The Review

The Private Finance Initiative:

a case study of wastage in the NHS in Wandsworth

Within the London borough of Wandsworth there are two private finance initiative (PFI) schemes in operation. One is the responsibility of NHS Wandsworth, formerly the PCT, the other belongs to St George's Healthcare Trust, a major teaching hospital.

This paper will look at the workings of both PFIs and argue that they are expensive; constitute a drain on local health resources; and preclude any long term planning for NHS services in the area.

In April 2002, Wandsworth Primary Care Trust (PCT) chose a consortium of companies, known as Catalyst Healthcare, to redevelop Queen Mary's Hospital in Roehampton. The redevelopment was to be carried out under a PFI arrangement. The renewal of the hospital would be undertaken by Catalyst Healthcare, who would then lease the hospital back to the NHS over a fixed period. The consortium would take care of the building over the term of the contract and see that it was cleaned and properly maintained. All the clinical and medical staff would be provided and paid for by the NHS.

Catalyst Healthcare consisted of a construction company; Bovis Lend Lease, a bank; HBOS, and Sodexo, a service provider.

Bovis owned 50% of Catalyst Healthcare and the other 50% was shared equally between HBOS, who would provide the finance, and Sodexo who would provide the cleaning and other services for the hospital.

The contract between Wandsworth PCT and Catalyst was to be for 28.75 years. At the end of that term the buildings would be returned to the NHS. For the period of the contract the NHS would pay an annual unitary charge of £9 700 000 at 2003/2004 prices. The annual charge would be linked to the Retail Price Index (RPI), and would rise, or fall accordingly. The contract was to begin in May 2004 and was to run for 28.75 years, plus an extra 1.67 years for the construction period. The contract between Catalyst Healthcare, subsequently known as Catalyst Healthcare (Roehampton) and the NHS was to finish in 2035.

Other options to finance the redevelopment, including a 'conventionally funded option', were rejected almost entirely on the grounds of, 'risk'. Any risks to the project it was alleged would be,

under the new PFI arrangement, borne by the private sector, rather than the NHS. What these risks may entail was not stated.

The cost of redeveloping the hospital was £55 million, but there were additional costs, which were referred to as, 'financial charges and fees', and these amounted to £18 568 000. In all, with the cost of construction, plus the additions, the total amount was £73 568 000.

PFI payments have been until recently considered 'off the books', and more difficult to trace — now they must be declared and form part of a hospital's accounts.

During the first 7 years of the contract, from May 2004 until April 2011, there have been variations as to how much the NHS pays annually to Catalyst Healthcare — there have been the allowed-for fluctuations according to the RPI — in the years so far the RPI has risen. In addition, there seem to have been other unaccounted for extras, which have caused the annual repayments to rise.

The Annual repayment of £9 700 000 had by the end of the first 7 years of the contract increased to £12 200 000. Variations were not uncommon, and usually upward. For the financial year 2008/2009 for example, the budgeted repayment, according to Wandsworth NHS, was to have been £11 455 000, but by the end of the financial year, the actual repayment had increased by £657 000 to £12 112 000. This was due to, 'in year variations as well as agenda for change incremental drift and indexation payments relating to the PFI Retention of Employment staff'.¹ Whatever this was, it meant that the annual repayment paid by the NHS to Catalyst Healthcare had increased by more than half a million pounds over the budgeted amount for that year.

The present annual repayment figure for this financial year 20011/2012 is, according to the Treasury, £12 600 000.²

Over the past 7 years the annual repayments to Catalyst Healthcare have

gone from £9 987 000 to £12 600 000. This represents an increase in the repayments of 26%.

Since the commencement of the Queen Mary Hospital scheme there has been an economic crisis, and the argument that the private sector will bear any risk involved in hospital development does seem rather hollow. The funding for Queen Mary's project was provided by HBOS Group, this includes the Halifax Bank, and the Bank of Scotland. They both recently received £350 billion of government money in order to survive — so much for the 'risk' taken on by the private sector.

Annual repayments by the NHS since the commencement of the contract in 2004 have amounted to over £71 million. The redevelopment of Queen Mary's cost £55 million — so the hospital has already been paid for. By 2012, even if the repayments stay the same, the entire cost of the project of £73 568 000 including fees and charges will have been accounted for.

But that is not the end of the story for the NHS and the taxpayers who pay for it. The NHS will continue to pay Catalyst Healthcare (Roehampton) an annual repayment of, at current prices, over £12 million. This will go on until the contract finishes in 2035. If the present trend continues the repayments could double by the end of the term. Predictions on the aforementioned Treasury's PFI Signed Projects list website, that include all PFI contracts and the projected annual repayments estimate that the final annual charge will be in the region of £22 million.² The NHS is set to pay the consortium during the term of the contract, somewhere in the region of £460 million. This is over eight times what it cost to redevelop Queen Mary's Hospital. In other words, for the amount of money to be received by Catalyst Healthcare during the term of the contract, the NHS could have had eight hospital renovations.

Catalyst Healthcare for their part is

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responsible for the operation and maintenance of the hospital. All clinical and medical services are provided and paid for by the NHS.

Catalyst's responsibilities include portering, laundry, waste disposal, domestic services, and catering. These are almost all entirely unskilled posts, and are notoriously poorly paid.

No figures are available, but it is extremely unlikely that the annual costs of these services would be anything like the annual repayment charge.

St George's Healthcare Trust is a large teaching hospital serving most of Wandsworth and is the most important provider of services for NHS Wandsworth.

It too has taken on a PFI scheme in order to construct a new wing of the hospital known as the Atkinson Morley wing, where extended neurological and cardiac services will be housed.

The cost of the new wing was £46.1 million. The consortium of companies responsible for the scheme was imaginatively known as 'Blackshaw Healthcare Services'. The main entrance to the hospital is situated in Blackshaw Road.

The hospital PFI scheme, like the one for NHS Wandsworth, spans over 30 years and is due to finish in 2038/2039. The same conditions apply. The consortium maintain the cleaning and servicing of the new wing in return for an annual repayment, or unitary charge.

The agreement was signed in 2000 and the project completed in 2003.

Payments began in the tax year of 2003/2004 with a payment of £5.5 million. The first full payment was the following year for the sum of £7.5 million. By 2011 the annual repayments had increased by over 17% to £8.8 million.

The projected final repayment, if the present trend continues, will be in the region of £17 million by 2038.

In all, if the Treasury predictions are correct the NHS will have paid over £400 million for a project costing £45 million.

The PFI schemes for Queen Mary's Hospital and St George's Hospital will saddle Wandsworth NHS and St George's

Healthcare Trust with mounting debts for years to come. For the present financial year the combined annual repayments for both developments are in excess of £21 million and will be double that by the time the contracts finish. This mounting debt means that local NHS services will suffer because of lack of finance.

Equally as important, whoever is in charge of NHS services in Wandsworth if and when the proposed current legislation becomes law, can make no real long-term plans for either Queen Mary's or St George's Hospital. Alteration of hospital services, possible future redevelopment, or even the re-siting of the hospitals will all have to be put on hold, until they again revert to NHS ownership in over two decades time.

And who will take over the responsibility for repayments if the PCTs disappear has yet to be decided by Parliament.

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Provenance
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