Paying for the UK's Hospital Building Program

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In the UK, smaller hospitals, often known affectionately, if misleadingly, as “cottage hospitals” and tending to serve more rural populations, survive from one crisis to the next and constantly face the threat of closure. The trend is for bigger institutions almost always sited in urban areas, and that is certainly true of new buildings and major extensions or upgradings of existing hospital premises. Still, at least there is a significant public hospital building program in the UK. At the start of 2006 there were 86 projects costing over £10 million (about U.S.\$14 million) at various stages, and the price tags attached to these added up to nearly £18 billion (U.S.\$25 billion).¹ How can the country's cash-strapped National Health Service (NHS) afford such a huge sum? The answer is that it cannot and does not need to; almost all of these projects are not being paid for by the taxpayer, at least to start with, thanks to the Private Finance Initiative or PFI.

PFI, which is being used in areas other than health, including school buildings and road projects, was introduced back in 1992 under the then Conservative government. However, little happened with it in the health sector until 1997 when the incoming New Labour administration seized upon the concept with surprising enthusiasm. PFI comes thick-painted with politically correct cosmetics. It will only be used when it can meet requirements of “efficiency, equity and accountability,” and a PFI project must deliver clear value for money “without sacrificing the terms and conditions of staff.” Nonetheless, PFI is fast becoming the only source of funding for major capital projects in the NHS; of the 86 referred to above, only six are being financed the old-fashioned way, straight out of the public purse.

Under PFI a consortium, perhaps of a bank and a building firm, pays for a hospital's construction under a contract that requires the local health authority lease it back for a period, typically of 30 years, after which the property reverts to the NHS. PFI thus allows the funding of large capital investments “without immediate recourse to the public purse.” It is that word “immediate” that explains the controversy currently surrounding the whole PFI concept.^{2–6} Under the more market-oriented NHS that the UK has had under governments with very different political philosophies, hospital trusts are charged by the NHS for use of buildings, but under PFI far more has to be paid. A hospital in south-east London that had been labelled a flagship for the PFI idea is heading for a £19 million deficit, of which about half can be attributed to PFI repayments. On the other side of the River Thames an even bigger controversy is unfolding: The country's largest hospital PFI project is the combined redevelopment of two urban teaching hospital sites (St Bartholomews and The London) at a cost of over £1.2 billion. It has been estimated that under PFI, repayments will increase eight-fold.³ At the end of 2005 the

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Department of Health announced a review of the scheme just when the project's consortium had been set up and most of those involved must have thought the scheme had the go-ahead.

So there we have the dilemma. Many British towns and cities have for a long time needed new hospitals or major upgrades of older buildings. Under PFI more such projects have left the drawing-boards than would have been likely under former Treasury policies for capital schemes. On the other hand—and, some might argue, rather late in the day—the affordability of PFI repayments is proving a serious obstacle.

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