Democratic erosion, profiteering and tax havens: PFI equity sales exposed

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Social Justice (//leftfootforward.org/category/social-justice/)

The vast profits made by contractors and banks selling equity in Private Finance Initiative project companies was exposed this week, reports Dexter Whitfield.

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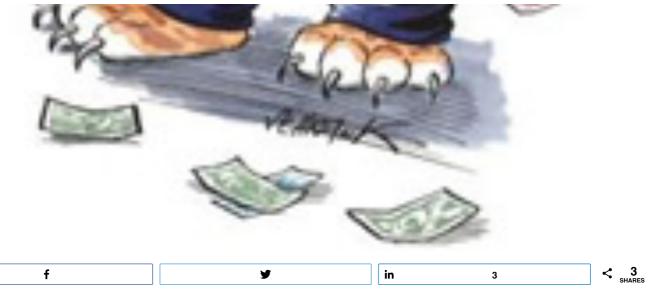
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The vast profits being made by contractors and banks selling equity in Private Finance Initiative (PFI) project companies, was exposed by the BBC <u>File</u> on 4 (//www.bbc.co.uk/programmes/b006th08) programme (//www.bbc.co.uk/programmes/b011vf2f#synopsis) on Monday (listen to it on the iPlayer <u>here (//www.bbc.co.uk/iplayer/console/b011vf2f</u>)).

The programme was based on research I carried out writing <u>Global Auction of Public Assets (//www.european-services-strategy.org.uk/global-auction-of-public-assets/</u>) and expanded into the European Services Strategy Unit's (<u>ESSU (//www.european-services-strategy.org.uk/</u>)) Public Private Partnership (PPP) Equity Database. It identified 240 PPP equity transactions in the last decade that involved 1,229 PPP projects (including multiple sales) valued at £10.0 billion. **The sale of equity was largely unaffected by the global financial crisis**.

The average profit was 50.6%, compared to average operating profits in PFI construction companies of 1.5% between 2003-09. Health (66.7%) and criminal justice (54.9%) had higher than average profits with transport (47.1%) and education (34.1%) below average. Equity in some projects was sold many times; nine times in the case of Calderdale Hospital PFI project.

Total profits are estimated to have been £2.2bn based on a sample of 154 projects that disclosed profits of £517.9 million. This excludes the undisclosed profits obtained in the sale of secondary market infrastructure funds.

If the same profit level was obtained in the sale of secondary funds, the profit from PFI equity sales could be a further £2.0bn, giving a total profit of £4.2bn.

This is only a snapshot of the real scale of profits in PFI. The structure of PFI deals means that companies will receive dividends in the latter part of the contract. The equity sales identified to date have occurred soon after construction was completed and the project was operational. Clearly those acquiring PFI equity, mainly infrastructure funds, expect to make further profits.

The BBC programme revealed the appalling attitude of the HM Treasury and the National Audit Office in failing to identify the scale of equity sales and profiteering. The response of construction companies and banks was predictable; they refused to comment or tried to play down the issue.

With the Public Accounts Committee and the Treasury Committee currently seeking evidence on equity sales, they are afraid that these investigations could lead to new controls and reduced profits.

The ESSU <u>report (www.european-services-strategy.org.uk/news/the-ps10bn-sale-of-shares-in-ppp-companies-new/)</u> also identified increasing use of tax havens for UK infrastructure funds.

The focus on profits masks other important issues about the potential effects of the sale of PPP equity and the growth of secondary market infrastructure funds.

Firstly, the scale of profiteering makes a mockery of the original value for money assessment at the procurement stage and can only be addressed by a new comprehensive and rigorous assessment framework.

Secondly, the privatisation of gains from publicly financed investment and development must be reversed, so that the public sector has a 50 per cent share in any profit above a specified level.

Thirdly, new transparency and disclosure requirements for full notification of equity sales should be introduced as a matter of urgency.

Finally, PFI equity sales and the growth of a secondary market results in further erosion of democratic control. As infrastructure funds increase their offshore portfolios of PFI assets, **they will use their power to influence decisions affecting the future management and provision of key public facilities.**

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