NHS Confederation

Public Accounts Committee Inquiry on Government's Use of Private Finance for Infrastructure

April 2025

About Us

The NHS Confederation is the membership organisation that brings together, supports, and speaks for the whole healthcare system in England, Wales, and Northern Ireland. The members we represent employ 1.5 million staff, care for more than 1 million patients a day and control £150 billion of public expenditure. We promote collaboration and partnership working as the key to improving population health, delivering high-quality care, and reducing health inequalities.

Summary

The government's 10-year infrastructure strategy has the potential to bring fundamental change and opportunity to the NHS capital regime, in which historically the UK has underinvested compared to other OECD countries.

To plug this gap, NHS leaders estimate that the NHS needs at least an additional £3.3 billion per year in capital investment over the five-year capital window at Spending Review. This is essential to efforts to boost NHS productivity growth to 2 per cent per year – a key requirement of the NHS Long Term Workforce plan.

Allowing Integrated Care Systems (ICSs) and provider trusts access to private investment will help meet this challenge.

Government can do this by changing national policy and guidance to allow new routes for private investment (such as Mutual Investment Models), and by supporting an attractive investment market through policy stability and a steady pipeline of projects.

As well as increasing the overall quantum of capital available, private investment models used in appropriate circumstances can streamline the investment process by transferring

risk, at a cost, to the private sector. In turn, faster project initiation will help bring projects into service early and to avoid higher construction costs due to inflation. While the National Audit Office has found legitimate concerns with how PFI was negotiated and managed, we believe this valuable analysis offers lessons for future private models and does not preclude their use in the future,

While an exact comparison is difficult, we argue that the New Hospital Programme shows its own version of poor value for money. The ongoing delays, and concerns about value for money from HM Treasury, mean that the projects have continued to rise in cost. We believe a strongly negotiated and managed private contract can compete with public procurement. More importantly, by crowding in private investment, public capital can go towards the many things that are urgent but have little political valance currently, such as the massive maintenance backlog.

1. The Darzi investigation into NHS performance published in September 2024 found that the UK has underinvested in compared to other OECD countries, with Lord Darzi describing the NHS as 'capital starved.'[1]

2. This is reflected by research published by the NHS Confederation in 2023 which highlights that the government needs to commit to a £6.4 billion annual capital funding increase for the NHS at the Spending Review.[2]

3. This is essential to efforts to boost NHS productivity growth to 2 per cent per year – a key requirement of the NHS Long Term Workforce plan.

4. We welcomed[3] the announcement of £3.1bn additional funding for NHS capital announced at the Autumn Budget. But this still leaves a £3.3bn capital funding gap for the next two years – addressing this is key to boosting productivity and achieving better value from existing revenue spending.

5. In line with the 2023 Hewit Review[4], government needs to clarify the government position on the use of private finance on NHS capital in England. Reliance on 'traditional' capital funding is unrealistic; new models of investment should be explored including those involving public and private sector partners.[5]

6. In November 2024, the NHS Confederation identified options for government which set out four ways they could raise investment for NHS capital.[6] These are:
    - **Government borrowing** (including Treasury borrowing and the Public Works Loan Board)
    - **Leveraging existing assets** (including cash reserves and existing estate)

[1] Department for Health and Social Care (2025) https://www.gov.uk/government/publications/independent-investigation-of-the-nhs-in-england
[2] NHS Confederation (2023) https://www.nhsconfed.org/publications/investing-to-save-NHS-capital-England
[3] NHS Confederation (2024) https://www.nhsconfed.org/news/budget-funding-boost-important-first-step-towards-putting-nhs-sustainable-footing
[4] Department for Health and Social Care (2023) https://www.gov.uk/government/publications/the-hewitt-review-an-independent-review-of-integrated-care-systems
[5] CIPFA (2024) https://www.cipfa.org/cipfa-thinks/articles/nhs-estates-have-a-key-role-to-play-in-integrated-care-systems
[6] NHS Confederation (2024) https://www.nhsconfed.org/publications/raising-nhs-capital-funds-options-government

- **Private investment** (including private finance initiatives/PF2, third-party development and buy-back, mutual investment models, infrastructure and investment partnerships and others that learn from previous experience)
- **Third-party ownership** (classic third-party development, shared ownership and pay per use).

7. It is clear from the NAO report that private investment models should only be used in appropriate circumstances. Other countries have proven that the mistakes of PFI can be avoided. The NHS Confederation is currently undertaking work to further refine models from international experience and will publish this work in the late summer 2025. We are happy to share this work with the committee when it is ready.

8. The NHS Confederation believes that estate projects are best suited for private investment, at appropriate scale and ideally for mixed-used developments (with income streams that can be discounted from ongoing project costs).[7] This is already the approach taken in Wales and Scotland. In England, GP surgeries can also use private investment for capital.

9. For example, the Little Hulton Health Centre in Salford was built to provide primary healthcare services to the local community using £5.9 million investment from the Greater Manchester Pension Fund. The modern two-storey building houses various services, including GPs, enhanced primary care and community services in one place. The project used a shared ownership structure to allow GP partners to develop the facility without needing additional NHS capital funding or personal funding guarantees. GPs own the majority of the building and have flexibility in leasing and adapting the space to meet evolving needs. This minimises risk for the GPs by effectively managing partnerships with funders and transferring risks with oversight from their professional team.[8]

10. The NHS Confederation has proposed that using private investment – including Mutual Investment Models (MIM) – can help make up the difference raising capital funding, alongside making better use of existing assets.

11. As well as increasing the overall quantum of capital available, private investment models can streamline the investment process by transferring risk, at a cost, to the private sector. In turn, faster project initiation will help bring projects into service early and to avoid higher construction costs due to inflation. It is likely that previous private finance initiatives offered better value for money than the New Hospitals Programme (NHP), given the spiralling costs caused by lengthy delays to NHP projects.[9]

12. As part of this, it is critical that HM Treasury and DHSC work to ensure that the NHS is an attractive market to patient capital in line with broader government attempts to 'cut red tape'. The 10-year infrastructure plan has the ability to create the stable policy environment to make the market for infrastructure investors more predictable. The UK tends to have a stop-start approach to capital projects which discourages the market

[7] Ibid.
[8] Ibid.
[9] NHS Confederation (2025) https://www.nhsconfed.org/publications/capital-efficiency

from delivering projects from upscaling. The government's proposed planning reform proposals should also bolster this.

13. This approach will also require development of infrastructure contract management skills in ICBs and NHS trusts.

14. As part of the 10-year infrastructure strategy, the NHS Confederation is also calling for government to introduce greater efficiency in to the NHS capital allocation process by streamlining approvals, devolving more decision-making to system level, delivering longer-term funding pots with more flexibility on capital spending limits and improving cross-boundary capital flows in the NHS to allow better and more efficient capital movement across ICS boundaries.

15. More efficient NHS capital investment will contribute to the UK's economic growth, not only by making the healthcare system more sustainable but through the socio-economic benefits for local communities of building public sector infrastructure.

16. This is a duty of integrated care systems and the correlation between healthcare and economic growth is now well established.[10]

17. In Hornchurch, the St. George's Health and Wellbeing Hub opened in late 2024 and offers residents easy access to a range of health and care services from different providers. These include GPs, acute care, community, mental health and preventions services, community diagnostics, dialysis and social care professionals as well as hosting local voluntary and community groups, all under one roof. Residents can see a range of professionals in one visit with faster and more convenient access to blood tests, MRI, X-Ray, CT and ultrasound scans. Through a multi-sessional use of space, St George's provides a completely integrated service model which wraps around patients and improves access. In turn, this improves local health outcomes which drives economic growth.

18. Completing the project took seven years. Over the course of the bidding period and as national priorities changed, the award funding and capital grants evolved from the New Hospitals Programme to Community Diagnostic Centre programme and other funding programmes. Additionally, the model of care had to be changed to align with the five case model approvals process, to meet technical requirements around multi-sessional use of space. The capital award process also provided additional challenges for the programme. Although North East London ICB bid for £20 million capital funding in 2017, the final award was not made until 2022. During the intervening seven years, the cost of the project doubled to £40 million. 50 per cent of the cost increase was due to inflation, particularly in the construction sector, and 25 per cent driven by subsequent regulatory changes, including change from BREEAM to Net Zero requirements and Greater London Authority planning regulation changes. The remaining cost increase was due to shifting further services out of the hospital and into the community, in addition to the community diagnostic centre. In this case, the length of and changes during the approval process increased the total cost by up to £15 million. The extra cost was funded out of the ICB's ringfenced local capital budget. That meant funding this capital priority was prioritised

[10] NHS Confederation 2023) https://www.nhsconfed.org/publications/creating-better-health-value-economic-impact-care-setting

over equally urgent estate, equipment and digital projects, as well as local repair backlogs elsewhere in North East London.

19. A more streamlined capital allocation process would have reduced the timelines around this project and avoided spiralling costs.