Finance Directorate

Department of Health

UK HEALTHCARE – PRIVATE FINANCING OF INFRASTRUCTURE

Paul Townsend
Joint Head, Private Finance Unit, Department of Health,
UK Government
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- PFI - The Private Finance Initiative
- NHS LIFT – a partnership approach
- ISTCs – Independent Sector Treatment Centres

PFI - The Private Finance Initiative

- UK Government Target – 100 new hospitals by 2010
- 127 PFI schemes in health
- 46 already built and admitting patients
- 33 currently under construction

Background – why PFI?

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- Need for investment in hospital buildings
- Not enough public money available
- Commitments not to count as public borrowing
- Transfer of risk

Main features of PFI (1)

- Private sector responsible for:

- Design of hospital
- Building the hospital
  - On time
  - On budget
  - To the right specification
- Repair and maintenance (30 years)
- (sometimes) “soft” services – cleaning, catering
- money!
  - Borrowing (90%)
  - Shareholders (10%)

Main features of PFI (2)

- Public sector responsible for:

- Clinical services
- Payment!

  - Payments are fixed
  - Inflation increases
  - Only pay if hospital is available to be used

Transfer of Risk

- No payment until construction is finished
- If parts of hospital cannot be used, no payment
- If service quality poor – payment deductions
- If costs increase, no increase in payments

Advantages of PFI

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- 100 new hospitals by 2010
- construction is on time and on budget
- transfer of risk where appropriate
- projects are better planned
- there is now a strong market

Disadvantages of PFI

- costs of bidding
- slow to sign contracts
- inflexible?
- Does not encourage partnership

NHS LIFT

- Primary healthcare premises
  - Doctors surgeries
  - Other local health facilities
- Partnership between public and private sector

NHS LIFT

- Launched in 2002
- 50 areas have a LIFT scheme
  - covers 50% of UK population
- 40 have signed contracts
- 16 schemes have new buildings already in use
- 33 new buildings in total

Background – why LIFT?

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- Need for healthcare investment in urban areas – regeneration
- More local doctors needed in inner cities
- Partnership – joint public and private sector investment

LIFT Company (“Liftco”)

- Joint venture
  - 60% held by private sector investors
  - 20% local health organisations
  - 20% “Partnerships for Health”

Main features

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- Contract for 20-25 years: LIFTco and Local Health organisation
- LIFTco builds new healthcare premises
- Then leases them to doctors
- LIFTco maintains and repairs the premises
- Rent paid by doctors is fixed, but annual inflation increases
- Exclusive right for LIFTco to carry out all future developments in the area

Similarities with PFI

- No payments until the new buildings are ready
- Construction risk is with LIFTco
- Risk of cost increases is with LIFTco
- No payments if premises not available for use
- Payment deductions for poor service

Advantages of LIFT

- Much quicker to sign contracts
- Costs of bidding are lower
- Encourages a partnership approach

Disadvantages of LIFT

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- Not suitable for complex hospital developments
- Exclusive deal – may weaken competition
- Building costs seem higher

Independent Sector Treatment Centres

- Private sector providing clinical services
- Buying clinical procedures, not infrastructure
- Background
  - Waiting lists
  - Patient choice