

Benefits of PFI Schemes for Major Hospitals – the UK Experience.

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Agenda

- Brief History
- Overview of Health PFI
- Key Features
- Benefits
- Limitations
- Key Factors for a Successful Project

UK Health PFI: A Brief History

- First PFI Hospital reached financial close in 1997 – Dartford and Gravesham (capital value £94m)
- In ten years (1997-2007) a total of 84 PFI Hospitals have reached financial close in England with a combined capital value of £8.4bn
- 61 of these PFI Hospitals were operational at the end of 2007
- Another 47 PFI Hospitals (£9.2bn) are in the pipeline (in procurement or at business case stage)
- Deloitte's UK Health PFI Team closed its first hospital transaction (Hull) in 2000 and in the last 5 years Deloitte has closed a further 12 health transactions valued at £1.1bn. Currently advising on 5 hospital transactions in England and 2 in Northern Ireland valued at £1.3bn
- Also assisting in hospital projects in Canada, Australia, Germany and Turkey

Overview of Health PFI – Purpose of Procurement

To find the *right* partner via a *competitive* process involving a series of detailed submissions, evaluations and *negotiations*

- To procure an asset with related services (FM, Lifecycle)
- To procure clinical services?

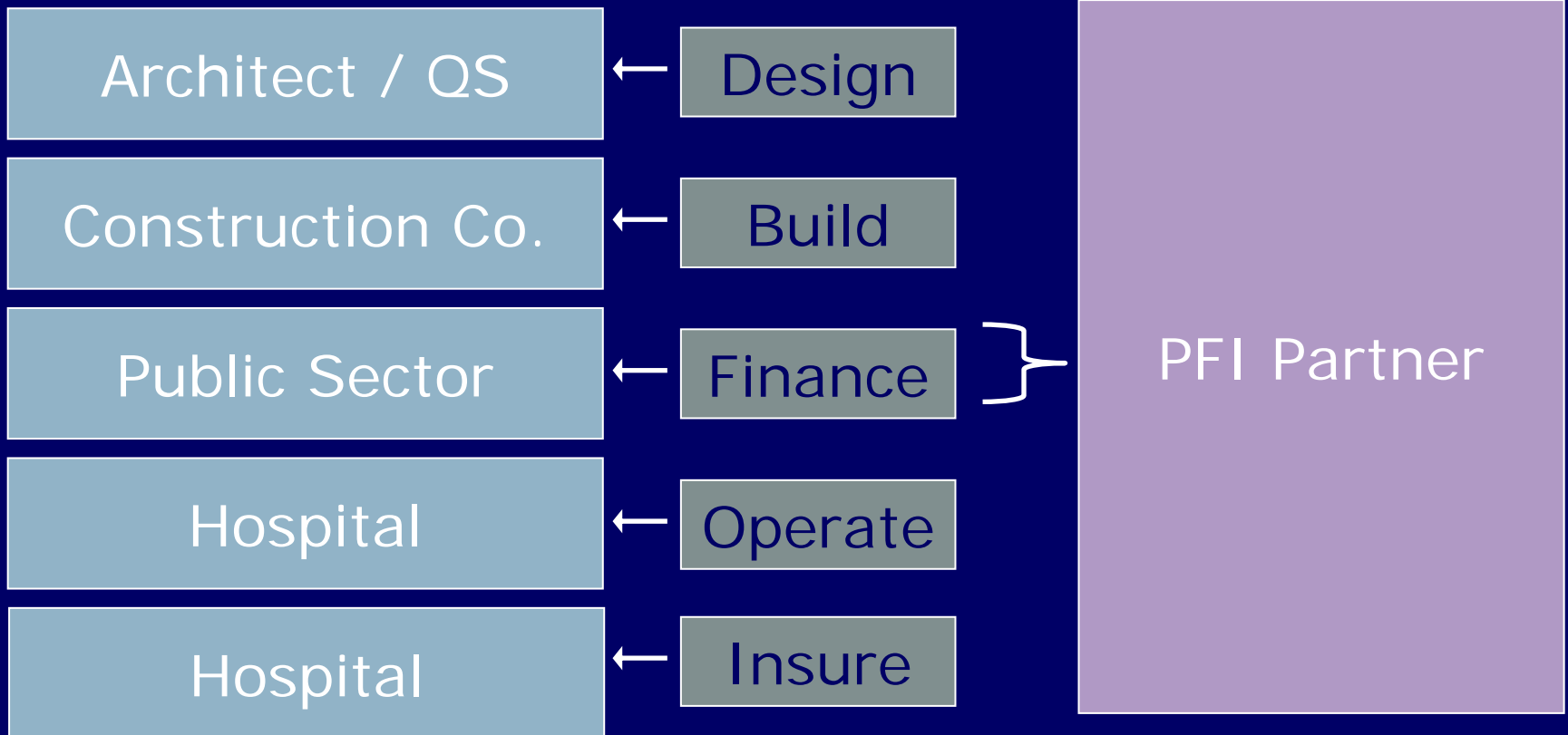
Requirements are driven through OUTPUT specifications

Overview of Health PFI - Procurement Comparison

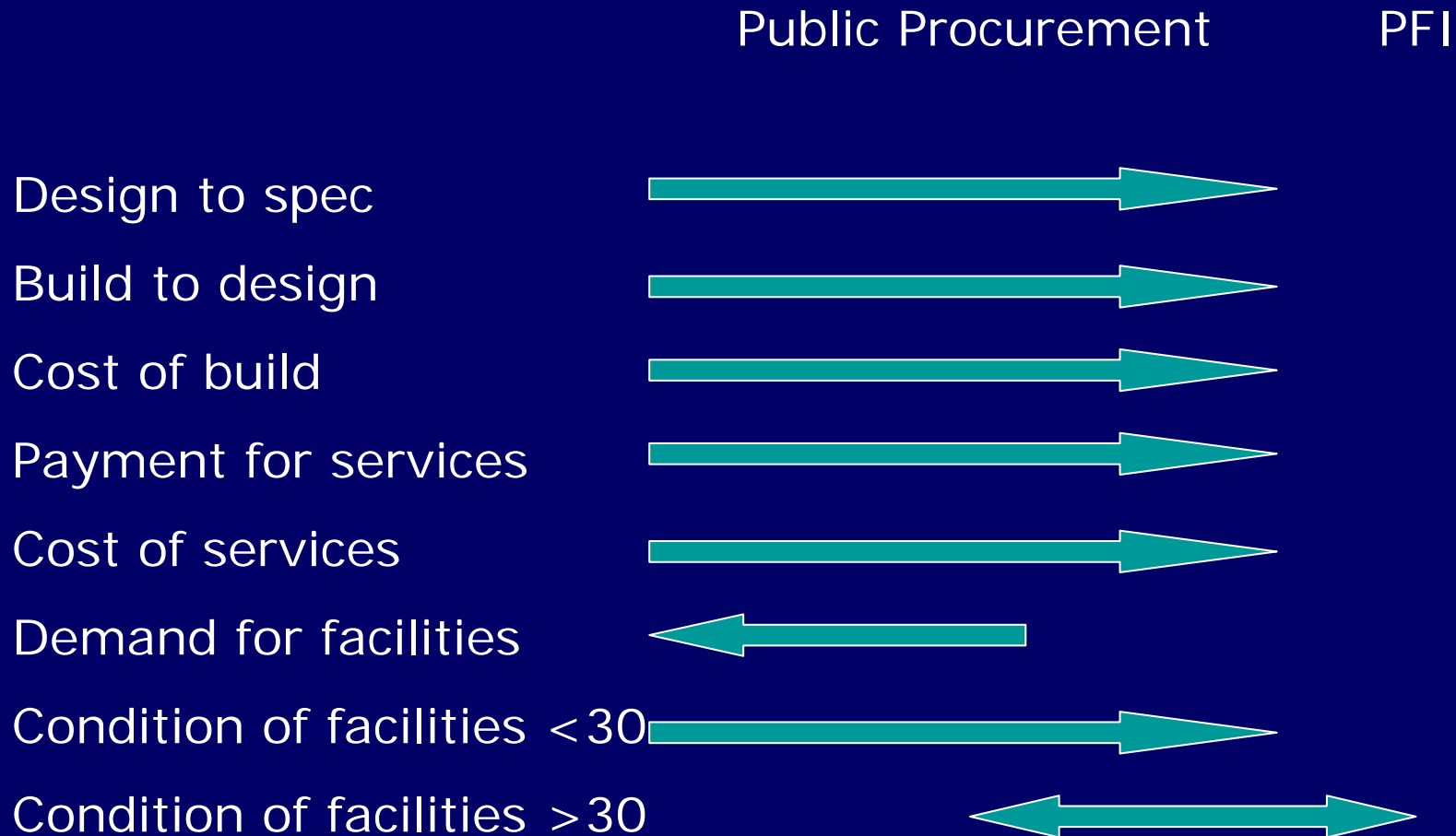
Public Procurement

PFI

Process



Key Features – Risk Transfer



Key features: Unitary Payment

Debt

Interest

SPV Costs

Life-cycle

Hard FM

Soft FM

Equity returns



Fixed monthly payment + Inflation - Performance = UP deductions

Key Features - Payment Mechanism

- The part of the PFI Contract through which the Hospital pays the Private Sector Partner for the provision of services (typically a serviced facility)
- Payments do not start until the Hospital is complete
- The key feature of the Payment Mechanism is that it enables the payment to be reduced where performance falls below standard
- Deductions for areas are weighted according to importance.

Main Benefits of PFI

- Delivery on time, on cost (price certainty)
- Design Innovation through competition
- Quality of hospital throughout lifetime
- Funder discipline
- Source of funds

Some Limitations

- Procurement time
- Cost – procurement and funding
- Flexibility
- Not suitable for small projects

But most problems are caused by badly managed procurements, so...

Key Factors for a Successful Project

- Be prepared
- Sufficient resources
- Make decisions early
- Build in flexibility for the future
- Understand the bidder's perspective
- and remember it doesn't stop at closing the deal...

Deloitte.