

CBI EVIDENCE TO THE HOUSE OF COMMONS HEALTH COMMITTEE
INQUIRY INTO THE ROLE OF THE PRIVATE SECTOR IN THE NHS

1. A healthy population and first-rate healthcare system are as vital to business as they are to Government and individuals. Absence from work due to sickness costs UK business nearly £11 billion a year. The cost to society as a whole is £26 billion. More generally, business shares the wider concern to see improvements in the healthcare system while keeping public spending under control.
2. The private sector has an important and valuable role to play in improving the delivery of healthcare. This paper aims to demonstrate that:
 - In various ways, the private sector is working in partnership with the NHS and local government to deliver healthcare.
 - The NHS and the private sector are becoming better at working together. There is a genuine shift towards partnership working. The goals are becoming more ambitious and there is a concerted effort to solve previously intractable problems.
 - Clearer and more balanced communication is needed on the challenges in improving healthcare, the implications of various options and the track record of PPPs.
 - There is more to do. Urgent action is needed to reach the stage where partnership between the NHS and the private sector is delivering optimum results.

PUBLIC PRIVATE PARTNERSHIP TAKES A RANGE OF DIFFERENT FORMS

3. There is a long history of private sector involvement in the delivery of healthcare, but at modest levels. The IPPR Commission on PPPs estimated that, including GPs and dentists within the privately delivered total, 16% of publicly funded healthcare was delivered by the private sector by 1989. The independent sector plays a substantial role in specific markets, eg mental healthcare (including over 55% of the NHS's medium secure provision) and domiciliary, residential and nursing care for the elderly.
4. Nearly 200 NHS Trusts completed a survey for the Health Estates Facilities Management Associates. This indicated that around a third of security, catering and non-emergency patient transport services are privately provided, as is less than 20% of other support services such as equipment maintenance and portering.
5. The private sector's role stretches beyond front line healthcare and facilities management. In total, 'non-pay' services represent some 25% of the cost of hospital services. In this area, the NHS is almost entirely dependent on the private sector, which supplies such goods, services and technology under a variety of formal contracting, partnering and other collaborative arrangements.



6. More recently, the NHS and the private sector have begun working together in different ways. The term “Public Private Partnership” covers a wide range of initiatives, eg:
 - The Concordat entails the NHS making use of the independent sector’s spare capacity in clinical services to treat NHS patients. It is expected to reduce NHS waiting lists by 100,000 patients this year. The Concordat also promotes joint workforce and service planning between the NHS and the independent sector.
 - The Private Finance Initiative is a particular form of PPP. In health, it typically involves the private sector building or refurbishing hospitals, maintaining them and delivering some non-clinical services. The PFI programme to date entails 31 new hospitals with a total capital value of £2 billion. The PFI is not just about the private sector financing capital projects in return for an income stream. It uses private sector skills and management to deliver a “capital and services package solution”, giving whole life value for money. The initial capital cost is wrapped up with maintenance and service delivery costs in the total service payments made to the PFI provider.
 - The NHS Lift (Local Improvement Finance Trust) PPP will be a limited company, with the Department of Health, NHS and the private sector as shareholders. It will build, refurbish and own primary care premises, and lease them to GPs and others (eg chemists, dentists). This critical initiative should help stem the massive loss of inner city GPs, 35% of whom have been scheduled to retire between 1998 and 2005.
 - Inventures is being set up as a PPP joint venture with the private sector, covering what has been the trading activity of NHS Estates. It aims to maximise the value from the redundant NHS Estate and expand the activities of the trading group. Inventures will sit outside the NHS Estates Agency (which will retain policy functions such as advising on building and maintaining healthcare facilities)

PPPs ARE DELIVERING BENEFITS AND IMPROVING HOW THE NHS AND THE PRIVATE SECTOR WORK TOGETHER

7. The NHS and the private sectors have different skills, capacity levels and resources to apply towards improving the delivery of health care. PPPs are not simply a mechanism for the injection of private sector capital. Rather, PPPs share a range of private sector skills with the public sector. A diverse range of service providers allows different sources of innovation and approaches to management. And a healthy competitive pressure in the market can act as a spur to all to improve performance.
8. Recent PPP initiatives are noteworthy for striving for better results by combining public and private sector resources within a partnering relationship. Typically they aim to solve previously intractable problems, either within the NHS or in the way the NHS worked with the private sector or other agencies. In particular, recent initiatives have rightly placed more emphasis on ensuring that partnership working between the public and private sectors delivers the “win-win” of better quality services and a better deal for staff.

PFI - towards a “whole life value for money” approach

9. Teamwork is at the heart of the PFI concept. PFI contracts should motivate the public and private sectors to deliver whole life value for money based on robust, balanced assessments. The payment mechanism holds the private sector to account and enforces the allocation of risk between the public and private sectors. Funders of PFI projects are at financial risk if the terms of the contract are not met, so they become powerful allies of the public sector in ensuring that quality services are delivered consistently throughout the term of the deal at levels never before achieved under the traditional processes.

10. PFI aims to make the supply side work as a team, with service delivery concerns shaping design and construction decisions. In health, these features help to:
 - Deliver PFI hospitals on time and on budget, reversing the trend of over-runs.
 - Ensure that assets such as hospitals are not just built but also maintained, thereby reducing real political and fiscal risk to the NHS capital programme. Successive Governments have under-invested and maintenance budgets tend to be particularly vulnerable. The bill for backlog maintenance in the NHS stands at £3.1 billion.
11. The PricewaterhouseCoopers report published earlier this month, “Public Private Partnerships: A Clearer View”, sets out findings of a survey of 27 PFI projects which are already delivering services, including 6 hospital projects. They questioned public sector clients, private sector partners and service users where possible. The conclusion was that PFI projects are delivering to time, to budget and to plan. The report rightly identified where improvements could be made, but the feedback from senior NHS managers and clinicians was overwhelmingly positive, and the following quotations were typical:

“The PFI has delivered a new hospital on time, and it is working.”

Chief Executive, NHS Trust

“We have come from something which was, in my case, appalling, to something which works well with everything in close proximity on one site.”

Senior Clinician, NHS Trust

“One of the intensive care nurses told me it was like paradise. The reaction from staff has been brilliant.”

A previously published comment from a Director at the Queen Elizabeth Hospital

The concordat - better planning on using private sector spare capacity

12. The NHS has previously bought in clinical services from the independent sector, but often on a “stop-go” or unpredictable basis, eg because of a capacity crisis or spare budget at year-end. The Concordat’s strength is in getting better planning into this relationship. It is making a difference: as many NHS patients were being treated by the independent sector in July and August 2001 as in last December and January. And collaboration is developing on service delivery and workforce planning issues.

Best value - a shift away from lowest price tendering

13. Too often Compulsory Competitive Tendering and NHS Internal Market initiatives were used to achieve lowest price provision. As a result:
 - Service quality suffered, as did employees’ terms and conditions.
 - A lack of long-term accountability and whole-life planning increased the risk to service delivery in the long-run.
14. This was certainly true for the provision of ancillary services. The scandal of dirty hospitals was not the result of decisions to outsource services, but rather the intention to drive down costs even at the expense of service quality, whether services were provided in-house or externally. There is a clearer Government policy focus now on achieving Best Value, emphasising service quality and continuous improvement. Embedding this Best Value approach to procurement is key to good handling of employment issues within PPPs.

Cash to end bed-blocking - partnership across the public and independent sectors

15. The recent initiative to remove bed blocking is momentous for injecting £300 million of public funding on condition of partnership working between the NHS, local government and the independent sector. The anticipated benefits are significant: to end widespread 'bed-blocking' by 2004, allowing over 2,000 older people to leave hospital after their treatment is finished and freeing up 1,000 NHS beds this year alone.

New models of PPP: new approaches to improve and exploit healthcare assets

16. NHS LIFT and Inventures are good examples of the NHS forging innovative new commercial relations with the private sector to exploit NHS assets.

A persistent drive by the NHS to be a world class procurer

17. The NHS is striving to improve procurement. The NHS Private Finance Unit (PFU) gives vital support to individual trusts. It has produced the NHS Standard Form Project Agreement, which is now accepted with minimal amendments on all NHS PFI projects. This has greatly reduced the time and costs involved in procurement of individual deals, and hence accelerated healthcare delivery. The Agreement also increased risk transfer to the private sector, in comparison with earlier PFI hospital deals, while delivering value for money. These benefits have been achieved through the manner in which the PFU has harnessed the process of standardisation, the perception of a steady flow of deals (until the recent hiatus while staff secondment is piloted) and the competitive bid process.
18. NHS Estates has pioneered a Diploma in Project Leadership with Lancaster University, tailored to the needs of NHS Project Directors, to raise professionalism in delivering capital schemes. The NHS is also starting to explore collaborative procurement, eg a new pan-NHS software licensing deal with Microsoft, replacing 35,000 separate orders, is set to save the NHS over £50 million.

NEED FOR BETTER COMMUNICATION OF THE CHALLENGES FACING THE NHS AND OF THE PRIVATE SECTOR'S ROLE IN MEETING THEM

19. There is an urgent need for better quality public debate on healthcare, covering the following two points and, in particular, recognising that they are separate issues:
 - The track record for partnership working between the public and private sector.
 - The arguments for and against developing new sources of funding for healthcare.

Achieve a more accurate and balanced assessment of partnership working to date

20. The track record for partnership working between the NHS and the private sector is mixed, as it is for in-house NHS provision. There is a combination of outstanding successes, satisfactory performance and lessons from what has not worked well. Private sector involvement may indeed often make sense, but it will not always represent the best option. And indeed the most appropriate form of public private partnership will vary from project to project. But the crucial point, which the examples above illustrate, is that the relationship is improving, maturing and delivering better results to service users and tax-payers. The way forward is to build on this success and address the outstanding problems so that partnerships are used to best effect where they can add value.
21. Progress must be founded on a realistic and pragmatic understanding of where the private sector can best add value. Private sector involvement is not a panacea. The CBI rejects a "private good – public bad" rationale, which is false and unhelpful. The opposite extreme of "public good – private bad" is equally misguided.

22. Arguments against a partnership approach between the NHS and the private sector are typically couched in terms of public opposition in principle or of partnerships failing to deliver on the ground. Often the arguments are distorted and issues are poorly diagnosed.

Public opinion

23. Public opinion surveys can be manipulated through the phrasing of the question. The public is hostile when asked whether the NHS should be “run for profit” or “privatised”. But where the questions are more clearly seeking views on partnership working, the answers are much more positive. In June 2001, a Mori survey for the Economist indicated 69% of people supported the policy of “having more NHS patients treated in private hospitals”. In a Mori poll in September 2000, 79% of respondents agreed that “the country’s healthcare needs would be better served if the NHS and the private sector worked hand in hand”. And 84% of people were confident about a future health service where there is some degree of partnership between the public and private sectors.

Public service ethos

24. The Institute for Public Policy Research’s Commission on Public Private Partnerships conducted qualitative research into the attitudes of nurses, patients and health managers on the ethos and motivations of public and private sector providers of health care. Nurses and health care managers strongly felt there was no difference in ethos between providers. Patients maintained that the attitudes of nurses to patients did not differ significantly between the sectors. But the commitment and dedication of NHS nurses was felt to be more noteworthy because they were typically working under worse conditions and in worse working environments than their private sector counterparts.

Presentation of the private sector’s track record

25. Too often, there is a lack of balance in presenting the record of private sector delivery. For instance, press stories about the opening of the Cumberland Royal Infirmary in July claimed flooded wards, raw sewage in operating theatres and many other failings. These were wide exaggerations. A broken pipe did cause a small amount of water to drip into a ward and caused damage to four ceiling tiles, but cardiac patients were never drenched. And a temporary soil pipe bung was erroneously left in place causing a waste water overflow in an ancillary room (not an operating theatre). Also, most of the problems related to last Spring, when the hospital (the first major PFI hospital to be completed) was initially handed over, and were put right before the hospital opened to patients.
26. These scare stories and simplistic assessments of the problems that do occur are damaging because they stifle informed debate about how to make progress in an environment where the overall quality of public debate is very poor.

End the confusion over issues of funding and delivery.

27. There needs to be a mature and informed debate about the need for more privately funded health care. But this must be clearly separated from the immediate question of how to optimise the benefits from partnership working now between the NHS and the private to deliver best value for money for tax payers and high quality care for service users.

FURTHER IMPROVEMENTS ARE NEEDED

28. The relationship between the NHS and the private sector is far from perfect. Further policy improvements are needed, and even where policy is sound, better practice is still required on the ground. Urgent progress is needed in view of the scale of the challenge to improve healthcare delivery.

Strengthen the emphasis on value for money.

29. The public sector needs to be more focused on securing whole life value for money. Quality still suffers through:
 - Lowest price decisions and a failure to recognise that “you get what you pay for”.
 - A failure to recognise the true long-run costs of traditional methods of procurement.
30. For example, many local councils pay independent nursing homes £2.00 an hour per resident, which does not realistically cover basic costs. Council-run residential care homes are paid on average 48% more than comparable independent sector provision.
31. Recent PFI debates have focused unduly on technicalities such as how to construct an artificial public sector comparator against which to assess PFI bids. The debate needs to widen, for example, to recognise the benefits of innovation in service delivery, facilities being delivered on time and on budget, assets being properly maintained and the value for money gains over time that come from a diverse and contestable market. There is little data in the public domain about the costs and consequences of traditional methods of service delivery, the absence of which reinforces the emotional and dogmatic arguments which pervade the whole debate.

Improve public sector planning

32. Long-term PFI contracts are sometimes criticised for constraining flexibility of Government decision making. But hospitals built thirty years ago have required operational budgets ever since - to meet wage bills, contract payments, running expenses and maintenance liabilities. The true long-term consequences of decision-making have been unreported or managed in the past. PFI contracts have forced the NHS to think through these cost and service delivery issues at the outset. The Government must use this information in its planning: aligning projects so far as possible with long term need and affordability and building flexibility into contracts to handle uncertainties about future demand.
33. Better initial planning, particularly more realistic outline costing, should avoid an “affordability gap” appearing during the procurement process. Better public consultation on projects should test support for clinical decisions (eg hospital locations and bed numbers) and clarify that these clinical decisions arise irrespective of the delivery route.
34. The future of health care delivery can never again be allowed to degenerate to a point where many of the facilities are based on wholly inappropriate residual assets. Many of today’s acute hospitals were originally constructed as isolation hospitals before the First World War; the cost and consequences of operating in this environment are significant and waste valuable healthcare resources.

Improve the handling of staff issues within PPPs.

35. The CBI has worked with the public sector and trade unions to drive progress, for example to produce Cabinet Office guidance giving more certainty on TUPE (staff transfer arrangements) across the public sector. More work is needed to address the “2-tier” workforce problem (of new starters and transferred staff being employed on different terms). More employment legislation is not the answer. And seconding staff from the NHS to private sector partners is also deeply problematic. Workers would lose out on promotion and development opportunities with the contractor. Meanwhile the contractor and the NHS could too easily blame each other where problems did arise. Rather, better procurement is the key to achieving the “win-win” of better quality services and a better deal for staff. Lowest price tendering in the past has damaged

service quality and employment conditions. The Government must behave as a “quality driven” client. This means requiring and being prepared to pay for a quality service, which would then require service providers to maintain high standards of HR, terms and conditions and pensions.

Choose the right PPP model each time

36. The optimum model of public private partnership will vary from case to case, depending on issues like how best to package the work and to share the risks. There is a growing range of models and more will be needed as the public and private sectors explore new areas of partnership. There needs to be an open mind about the most appropriate models for wider private sector involvement in service delivery.
37. Arguably PPP contracts in health could deliver better value for money through getting closer to the PFI ideal of integrating capital and service elements closer together. It is worth learning from successful experience, for example haemodialysis services provided through small units linked to NHS hospitals.

Adopt a more strategic approach to introducing and integrating IT

38. The NHS needs to adopt an overall national approach to IT services procurement, implementation and support. IT has a key role in supporting and enabling business process change across the whole of the healthcare sector. Common technology systems (eg for patient records, appointments) could usefully support steps to devolve clinical decisions to the local level.
39. Fragmentation of IT procurement and the proliferation of ad hoc IT solutions and in-house IT departments are significant barriers to the successful implementation of the NHS Plan and to the delivery of “joined-up” healthcare and related services.
40. More thought is needed specifically on how to integrate the provision of IT services into hospital building programmes. IT services have generally not been included within the scope of NHS PFI schemes. Although there are well-understood difficulties which need to be addressed, there are obvious financial and operational benefits in adopting a holistic approach to service delivery.

Embed the Concordat

41. Commitment and good relationships at the local level are key to embedding the Concordat. This could be strengthened through explaining the benefits. Statistics (for example, on the number of operations being transferred to the private sector) should be published to indicate the extent to which the private sector is helping to deliver healthcare needs, and to what effect.

Strengthen private sector confidence in deal flow

42. The NHS must give the private sector confidence in future deal flow in all areas where it wants to have a strategic relationship with the private sector. This is key to persuading firms to innovate and build capacity specifically to meet NHS customer needs. A “stop-go” approach from Government clients is extremely damaging. Specifically, the PFI programme (which has arguably stalled while some pilot projects investigate the option of seconding staff instead of transferring them) should pick up pace and there should be greater recognition given to the process of creating and expanding the market in the interests of diversity and contestability.