

Private Finance in the NHS

Summary

- The government is considering re-introducing private finance into our NHS at the Autumn Budget: [The 10 Year Health Plan](#) outlines a plan to develop a business case for the use of Public Private Partnerships (PPP) for Neighbourhood Health Centres [1].
- The Plan promises to learn from PFI, which it acknowledges was a 'costly mistake'.
- This promise has already been made many times over. **PFI has already been repackaged as PF2, LIFT, Scottish NPd and Welsh MIM.**
- While superficially different, these models (outlined briefly below) are fundamentally the same. The public sector contracts the private sector to build and maintain an asset before paying them back across a contract which typically lasts 25-30 years, and where the cost of the repayments far outstrips the value of the asset itself.
- In all of its forms, private finance in the NHS has failed: **it has diverted scarce resources away from patient care and towards debt repayments.**
- This includes Wales' Mutual Investment Model, which Member of the Senedd's Carolyn Thomas has already described as '[more expensive in the long run](#) – with higher repayments that ultimately cost taxpayers more for the same infrastructure' [2].
- This government must be applauded for its commitment to building new health infrastructure. But the only way we can learn from past mistakes of private finance is to not allow it into our NHS again.
- In their [2024 election manifesto](#), the Labour government promised that '**the NHS will always be publicly owned and publicly funded**' [3]. This promise must be kept.

Comparison of private finance models

	PFI	PF2	LIFT	Scottish NPd model	Welsh Mutual Investment Model
Soft services (e.g. cleaning catering)	Yes (for some contracts)*	No	In some cases**	No	No
Public sector stake in the deal	None	Yes - minority stake	Yes - 40% in the LIFTCo stake held by CHP***	None	Yes - minority stake capped at 20%
Profit made by investors?	Yes	Yes	Yes	Yes	Yes

Includes maintenance of the asset?	Yes	Yes	Yes	Yes	Yes
Additional Benefits	No	No	No	No	Yes****
Payment scheme	Regular (monthly or annual) payment once the asset is operational	Regular (monthly or annual) payment once the asset is operational	Rental payments to the LIFTCo	Annual payment once the asset is operational	Annual payment once the asset is operational

*[only one of six](#) PFI contracts in the period before the launch of PF2s launch included soft services [4].

**The terms of the LIFT lease agreements include '[cleaning and catering in some cases](#)' [5].

***CHP = Community Health Partnerships, the body which represents the public shares in LIFT projects.

****This includes private sector targets around the delivery of training, apprenticeships and community programmes.

PFI (Private Finance Initiative)

- PFI - which was introduced in 1992 - was appealing because it enabled debt to be placed 'off-balance sheet'. However, the Office of Budget Responsibility indicated in 2017 that using "off balance sheet" financing for public infrastructure to dodge borrowing rules amounts to a '[fiscal illusion](#)' [6].
- PFI involves the creation of an SPV (Special Purpose Vehicle) as a separate company with the specific purpose of delivering and maintaining the asset.
- Once the asset is operational, the public sector pays back the private sector through a regular payment called a 'unitary charge', which includes the cost of building, financing and maintaining the asset over the contract period (typically 25-30 years)
- PFI has widely been denounced as a failure because of its astronomical cost, and consequent impact on patients:
 - PFI hospitals cost [£80 billion for just £13 billion of actual investment](#) [7].
 - One NHS trust, Essex Partnership University NHS Foundation Trust, has to pay back [27 times what was borrowed](#) [8].
 - In the last 5 years alone, NHS trusts have spent more than £1.8 billion on PFI interest payments. This would have paid for the [starting salaries of 50,044 new doctors](#) [9].
 - Some NHS trusts are spending [more than twice the amount on PFI debt as they do on medicines for patients](#) [10].
 - As a result of its failings, the Conservative government said '[goodbye to PFI](#)' in 2018 [11].

PFI Case Study: South London Healthcare Trust

- Queen Elizabeth Hospital Woolwich (QEH) and Princess Royal University Hospital Farnborough (PRUHF) are both part of the South London Healthcare Trust (SLHT).
- The two hospitals cost [£214 million to build, but will cost £2.6 billion in PFI repayments](#) [12]. The two hospitals combined have to pay back over twelve times what they have borrowed.
- In January 2013, Jeremy Hunt announced the closure of major A&E, maternity, paediatric and acute adult services at Lewisham Hospital, in an effort to repay SLHT's PFI debts and secure financial stability for the health economy in South East London.
- Campaigners challenged this decision via judicial review, and won.

PF2 (Private Finance 2)

- In 2011, the Treasury launched a call for evidence on the reform of PFI. As a result PF2 was introduced in 2012.
- Despite its new name, the [National Audit Office](#) (NAO) highlights that 'the fundamental characteristics of PFI remain unchanged in the PF2 model' [13]. The main differences were:
 - The government now had a minority equity stake in all deals and a seat on the Board. This was part of an effort to improve transparency.
 - Soft services (such as cleaning and catering) were not included in PF2 contracts. This is often perceived as one of the key factors causing poor value for money under PFI, with newer models (such as MIM) claiming difference because of their exclusion. However, soft services were already absent in many PFI deals: [only one of six](#) PFI contracts in the period before PF2s launch included soft services [14].
- PF2 was cancelled - along with PFI - in 2018.

PF2 Case Study: the Midland Metropolitan University Hospital

- The Midland Metropolitan University Hospital was financed by a PF2 deal. Carillion was contracted to build it.
- The hospital was originally scheduled to open in October 2018, but was already running about a year late by January 2018. NHS England and NHS Improvement have suggested that a cause of this was Carillion's original pricing, which was [too low to meet the required specification](#) [15].
- In January 2018 Carillion went into liquidation and the project collapsed.
- Initial soundings with contractors revealed that [another PF2 deal would cost over £100 million more](#) - and take at least 6 months longer - than public funding [16].
- The project secured public funding, and was able to open in October 2024.

LIFT (Local Improvement Finance Trusts)

- The LIFT programme was set up in 2001. Much like Neighbourhood Health Centres, its aim was to shift healthcare closer to the community by building primary care facilities.
- Under these agreements, LIFTCos develop and maintain facilities that are leased back to the NHS.
- LIFT schemes were designed to learn from the mistakes of PFI by being more collaborative. The public sector has a stake in the LIFTCos in the form of a share held by CHP (Community Health Partnerships), a company owned by DHSC. [This stake is 40%](#) in all but seven (out of 49) LIFT companies where local authorities are also shareholders [17].
- However, given that local public sector organisations are not represented in the majority of LIFTCos, it is unclear how they are directly accountable to the public.
- It is also unclear how CHP itself has been made accountable to the public. For example, Stella Creasy MP has described CHP as being [‘wholly unaccountable’](#) about revealing how much it makes through charging rents to health bodies [18].

LIFT case study: Comely Bank Clinic

- The original premises of the Walthamstow Toy Library were demolished to make way for the Comely Bank Clinic, a new facility which was built through a LIFT scheme.
- The Toy Library was offered a peppercorn rent for their premises in the new clinic.
- However in 2020, Waltham Forest Clinical Commissioning Group (CCG - now replaced by ICBs) - in collusion with the CHP - exponentially raised the rent
- They claimed that the annual cost of having the toy library on site was around £60,000. This is [more than double](#) the amount estimated by a local estate agent [19].
- The toy library - a crucial part of broader community healthcare infrastructure - was forced to leave the clinic because it couldn't afford the new rent.
- 'LIFTCo behaviour is now dominated by their private financiers, often hidden from view, who are seeking to maximise their returns by charging extortionately high rents and service charges' - [Stella Creasy, MP for Walthamstow](#) [20].

Scottish NPD (the Non-Profit-Distributing model)

- Scotland replaced PFI with NPD in 2005.
- Again, NPD was a very close relative of PFI. It was ostensibly different because:
 - [Returns were capped](#) in the sense that the model eliminated uncapped equity returns [21]. However, shareholders still made a profit through the normal rate of return, as with other private finance deals.
 - Any surpluses were given to the public sector - however these will only be paid towards the end of the 25-year deals, and only [after all other costs are met](#) [22].
- [Audit Scotland](#) also pointed to the creation of a 'secondary market' whereby companies sold their rights to future contract payments [23]. This 'creates risks for the public sector, reducing the transparency of the ownership of the project companies set up to construct and maintain the assets'.
- NPD was scrapped in 2019, and replaced with the MIM (Mutual Investment Model).

NPD case Study: Edinburgh's Royal Hospital for Sick Children

- Built under the Scottish NPD model, the hospital cost about £150 million to build, but its full price tag over 25 years will be [£432 million](#), nearly three times as much [24].
- A ['complex web'](#) of companies were involved in financing the hospital - many of whom were based in tax havens - making the funding model opaque and unsustainable [25].
- NHS Lothian was given an [unfinished hospital](#) in 2019 to prevent the private consortium building it (IHSL) from becoming insolvent [26].
- The hospital eventually opened in 2021, years behind schedule.

MIM (the Welsh Mutual Investment Model)

- In 2019, the Scottish government scrapped NPD and moved to the MIM model, which has been developed by the Welsh government.
- [Audit Scotland warned against MIM](#), stating that the model's financing costs are 'likely to be more expensive than alternative options for capital investment' such as capital grants and borrowing [27].
- MIM is very similar to NPD and previous forms of private finance. It involves the creation of a project company (a Special Purpose Vehicle) to build the asset. The building, maintenance and financing of the asset is then paid for after its completion through annual payments.
- Under MIM, the public sector can invest in the SPV. Public investment is capped at 20%. The shared equity structure of MIM means that the public sector will have a share in any profits, but will also have to bear the burden of any losses.
- The differences to previous forms of private finance include:
 - The Public Sector is represented by a Public Interest Director (PID), but their [powers under MIM are more limited](#) than under NPD - under MIM, the PID will not have the means to veto operational decisions, including decisions made around refinancing [28].
 - In Wales, private partners must help deliver the objectives of the Well-being of Future Generations Act 2015, and commit to the Welsh government's ethical employment code. This means - for example - delivering community projects and apprenticeships.
- MIM claims local supply chain initiatives as one of its benefits however - as the case studies below demonstrate - MIM contracts have actually funnelled money out of Wales to international majority shareholders.

MIM Case Study: the dualling of the Heads of the Valleys Road

- MIM was used to turn the A465 into a full dual carriageway.
- The capital value of the project was £590 million but the Welsh government has to pay around £38 million per year across the 30-year contract. This means the road [will cost approximately £1.14 billion](#): by using MIM, the Welsh government will have to pay back almost twice what they have borrowed [29].
- The two major shareholders are Meridiam (a Paris-based company) and Concesiones de Infraestructuras, which is based in Barcelona.
- Senedd member Delyth Jewell described the use of MIM as '[extortionate](#)' and a 'waste of public money' which will 'make sure that governments for decades into the future are [footing] the bill' [30].

MIM Case study: the Velindre Cancer Centre

- The capital value of the new cancer centre is £312 million. Under MIM the Welsh government will pay around £33.5 million a year for 25 years, with a total cost of £837.5 million. By using MIM, the Welsh government will have to pay back almost three times what they have borrowed.
- During construction, it was revealed that two of the main shareholders - Sacyr, a Spanish construction company, and Kajima, a Japanese company - had both been fined previously for [rigging bids](#) [31].

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