

Item 9: The Tunbridge Wells Hospital: One Year On. Background Note.

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To: Health Overview and Scrutiny Committee, 12 October 2012

Subject: Private Finance Initiative and the NHS

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## 1. Overview

- (a) The Private Finance Initiative (PFI) formally dates from the 1992 Autumn Statement of the then Chancellor of the Exchequer, Norman Lamont. The stated aim was to increase the involvement of the private sector in the provision of public services.<sup>1</sup>
- (2) The National Audit Office has summarised PFI deals as follows:
- “Under a typical PFI deal, the public sector enters into a long-term contractual arrangement with private sector companies, which undertake to design, build, operate (and often maintain) an asset.”<sup>2</sup>
- (c) As of 31 March 2012, there were 717 projects with a total capital cost of £54.7 billion. The Department of Health had the second highest number of projects, 116, totalling £11.6 billion. The Department for Education had more projects, but the Department of Health had the highest total capital costs.<sup>3</sup>
- (d) The use of PFIs has been much debated over the years. The House of Lords Select Committee on Economic Affairs has summarised the two broad conflicting views as follows (taking PFIs as a form of Private Finance Project (PFP)):
- “Their supporters say that private capital at risk has brought much-needed rigour and efficiency to building and maintenance of public infrastructure and delivered more than would have been possible without them.
  - “Their opponents condemn PFPs as expensive and inflexible, a drain on non-PFP public service budgets and a way for Governments to evade public spending rules and fudge national

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<sup>1</sup> House of Commons Library Research Paper, *The Private Finance Initiative (PFI)*, 21 October 2003, <http://www.parliament.uk/documents/commons/lib/research/rp2003/rp03-079.pdf>

<sup>2</sup> National Audit Office, *Lessons from PFI and other projects*, 28 April 2011, p.12 Full Report, [http://www.nao.org.uk/publications/1012/lessons\\_from\\_pfi.aspx](http://www.nao.org.uk/publications/1012/lessons_from_pfi.aspx)

<sup>3</sup> HM Treasury, *UK Private Finance Initiative Projects: Summary data as at March 2012*, [http://www.hm-treasury.gov.uk/d/summary\\_document\\_pfi\\_data\\_march\\_2012.pdf](http://www.hm-treasury.gov.uk/d/summary_document_pfi_data_march_2012.pdf)

accounts by excluding PFI liabilities. They also deny that real risk transfer takes place.”<sup>4</sup>

- (e) HM Treasury published a consultation document on reforming the PFI in December 2011.<sup>5</sup> Earlier that year, in February, the Treasury announced a pilot project to seek savings at the PFI project at Queen’s Hospital in Romford. This was followed in July 2011 with a Treasury plan to deliver £1.5 billion savings from 495 PFI projects in England.<sup>6</sup>

## 2. The NHS and PFI

- (a) In a June 2010 report, *The performance and management of hospital PFI contracts*, the NAO provided the following summary:

- “Private Finance Initiative (PFI) hospital contracts are awarded and managed by local Trusts. The contracts use private funding to build and maintain hospital buildings. The contractor often provides support services, typically including cleaning, catering and portering, often referred to as hotel services.
- “The Department of Health (the Department) is responsible for approving new contracts with a capital value of over £35 million or those that are high risk. The Department also supports Trusts in negotiating and managing the contracts. The Department currently supports 76 such operational PFI contracts in England, costing £890 million a year.
- “The Department’s accountability for the contracts depends on the type of Trust managing the contract:
  - a) ... Foundations provide NHS services but are independent of the Department. The Department cannot require Foundations to provide information or direct Foundations to take specific action. Each Foundation chief executive is directly accountable to Parliament as an Accounting Officer.
  - b) NHS Trusts... have not yet achieved Foundation status and remain directly accountable to the Department. The Department aims that all NHS Trusts obtain Foundation status by the end of 2013-14.”<sup>7</sup>

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<sup>4</sup> House of Lords Select Committee on Economic Affairs, *Private Finance Projects and off-balance sheet debt*, 17 March 2010, p.5,

<http://www.publications.parliament.uk/pa/ld200910/ldselect/ldeconaf/63/63i.pdf>

<sup>5</sup> HM Treasury, *Reform of the Private Finance Initiative*, December 2011, [http://www.hm-treasury.gov.uk/d/condoc\\_pfi\\_call\\_for\\_evidence.pdf](http://www.hm-treasury.gov.uk/d/condoc_pfi_call_for_evidence.pdf)

<sup>6</sup> House of Commons Library Research Paper, *Recent PFI developments*, 21 December 2011, <http://www.parliament.uk/briefing-papers/SN06007>

<sup>7</sup> National Audit Office, *The performance and management of hospital PFI contracts*, 17 June 2010, p.4 Full Report, [http://www.nao.org.uk/publications/1011/pfi\\_hospital\\_contracts.aspx](http://www.nao.org.uk/publications/1011/pfi_hospital_contracts.aspx)

(b) This report contained the following conclusion on value for money:

- “This report looks at the value for money achieved by hospital PFI contracts once they are operational. We found that most PFI hospital contracts are well managed. And the low level of deductions and high levels of satisfaction indicate they are currently achieving the value for money expected at the point the contracts were signed. However, as the cost and performance of hotel services are similar to those in non-PFI hospitals there is no evidence that including these services in a PFI contract is better or worse value for money than managing them separately.”<sup>8</sup>

### 3. Financial Support for NHS Trusts<sup>9</sup>

(a) On 3 February 2012, the Department of Health announced that 7 Trusts may receive additional funding support from the DH. The Trusts are:

1. Barking, Havering and Redbridge NHS Trust;
2. Dartford and Gravesham NHS Trust;
3. Maidstone and Tunbridge Wells NHS Trust;
4. North Cumbria NHS Trust;
5. Peterborough and Stamford Hospitals NHS Foundation Trust;
6. South London Healthcare NHS Trust; and
7. St Helens and Knowsley NHS Trust.

(b) These Trusts had demonstrated they face “serious structural financial issues” and have historic PFI arrangements. Subject to 4 tests, these Trusts will be able to access financial support up to £1.5 billion over 25 years. A local plan to achieve long term, financial balance must also be in place.

(c) The 4 tests are:

1. The problems they face should be exceptional and beyond those faced by other organisations;

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<sup>8</sup> Ibid., p.8.

<sup>9</sup> This section sourced from: Department of Health, *NHS trusts to receive funding support*, 3 February 2012, <http://mediacentre.dh.gov.uk/2012/02/03/nhs-trusts-to-receive-funding-support/>

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2. They must be able to show that the problems they face are historic and that they have a clear plan to manage their resources in the future;
3. They must show that they are delivering high levels of annual productivity savings;
4. They must deliver clinically viable, high quality services, including delivering low waiting times and other performance measures.