

<p>Institution: The University of Edinburgh</p>
<p>Unit of Assessment: 22 Social Work and Social Policy</p>
<p>Title of case study: 1: Uncovering the cost of private sector involvement in the National Health Service (NHS)</p>
<p>1. Summary of the impact Research conducted at the UoE (2005-13) on private sector involvement in health care has:</p> <ul style="list-style-type: none"> • informed the inquiries of several parliamentary committees; • received extensive media coverage; • contributed to a government decision substantially to reform the Private Finance Initiative (PFI); • had a major influence on reforms introduced via Private Finance 2 (PF2); and • affected the content of World Bank capacity-building programmes for developing country governments in this area of policy. <p>This impact has been achieved as a result of the distinctive methodology employed in the underlying research and, relatedly, the degree to which it has authority among policy stakeholders at the national and global levels.</p>
<p>2. Underpinning research The research has evaluated the impact of NHS reforms on the capacity of the health care system to meet population health need. The approach is multi-disciplinary, incorporating theoretical and methodological approaches from financial economics, institutional economics, public accounting and public health. One aim of the research has been to identify the impact of PFI contracts on NHS costs of production and thence its financial capacity to meet population health need. This work, undertaken by Hellowell (Research Fellow 01/10/2005 to 01/09/10, Lecturer 01/09/10 to present at UoE) and Allyson Pollock (Professor at UoE 01/10/2005 to 01/01/2010), examined: the nature of the regime by which NHS providers are paid by NHS commissioners; the income and expenditure outcomes of NHS providers; and the financial projections and workforce plans of NHS providers with operational PFI contracts.</p> <p>This work demonstrated that NHS organisations with PFI contracts have higher capital costs than those without such contracts. In the context of a funding regime that pays NHS organisations on the basis of average NHS treatment costs, the research shows that trusts with operational PFI hospitals are under-funded for their capital costs and are vulnerable to financial problems. One study focused on the South London NHS Trust, which has since been placed into administration, leading to major structural changes within the NHS in London. The research showed that efforts by the NHS to offset resulting gaps between income and expenditure by reducing costs limit the service capacity of NHS providers.</p> <p>A second area of research (2008-13), led by Hellowell, evaluated the profitability of PFI contracts for the private investors involved. This work is based on financial projections related to PFI contracts signed by NHS organisations in England and Scotland, with documents sourced from governments through the Freedom of Information Act. It demonstrates that the returns to investors on PFI schemes are high compared with those on other asset classes with a similar level of risk, and highlights features of the marketplace and the policy/regulatory framework which give rise to inefficiency. This work also identifies the impact of the financial crisis on the cost of PFI. Using financial projections relating to recent PFI hospital contracts, the work identifies the additional cost of private finance, relative to public finance, in the post-2008 financial environment. For example, the additional cost of using private finance on a project commissioned by the Royal Liverpool and Broadgreen University Hospital is identified at £175 million (in Net Present Value terms).</p> <p>A third element of the work, undertaken by Hellowell (2009-12), identified the extent to which private sector efficiencies in the operational elements of the PFI model (e.g., construction, facilities management, service provision) have offset the higher cost of capital. A systematic literature review demonstrated that the costs of operational tasks are approximately equal between PFI and</p>

non-PFI projects and facilities. This provided strong evidence that the additional cost of private capital sourced through the PFI programme represents a significant additional cost burden from the perspective of the NHS purchaser.

In summary, the work has evaluated (i) the additional cost of private finance, (ii) the sources of the additional cost, and (iii) the implications of this cost for NHS. In so doing, it has made an important contribution to our understanding of this important component of public policy.

3. References to the research

Vecchi V, Hellowell M, Gatti S (2013) Does the private sector receive an excessive return from investments in health care infrastructure projects? Evidence from the UK. *Health Policy* **110(2-3)**: 243-70, DOI: [10.1016/j.healthpol.2012.12.010](https://doi.org/10.1016/j.healthpol.2012.12.010). Listed in REF2

Vecchi V, Hellowell V (2013) Securing a better deal from investors in public infrastructure projects: insights from capital budgeting. *Public Management Review* **15(1)**: 109-29, DOI: [10.1080/14719037.2012.686232](https://doi.org/10.1080/14719037.2012.686232).

Hellowell M, Vecchi V (2012) An evaluation of the projected returns to investors on 10 PFI projects commissioned by the National Health Service. *Financial Accountability and Management* **28(1)**: 77-100, DOI: [10.1111/j.1468-0408.2011.00537.x](https://doi.org/10.1111/j.1468-0408.2011.00537.x).

Hellowell M (2010) [The private finance initiative: policy, performance and prospects](#). In: Hodge G, Greve C, Boardman A (eds) *International Handbook on Public-Private Partnerships*. Edward Elgar: Cheltenham, UK, 307-332, available from HEI.

Hellowell M, Pollock A (2010) [Do PPPs in social infrastructure enhance the public interest?](#) *Australian Journal of Public Administration* **69(S1)**: S23-S34, DOI: [10.1111/j.1468-0270.2009.01861.x](https://doi.org/10.1111/j.1468-0270.2009.01861.x). Listed in REF2

4. Details of the impact

The impact has five major strands, as follows:

Strand 1: The researchers have worked closely with several parliamentary committees, including the House of Commons Public Accounts and Treasury Committees, the House of Lords Economic Affairs Committee, and the Scottish Parliament's Finance Committee, to ensure that the research has informed legislative opinion and impacted on its decision-making (see 5.1). Hellowell and/or Pollock provided both oral and written evidence (summarising the findings and analyses of the research) to all of these committees in terms of their respective inquiries into the PFI. For example, Hellowell provided oral evidence to the House of Commons Public Accounts Committee in respect of the work on rate of return to PFI investors (21 February 2012); and to the House of Commons Treasury Select Committee in respect of the government's introduction of PF2 (November 2012 to present).

In a letter to Hellowell, which was sent following the oral evidence session to the Public Accounts Committee, the Assistant Auditor General for the UK Parliament wrote:

"I am writing to thank you for your contribution to the Public Accounts Committee hearing on the use of equity in PFI deals. We thought your testimony was clear, and that the points you made supplemented our own analysis very effectively. The hearing, while wide-ranging, endorsed the report's findings and indeed the findings of your own analysis, and raised a number of important policy challenges that HM Treasury should address in its review of PFI."

Strand 2: The policy impact of these interventions, based on Hellowell's research, has been significantly enhanced by the wide dissemination of findings and analyses in the print and broadcast media (see 5.2). Recent examples of public engagement through broadcast media

include: numerous interviews in the Financial Times and The Guardian (e.g. Financial Times 24 March 2013; 5 December 2012; The Guardian 26 September 2012); an interview on the Radio 4 documentary programme The Report (12 July 2011); an interview on BBC's Panorama programme. (28 November 2011) (<http://www.bbc.co.uk/programmes/b0184xg1> or <http://tinyurl.com/overc2k>); an interview on Channel 4 News (18 April 2011) (<http://blogs.channel4.com/faisal-islam-on-economics/the-economic-argument-for-pfi-has-never-been-worse/14112> or <http://tinyurl.com/pqeo8fk>); and an interview on the Radio 4 documentary programme File on 4 (19 June 2011) (<http://www.bbc.co.uk/programmes/b011vf2f> or <http://tinyurl.com/pn7wo2j>).

Strand 3: In 2011 Hellowell was engaged by the Treasury Select Committee to act as special adviser on its inquiry into the PFI. This role involved: providing written and oral evidence to the members of the Committee; providing advice for individual Committee members and the Chair of the Committee; drafting, reviewing and revising the outputs from the inquiry; and co-drafting two reports. There is now a follow-up inquiry into the PF2, on which Hellowell is once again special adviser. There is strong evidence that the inquiry and the reports had a major impact on policy (see 5.3). The reports received significant media coverage. In an article on 18 July 2011 by the Public Policy Editor of the Financial Times, the report was described as the “most searingly critical yet from any parliamentary committee [on the PFI]” (p.3). In November 2011, the government announced a “fundamental reform” of the PFI. In December 2011, Geoffrey Spence, the chief executive of Infrastructure UK (the section of the Treasury with responsibility for the PFI), told a conference organised by Partnerships Bulletin: “In terms of old PFI, Parliament is united in its belief that private finance of this sort is bad value for money. In that light the government decided to call a halt to PFI and seek new models.”

Strand 4: Many of the key features of the new financing model, PF2, are designed to address the problems which Hellowell's research (and advice based on that research) has identified (see 5.4). For example, sections of the Treasury Select Committee report authored by Hellowell (and attributed as such) called attention to (a) the high cost of private finance in the wake of the financial crisis; (b) the high rates of return to equity in particular as a source of excess costs; (c) the lack of a profit-sharing mechanism and the excess profits associated with this. In PF2, problem (a) is being addressed through a fundamental reconstruction of the contract model and the sources of funding it is designed to attract; problem (b) is being addressed through the use of equity competitions and public sector equity, explicitly designed to reduce rates of return; and problem (c) is being addressed by the introduction of cash-sharing mechanisms relating to surplus cash generated in project operations.

Strand 5: Hellowell's research has influenced the content of World Bank capacity-building programmes for developing country governments on this area of policy (see 5.5). In turn, this is likely to have a significant impact on the economic policies and practices of countries across the developing world According to April Harding, Lead Public-Private Partnership Specialist at the World Bank Institute:

“I have found Mark Hellowell's papers on PPPs in the health sector rigorous and policy-relevant. His publications were core readings in a Private Health Sector Policy course for Asian health policymakers which the World Bank Institute delivered in June 2013. To respond to the growing demand for support in this area, the World Bank has committed to developing and delivering more policymaker training in this area. I will be managing this initiative. I will certainly integrate the output from Mark Hellowell's research on this topic.”

5. Sources to corroborate the impact

PDFs of all weblinks are available at www.wiki.ed.ac.uk/display/REF2014REF3B/UoA+22

5.1. Transcripts of evidence sessions can be found here:

<http://www.publications.parliament.uk/pa/cm201012/cmselect/cmpublic/uc1846-i/uc184601.htm>

<http://www.publications.parliament.uk/pa/cm201213/cmselect/cmtreasy/uc818-ii/uc818.pdf>

5.2

Reporter, Panorama, BBC, can corroborate the impact of the researchers' work on a high-profile Panorama programme on the PFI, and discuss the impact of this on government policy.

5.3

Audit Principal, National Audit Office (and co-author of the above Treasury Select Committee report) can corroborate the vital role played by MH on the highly critical report on the PFI published by the Treasury Select Committee report and the role this played in policy change.

House of Commons Treasury Select Committee (2011) *Private Finance Initiative*. The Stationery Office, London,

<http://www.publications.parliament.uk/pa/cm201012/cmselect/cmtreasy/1146/1146.pdf>.

5.4

Audit Principal, National Audit Office (and co-author of a forthcoming Treasury Select Committee report on Private Finance 2), can corroborate the impact of MH's work on the content of the current inquiry and the conclusions of the report.

HM Treasury (2012) *A new approach to public private partnerships*. The Stationery Office, London,

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/205112/pf2_infrastructure_new_approach_to_public_private_partnerships_051212.pdf

5.5

Lead Public-Private Partnerships, World Bank Institute, can corroborate the impact of MH's work on the content of World Bank capacity building programmes in relation to the implementation of PPPs in developing countries.