PFI: transferring billions from UK taxpayers to private financiers

CLARE SAMBROOK 22 June 2011

The Private Finance Initiative has recklessly transferred billions from UK taxpayers to private financiers. Now we're nicely asking for a little bit of our money back

More excellent journalism on the almighty (and lawful) rip-off that is the UK Private Finance Initiative has come from BBC Radio 4's File on 4. The programme reveals gigantic profits made on the resale of PFI contracts, suggesting a lamentable failure of vigilance by those entrusted with fighting the taxpayer's corner in the original deals.

For two decades the Private Finance Initiative has been a risky way of funding new hospitals, schools, prisons and roads: companies build and maintain public facilities under contracts lasting as long as 35 years. File on 4 (broadcast last week, available here this week and on podcast indefinitely) identifies PFI hospital contracts that within a few years of being struck have been sold on, yielding profits for financiers averaging 66.7 per cent.

(To put that in context: a more conventional profit margin for a FTSE 100 company such as Sainsbury would be closer to 3 per cent.)

The Queen Alexandra Hospital, Portsmouth,

File on 4 exposes the UK Government Treasury's failure to gather meaningful data about the secretive secondary market in PFI contracts. The programme interviews analyst Dexter Whitfield who has tracked down data that betrays private sector profits whose dizzying scale suggests an appalling lack of advocacy on behalf of taxpayers in the framing of the original contracts.

As Liberal Democrat MP Ian Swales tells the programme, "by definition . . . the taxpayer got a bad deal at the start or there wouldn't have been these super profits to be made."

Swales, who has worked as a construction industry consultant, recalls: "they were making far more money selling the PFI deals on afterwards than they were on the actual construction."

Among the Treasury's dozier assumptions has been that astronomical profits are all right because we, the public, take our share of the spoils in the form of capital gains tax. But, as File on 4 points out, financiers hold their PFI equity in Channel Island tax-havens determinedly to avoid sharing any gains with the rest of us. Quite how that unsurprising fact escaped the Treasury's notice is one of the more breathtaking questions provoked by the BBC's programme.

File on 4 interviews David Metter, chairman of the democratically-sounding Public Private Partnership Forum which lobbies government and civil servants hard on behalf of commercial interests. Metter claims that huge profits on the resale of PFI contracts fairly reflect the risks borne by financiers—even though the beauty of these investments is that they are long term, low risk and underwritten by the taxpayer.

Reporter Gerry Northam asks Metter: "When PFI equity sales are described as a wealth machine, how do you respond?"

"Well, I just don't agree with that," replies Metter who is reported to have amassed a personal fortune of £60 million off the taxpayer's back. His company, Innisfree, is the biggest private "investor" in the NHS and the largest beneficiary of the PFI boom.

This year in January the Public Accounts Committee called for a "robust evaluation" of PFI contracts. In March Prime Minister David Cameron called PFI a shambles and the Treasury Select Committee launched its own investigation. In April the National Audit Office published the latest in a long line of critical reports, saying: "The public sector should make better use of the hard won lessons from the extensive and substantial PFI programme. This means acting as a more demanding and intelligent customer, by harnessing government buying power through concerted tactics and tougher negotiation."

It's a bit late for all that. More than £250 billion of public money has been committed to PFI projects and we remain trapped in these contracts for decades to come. In Portsmouth alone paying for the Queen Alexandra Hospital means finding £44 million-a-year, rising with inflation, until 2040. Already under strain, in two years since opening the hospital has shed 700 jobs, with 90 more to go and the palliative care ward has been shut.

Meanwhile, Carillion, a company that invested £12 million for a 50 per cent stake, cashed in last June for a cool £31 million, a windfall we might not have heard about were it not for Edinburgh academic Mark Hellowell; the Treasury hasn't kept track. The company that paid the £31 million, HSBC Infrastructure, is happy. Everyone's happy except the people of Portsmouth. So, asks Gerry Northam, "was the original contract agreed for Portsmouth's PFI hospital too generous to the private sector?" No Treasury minister was available for interview.

Multimillionaire David Metter is confident the PFI machine will keep on running: "Particularly now, when we find ourselves in a period of austerity," he says, "I would expect it to become very important to the current coalition to have an infrastructure programme, and that programme will be delivered by the private sector and it will be financed by the private sector. And this is effectively PFI, it may change its name."

How ministers, civil servants and their advisers came to serve the public so very badly, despite critics persistently raising the alarm over years (see Private Eye, *ad nauseam*) is a question that might reasonably be put to some of the former public servants now tucking in at the corporate trough—such as . . .

John Reid, variously Labour Home Secretary and Minister for Health, Defence and Transport . . . turned £50,000-a-year consultant to PFI beneficiary G4S while still a backbencher. Now Lord Reid of Cardowan is a G4S director and a partner in the private-equity-meets-retired-politicians Chertoff Group . . .

Or Labour's Patricia Hewitt, accused of promoting "privatisation by the back door" while Health Secretary, caught soliciting cash for lobbying by Channel 4's Dispatches, now chasing £100,000+-a-year as a director at BT, a consultant to Boots UK and an adviser to Cinven, a private equity firm specialising in healthcare buyouts . . .

Or Sir Richard Mottram GCB, formerly a permanent secretary at the Cabinet Office, appointed chairman at PFI beneficiary Amey in 2008. "Since joining," says his new employer, "he has been heavily involved in developing the Amey agenda in central and local government and guiding our strategic development for continued growth" . . .

Or Sir David Omand GCB, former mandarin (counter-terrorism, homeland security, civil contingencies, Joint Intelligence Committee, Permanent Secretary the Home Office, Director GCHQ), now a part-time non-executive—£50,000-a-year—at PFI beneficiary Babcock. (Slogan: Trusted to Deliver) . . .

And the list goes on.

Some inkling of how ministers, civil servants and their advisers came to frame and negotiate contracts so heavily weighted against the tax-payer might also be found among the City of London legal and financial outfits, where only job titles and flimsy "Chinese Walls" separate the government advisory teams from the henchmen of rapacious PFI profiteers.

Conservative MP Jesse Norman with cross-party support from 70 MPs is running the Campaign for a PFI Rebate "to encourage the banks, construction firms and service companies who have benefited from the Private Finance Initiative over the past decade to give back a small portion of their profits to the taxpayer." On our knees. It has come to this already.