£2bn profit for companies selling debt on public projects

Companies have made more than £2billion by trading debt in schools and hospitals built using Private Finance Initiative funding, a new report shows.

By Christopher Hope, Whitehall Editor

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A study by the European Services Strategy Unit found that Treasury monitoring of the trading of PFI debt was “inadequate and infrequent”.

Hundreds of hospitals, schools, prisons and other public sector projects have been built under the PFI.

The deals became popular in Government from the end of the 1990s when Gordon Brown was chancellor.

They allowed ministers to secure large sums for projects such as new schools and hospitals without paying any money immediately.

But in many cases, the construction companies which built them have sold on their equity shares to infrastructure funds on the secondary PFI market.

Dexter Whitfield, the report’s author, analysed 154 projects and found that banks and builders made £518million in profits by selling on the debt.

If this was applied to all of 622 transactions of PFI debt, it would mean they had made a total profit of £2.2billion.

Mr Whitfield told BBC Radio 4’s File on Four programme: “It’s a wealth machine. It’s not necessarily printing money, but it’s virtually that, given the scale of these profits.”

The average profit margin on PFI equity sales was more than 50 per cent.

The Treasury keeps a database of PFI deals but, Mr Whitfield said, it was out of date and only contained patchy information. He said: “Banks and construction companies are ratchetting up large profits extracted from what is ultimately publicly-financed investment.”

Mr Whitfield found that in the case of one hospital, Calderdale Royal Infirmary in Yorkshire, the Treasury database had no information about its secondary equity sales.

However Mr Whitfield established that the ownership of the company had been traded on the second market nine times since 2002.

Margaret Hodge MP, chairman of the Commons public accounts committee said: “There has to be transparency around the system, so that if there is some profit over time in the funding of these PFI contracts, that profit can be shared between the taxpayer and the private investor.”

David Metter, chairman of the Public Private Partnership Forum which represents the industry, said the profits made were a fair reflection of the risks involved.

He said: “The private sector is efficient and has demonstrated in the past 15 years that it can deliver 700 projects on time and on cost.

“It would be extremely surprising if the government decided to do it another way.”

A spokesman for the Treasury admitted the information it held was incomplete.

“The Treasury collects and updates data biannually from departments on changes of PFI share ownership.

“We now have some form of equity holder information on around 81 per cent of PFI projects.”

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