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PRIME MINISTER

Access to private capital

Note by the Secretary of State for Health
and the Chief Secretary, Treasury

HC 66

1. This paper is a joint one by Mr Clarke and Mr Major. They have been working on it for some time. At the last meeting you summed up the group's view that the work should be firmly based on the general objective that self-governing hospitals should have the maximum possible freedom to run their own affairs.

2. In the background there is a long history of argument between the Treasury and spending Departments about private finance and public sector projects. The point of disagreement has usually been the Treasury insistence that projects for the public sector should be funded by borrowing from the private sector only when, taking all the circumstances into account, it is more cost-effective than public finance. A similar issue will arise on Mr Channon's paper on road programme which E(A) are to take on 20 December. It also surfaces in this paper on the Bromley option described in paragraph 9(c), which the Chief Secretary opposes because it involves private sector finance which would be dearer than public sector finance.

3. The two Ministers say however that they are still considering the issues, and do not seek any decisions now. The Bromley decision is also unlikely to affect the drafting of the White Paper, which must have priority. You may therefore wish the group, subject to an important point of clarification, to do no more than note that further work is in hand. You could also ask Mr Clarke and Mr Major to report their conclusion to you when their studies are complete.

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4. On the point of clarification, you might ask how far the discussion in the paper applies to self-governing hospitals. It is written throughout in terms only of the health authorities, and the accompanying paper on self-governing hospitals, HC 65, does not mention these issues. On the other hand, the Treasury doctrine has in the past applied to all public sector bodies. A good test is whether the Treasury would allow a self-governing hospital to 'do a Bromley' - that is, adopt the option at 9(c) in the paper.

5. If it becomes clear that the principles in the paper might apply to self-governing hospitals, you might wish to repeat that future work must be based on the need for self-governing hospitals to have maximum possible freedom to manage their own financial affairs.

6. Mr Clarke and Mr Major say that they will consider the difficult Bromley case further with a view to a possible announcement about the time of the White Paper. You may wish to reserve your position on the possibility of an announcement until the further work has been done and you have seen the outcome. A controversial or unpopular decision might affect the reception of the White Paper.

R.T.W.

R T J Wilson
Cabinet Office
13 December 1988

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PRIME MINISTER

13 DECEMBER 1988

PAPER 3

ACCESS TO PRIVATE CAPITAL

The Bromley project strikes right at the heart of this issue.

Bromley desperately needs a new hospital to replace three existing sites. The Orpington site is particularly depressing. Most of the buildings are first world war nissen huts.

The new hospital would cost around £15-20 million after land sales (£70 million gross). Since most of the land cannot be sold until completion of the new hospital, a £40-50 million 2 year loan would be required during the interim. Once the new hospital is built, annual costs would fall by at least £3 million due to lower maintenance costs and substantial savings on the cutting back of the duplicated support services required for the three sites.

One major attraction of the project is the role of the private sector. Several firms have offered fixed price contracts for a three year construction period. This compares to an NHS managed construction period of 8-12 years. The costs of long-term contracts can escalate substantially.

The main problem is the £40-50 million 2 year loan. If the loan is included in the annual capital expenditure allocation, it would wipe out completely the whole of South East Thames' allocation for 2 years.

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