British Labour's "modernisation programme": transferring public assets to private capital

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Last week, Prime Minister Tony Blair announced six new National Health Service hospital developments worth a combined total of almost £650 million. It is part of a third wave of Private Finance Initiative (PFI) building in the NHS that brings investment in new hospitals to more than £3.1 billion since Labour came to power.

Speaking at the site of an existing PFI development in Greenwich, South London, Blair called it the biggest hospital building programme in the history of the National Health Service. He used the opportunity to attack the British Medical Association (BMA), which is opposed to PFI, and a series of critical articles published by the *British Medical Journal*. "Doctors, like patients," he said, "do not feel this great ideological opposition to PFI."

Who could complain if much-needed new hospitals are being built, with the private sector picking up the tab?

However, articles written by a research team based at University College London and Manchester University have exposed the financial and social implications of the Public Finance Initiative, which is the linchpin of Blair's much-vaunted modernisation programme.

Under PFI, private sector corporations design, build, own and operate public services in return for an annual fee for the duration of the contract, typically 25 to 35 years. So far, PFI deals have involved roads, bridges, prisons, government premises, hospitals and schools.

PFI is the British variant of “public-private partnerships” being applied across the world as a back door means of privatising the social infrastructure. It is presented to the public as the only way of modernising Britain's crumbling infrastructure without increasing taxation or government debt: the private sector will provide the funds to do what the government cannot.

The NHS and other public services, such as schools, never had the money to rectify the imbalances that it inherited with the establishment of the welfare state after World War II. Only one third of the planned building took place in the 1960s. In 1976, under the last Labour government, the IMF imposed spending cuts and effectively brought all infrastructure development to a standstill.

Since governments can borrow money more cheaply than private corporations, PFI hospitals and schools are inevitably more expensive than conventional procurement. That in turn leads to cutbacks in service provision and the imposition of productivity increases on already overworked clinical staff. Typically, PFI hospitals have 30 percent fewer beds and fewer staff—under conditions where the existing hospitals are inadequately resourced to cope with waiting lists. Rationing, user charges and private insurance schemes are set to follow.

In addition, the government has had to provide subsidies, and health authorities are having to divert their equipment grants and purchasing commitments on behalf of their residents towards the PFI hospitals in order to make them financially viable. Like the cuckoo in the nest, PFI is consuming all the available resources.

But the private sector is only interested in large-scale projects with valuable land sites that can be redeveloped. This means closing hospitals, particularly those on city centre sites, and concentrating facilities on a new greenfield site inaccessible to those without a car.

Thus, the largest closure programme in the history of the NHS is financing the largest ever building programme. But even more is at stake. The use of land sales to fund investment means that hospital and other service “modernisation” and reprovisioning will depend upon the accidents of geographic location and local affordability, not national priorities and healthcare needs.

It means a return to the situation prevailing in the 1930s, and ever increasing inequity. Planning and equity have been sacrificed to the market. In effect, the giant corporations will displace the public authorities and take responsibility for what were once government functions.

All this has resulted in an absurd situation; 30-year-old hospitals in good condition are being demolished in favour of more expensive, smaller hospitals, although more that 50 percent of all existing hospital beds are in pre-1914 accommodation.

The public services have been denied public funding and forced down the road of private finance because it is the “only game in town”.

It has only been possible to challenge the government's case that PFI provides value for money in the area of health services, because a few of the business cases submitted to government for approval have become publicly available. This is unlikely to continue, as under the government's proposed Freedom of Information legislation such documents will, in future, be withheld to protect “commercial confidentiality”.

Even as the *British Medical Journal* provided detailed evidence to refute the government's claims that the increased costs of PFI are justified by the fact that the private sector carries the risk of budget and time over-runs, this alibi has been publicly exposed for the sham that it is. Major Information Technology projects, carried out under PFI, have turned into expensive fiascos whose costs are to be borne by the public purse, not the private sector.

The spectacle of long queues of angry people outside Passport Agency offices in recent weeks has caused the government acute embarrassment. Last month, more than half a million passports were still waiting to be processed, as the contractor, Siemens, were running late with the installation of a new computer system. Andersen Consulting are massively over budget and years overdue in delivering the computerised National Insurance recording system. This follows disruption caused by the Home Office's new immigration computer and problems with a Prison Service system. The computerisation of all the Post Offices has had to be abandoned, costing the tax payer millions.

Despite contracts with penalty clauses, the government is refusing to seek full compensation for such big Information Technology projects that have gone wrong, in the interests of getting PFI working. Siemens is set to get away with a measly £60,000 fine and Andersen with £3.9 million.

As the House of Commons Public Accounts Committee noted, the failure to obtain compensation "would result in the risk purportedly transferred to Andersen Consulting under the PFI contract being transferred back to public sector". The government has chosen to attribute blame for these failed projects to public sector staff and agencies, rather than abandon its policy of using PFI to finance its modernisation programme.

The government has signed more than £13 billion worth of PFI deals to modernise Britain's infrastructure and has committed more than £84 billion of revenue expenditure over the next 30 years to servicing PFI deals. It has locked future governments into fixed contracts and forms of service delivery that limit their freedom of manoeuvre.

Governments of all political shades have introduced privatisation, deregulation, liberalisation, and now “public-private partnerships” at the behest of big business. Similar policies are being applied all over the world. The International Monetary Fund and the World Bank have made loans to developing countries conditional upon the opening up of the public sector to such “partnership” schemes. Both are now promoting the use of “markets in infrastructure provision”.

The World Trade Organisation is intent on liberalising government procurement and infrastructure provision. Its Government Procurement Agreement (GPA) came into force for a number of countries, including the EU, in 1996, opening up public contracts to international competition. The extension of GPA is a key issue in the next round of WTO talks later this year.

A new business sector devoted to “partnership” or PFI deals of this sort, and almost entirely dependent upon government contracts, has developed. “Facilities management” and “business service corporations” are some of the fastest growing areas. Despite relatively low profit margins they provide their shareholders with a high rate of return on capital employed, with little risk involved. The financial institutions and banks, who play a leading role in PFI deals in both Britain and the rest of Europe, are the real beneficiaries as public assets are transferred into the pockets of private capital.