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Education And Debate

Private finance and “value for money” in NHS hospitals: a policy in search of a rationale?

BMJ 2002; 324 doi: https://doi.org/10.1136/bmj.324.7347.1205 (Published 18 May 2002) Cite this as: BMJ 2002;324:1205

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Allyson Pollock and her colleagues have long argued that using the private finance initiative to build NHS hospitals is an expensive way of building new capacity that constrains services and limits future options. Here they provide evidence that the justification for using private finance—that it offers value for money through lowering costs over the life of the project and by removing risk from NHS trusts—is a sleight of hand

Since 1992 the British government has favoured paying for capital works in the public service through the private finance initiative (PFI)—that is, through loans raised by the private sector. For hospitals this means that a private sector consortium designs, builds, finances, and operates the hospital. In return the NHS trust pays an annual fee to cover both the capital cost, including the cost of borrowing, and maintenance of the hospital and any non-clinical services provided over the 25-35 year life of the contract. The policy has been controversial because of its high cost and impact on clinical budgets.1 2 3 4 5 6

When first introduced in 1992 proponents claimed that PFI would lead to more investment without increasing the public sector borrowing requirement. However, the UK budget surpluses of recent years (£23bn for 2000-1 alone) have been much greater than the total of £14bn private investment deals signed in 1997-2001. The present generation of taxpayers could have funded considerably more capital investment out of existing revenue instead of displacing the cost on to future generations. 7 8

Furthermore, there is no evidence that PFI has increased overall levels of service. On the contrary, its use in the NHS has had two main effects. Firstly, it has displaced the burden of debt from central government to NHS trusts and with it the responsibility for managing spending controls and planning services, …

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