Will soaring costs scupper PFI deals?

There are mounting rumours that ministers are about to call time on a number of large-scale hospital projects to be funded through the Private Finance Initiative.

Patricia Hewitt and top DoH officials have warned of the danger of investing in costly "monuments" which will quickly outgrow their usefulness.

So far only the ill-starred Paddington Health Campus has been put out of its misery by an increasingly irritated Strategic Health Authority, with an unbridgeable affordability gap in excess of £40 million a year.

As *Health Emergency* has noted in previous reports, the soaring cost of PFI schemes, running well beyond the bounds of affordability, have raised questions of whether Trusts could implement the latest schemes and stay viable, especially when the NHS institutes fixed reference costs and payment by results from next year.

When the first wave of PFI hospitals were signed off in the late 1990s the average capital cost of a new hospital was £75m: this has since spiralled into the stratosphere, with a number of schemes now above, or close to, £1 billion, and several more in excess of £400 million.

The costs are staggering. Annual payments on a £420m scheme in Central Manchester came out at £51m per year, index-linked, over 38 years, £30m of which was the 'availability charge' for the building itself.

The combined costs of PFI payments, residual NHS interest charges and facilities management was to total £64m a year – almost 20 per cent of the Trust's total revenue.

The latest figures for the super soaraway Barts and London project suggest a total capital cost of at least £1.89 billion – almost £500m of which is comprised of interest and fees. The annual payment starts off at £115m a year, index-linked, with £67m of this being the rent ('availability charge').

This means that the taxpayer will have forked out well over £5 billion for the two hospitals in the next 40 years, while the Skanska Innisfree consortium picks up guaranteed profits from legally-binding payments which currently equate to 23 percent of the Trust's annual turnover.

This type of increased overhead costs – and restricted capacity – have already helped to force most of the operational PFI hospital Trusts deep into deficit.

They face restricted options for economies, since all support services are incorporated into legally-binding, index-linked, contractual payments to the PFI consortium, and Trusts retain discretion only over clinical budgets.

Hence the nonsense of Greenwich's £120m Queen Elizabeth (PFI) hospital running with wards closed, as Trust bosses wrestle with a £10m deficit.

With the prospect of a new system of Payment by Results that will offer only a fixed tariff for each item of treatment, PFI hospitals from next April will be at a huge disadvantage, with bloated, fixed overhead costs, and inadequate capacity.

Where new PFI hospitals do proceed, they are likely to drain vital resources from community health care and mental health budgets, leaving a lop-sided pattern of care for a generation to come.

These economic facts of life were clearly a factor in the belated decision to axe the flagging Paddington Health Campus project – and seem likely to bring the demise of several more lumbering giants.

PFI for the NHS remains a high-cost, high-risk way of building facilities which unlike previous NHS buildings, are not public assets but liabilities weighing down on the local health economy.

(Left) Dudley's new PFI-funded Russells Hall Hospital has just opened for business, with the usual problems – no air conditioning, heavy doors, privatised support services. But the £1 billion scheme to replace Paddington's St Mary's (above) has collapsed.

Liverpool tops league – in PFI costs!

Costs appear to be running out of control in the plans for a new mega-hospital to be shared by the Royal and Alder Hey hospitals – latest estimated cost £835m and rising.

Leicester

University Hospitals of Leicestershire Trust has also put another, far higher price tag on the ever-more expensive PFI hospital project which started out at a projected £150m.

By the end of March this year this had risen more than five-fold – to a staggering £761m, while the numbers of beds in the scheme are now being whittled back down.

Although the Trust has chosen a preferred PFI partner, Equion, no final deal has yet been signed and all the smart money from local punters will be on another massive upward hike in price before the Full Business case is published.

In February 2001, managers drew gasps of astonishment when the projected cost of the plan hit £286m: by today's standards that is a bargain that should have been snapped up.

Birmingham

Birmingham and the Black Country SHA has come up with a plan to privatise 15 percent of elective operations and axe 20 percent of NHS hospital beds (over 1400) by 2008.

Campaigners who also pointed to a growing gap between availability of GPs and planned expansion of primary care were told that a 40 percent increase in primary care activity did not mean employing 40 percent more staff, since it revolved around "new ways of prescribing, new ways of tracking patients and intervening".

Who wants to bet against the prospect that new ways of explaining another failed policy are also on the cards in the midlands as another half-baked plan takes shape?

■ The new 1231-bed University Hospital in Birmingham, with a capital cost of £543m, will cost the Trust £50m a year, index-linked, over 40 years, even though it is the first PFI deal that does not include "soft" facilities management.

The scheme includes an assumption that the equivalent of 76 fewer beds would be required because of "best practice efficiencies", despite the failure of such projections in other PFI hospitals.

Edinburgh Royal PFI rip-off

The PFI consortium behind the £180m Edinburgh Royal Infirmary has come back to demand a late increase in payments to cover its annual contract to deliver support services.

Despite repeated claims by ministers that PFI deals offer a 'fixed price', enabling Trusts to plan their outgoings, Consort Healthcare in May demanded local health chiefs stump up an additional £1.1m a year, invoking a clause in the contract which allows them to seek an adjustment of fee levels.

Misery for staff and patients, but highly profitable

Norfolk & Norwich PFI brings profit windfall

Octagon, the consortium that financed and built the £220m Norfolk & Norwich Hospital refinanced the deal two years ago, and scooped a bonus £115m – almost half the initial cost – in windfall gains.

Just £34m of this was shared with the Trust, and that to be paid in the form of a £1.7m cut in the annual fees for use of the building and support services. The remaining £81m has no doubt been wisely invested in yachts, claret and caviare by Octagon's gleeful shareholders.

Walsall campaign lifts off

A campaign to defend Walsall's Goscote Hospital, which faces rundown and closure as part of the proposed merger of the Walsall and Wolverhampton hospital trusts, has launched with a 50-strong public meeting on July 21.

Plans include a PFI-funded redevelopment of Walsall's Manor Hospital, incorporating the acute bed capacity currently at Goscote, while half the hospital's beds would be axed and replaced by "community" provision.

The public meeting, which included local UNISON officer Tracey Wood and four former Mayors of Walsall, agreed unanimously to launch a broad campaign against the merger and the closure of Goscote Hospital.

■ Further details: Pete Smith 01922 491925.

No confidence

Doctors and the staff side unions at Pennine Acute Hospitals Trust have voted to endorse motions of no confidence in the Trust board. The 211-34 vote by doctors backed an 8-point statement cataloguing management failures.

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