as "unaffordable", with the total amount to be paid back over the 38 years of the contract with the PFI consortium "far in excess" of the original costs. The health council stated, "Index-linked annual payments to the consortium for the use of the building and for support services will begin at £47.47 million per year, and rise by a minimum of 2.5 percent each year. This means that the minimum cash payment over the 38-year period would be almost £3,000,000,000. This makes it a very expensive way of obtaining a new £495,000,000 hospital”.

They added, “By year 10 the annual payments to be made by the Trust would have inflated to £58 million a year, by year 20 to £74 million, by year 30 they would be £95 million and from at least year 33 the Trust would be paying over £100 million per year—£2 million per week—for the hospital and support services.”

As early as 1998, warnings were aired that using PFIs more than doubled the cost of building hospitals, when the costs of the Norfolk and Norwich hospital soared from £90 million to £200 million.

Professor Allyson Pollock, professor of public health research and policy at Queen Mary, University of London, said then that the continuation of the scheme would lead to a cut in acute beds of 30 to 50 percent, and that the first 11 schemes pencilled in stood to cut 3,700 beds from the NHS. Many PFI deals tie local authorities into expensive catering, cleaning and maintenance contracts as well. Vastly inflated prices are quoted and paid for simple tasks as the projects are seen as a milch cow to the developers.

These projects mean city firms, such as Innisfree, have a profit margin last year of an incredible 53 percent; a more usual figure for a successful FTSE 100 company would be 6 percent. David Metter, founder and chief executive, owns almost three quarters of the company and collected pay and dividends of £8.6 million last year. Employing only a reported 14 staff, it is the largest single player in the PFI market, owning or co-owning 269 schools and 28 hospitals and collecting the revenue from them.

According to a Treasury document, “Making Savings in operational PFI Contracts”, attempts are now in hand for hospitals to try to make savings in health care provisions to meet the cost of repayments.

One hospital claiming its new PFI building had more “capacity” than it needed (in other words, it was not going to staff the wards) has rented off a ward to a private health care provider, charging it for the clinical waste bill, cleaning , etc. It is also considering mothballing wards. The same hospital is cutting back on porters and security staff, whilst reviewing the whole housekeeping strategy concerning cleaning and food provision. The end result is that such new, shiny, “flagship” hospitals cannot be adequately staffed because the cost of repayments and services are being cut back. However, the developers still get their share.

Tees, Esk and Wear Valleys mental health trust decided to review its three PFI schemes in a bid to make savings and opted to terminate the longest running of the three. It was a 30-year arrangement signed in 2003 for the rebuilding of West Park Hospital in Darlington with Norwich Union Public Private Partnership Fund, now trading as Aviva, with a total capital value of £16 million. If the deal continued, Tees would have paid more than £30 million to the company.

It is believed to be the first NHS organisation in the UK to extricate itself from a PFI agreement. The trust’s financial officer said that the termination of the contract made complete financial sense. A report by the National Audit Office said that in future, government should have the power to cancel or substantially renegotiate PFI projects where it could be proved that taxpayers were not receiving value for money.