Anger as private cash plan falls flat

By John Lister

A SERIES of devastating setbacks have left the government strategy for drawing private capital into the NHS in total disarray.

The government's Private Finance Initiative stipulates that any NHS project since June 1994 costing more than £5 million must be put out for tender, giving private companies the opportunity to invest in hospital buildings, equipment and services.

NHS Trusts were to be press-ganged into striking deals with private firms by a rapid rundown of government capital funding of the NHS.

New consortia of banks, building firms and specialists in providing support services set up shop, expecting rich pickings from the £20 billion annual budget in NHS hospital and community services.

A typical example is the 'Consort' group bidding for a stake in the new £100m Norfolk and Norwich Hospital, which brings together the Royal Bank of Scotland, Balfour Beatty, and services group BET.

But so far the principal outcome of prolonged and complex negotiations has been a succession of embarrassing failures, the paralysis of building programmes, and a total halt to even the relatively cheap computerisation schemes that have attempted to involve private investment.

Failure

The first high-profile failure came when a consortium involving private health giant BUPA lost out on a lucrative contract to build and run an £8.5m cardiac unit at Swansea's Morriston Hospital – their bid coming some £10m above the in-house bid over 10 years.

Next to hit the skids was a £28m scheme for redevelopment of London's Royal Brompton Hospital – held up because of NHS Executive concerns over whether the land-for-buildings swap represented value for money.

Now a plan for private sector finance to build and run a community hospital in Ivybridge in Devon has also collapsed, amid angry denunciations and warnings from Wimpey, Tarmac and the bosses' Healthcare Financial Management Association that companies might quickly lose interest in tendering for such schemes.

These snags on relatively small schemes suggest that more ambitious plans, such as the rebuilding of Guy's, St Thomas's and the Royal London Hospitals – costed at up to £280 million – might never get off the ground. The £30m second phase of a new Barnet General Hospital is also caught in the confusion.

Lease back

In theory, the PFI was to have created a growing number of hospitals in which the buildings were built, owned and run by the private sector, but leased back to NHS Trusts. The reality is that new building programmes have simply ground to a halt, all delayed by at least a year by the PFI system.

The fundamental problem is that NHS Trusts have only short-term contracts, and are not allowed to mortgage their assets.

Private firms will only invest tens of millions in them if they can charge large amounts to compensate for the risk. This makes private money more expensive than the Trusts can afford to pay.

The scandal shows no signs of abating. With ever more development schemes caught in the PFI logjam, the attempt to smuggle profit-seeking private investment into the NHS has been cruelly exposed.

Bottomley: approval for schemes – but no cash until PFI procedures exhausted.

SLOW GOING

MORE than 500 NHS projects worth £1.5 billion have been registered as potential candidates for the involvement of private capital, but only 62 of these (mostly very small scale equipment and incinerator schemes) have so far been completed.

51 more are under negotiation, with each building scheme delayed by an average of 49 weeks.

A succession of larger hospital development schemes, ranging from an £11m project at West Middlesex Hospital to the £100m-plus plan for a new 700-800 bed Norfolk and Norwich district general hospital, remain stuck at various stages of negotiation.

PFI brings extra 18-month delay

IN MAY, the *Financial Times* took a jaded look at the implications of the Private Finance Initiative for hospital developments:

"Many NHS trusts seem unenthusiastic about this aspect of private finance. Walsgrave Hospital, Coventry, plans a £60m move to a new site, and expects to raise half the cost from the private sector.

"But Mr David Loughton, the hospital's chief executive, says raising the money through the private finance initiative has added 18 months to the project's delivery span."

No sign of a flagship scheme

EVEN the company entrusted by the NHS Executive with the task of promoting and monitoring PFI, Newchurch & Co, admits that:

"There have been no major 'flagship' schemes completed to date, and it is widely believed that the PFI will only really take off when a number of such schemes have been demonstrated to work."

Early in March private sector hopes were dashed when it was announced that a potential mini-'flagship' scheme, the development of an £8.5m cardiac centre at Swansea's Morriston Hospital Trust, had been awarded to an in-house NHS team.

The NHS bid undercut private competitors by a hefty £10m over the next 20 years.

This is a reminder that private firms will shoulder the risk and responsibility of investing millions in the NHS only if they are given guaranteed returns on their capital which make it worthwhile: private money, in other words, does not come cheap.