Britain: Department of Health tries to suppress facts about Private Finance Initiative

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While I am better known to readers of the *World Socialist Web Site* for articles on the Middle East, in my professional life I am an academic who writes on business and public policy and finance. My recent experiences reveal how the Labour government seeks to ensure that research contradicting its lies and exposing increasing corporate control over public policy is suppressed.

Last March, the Department of Health (DoH) tried to stop the journal *Public Finance* from publishing a very brief summary of research, co-authored by myself and colleagues at the University of Manchester, showing the enormous cost of using private finance for the first 12 hospitals built in England under the government's Private Finance Initiative (PFI). The DoH claimed that the data was wrong.

PFI has been a hugely unpopular and controversial means of financing much-needed new buildings for essential public services. Under the PFI, the private sector builds and operates hospitals, schools, prisons, roads, etc., which are leased to the public sector in return for annual payments for both the buildings and services. In the case of hospitals and schools, the core professional services are retained by the public sector.

Brought in by the Conservative government in 1992, PFI has been vastly extended by the Labour government to all key public services. The government has justified the policy with the claim that it is better "value for money," as risks are transferred to the private sector.

In 1999, previous research I was involved in with Professor Allyson Pollock, of Edinburgh University and author of *NHS Plc*, showed that while the government boasts of launching the biggest building programme in the history of the National Health Service, it had resulted in an actual contraction in the service.

PFI was so expensive that hospital plans had to be scaled back. The first wave of PFI hospitals had 30 percent fewer beds than the hospitals they replaced. The high costs were offset by increased subsidies to the hospitals, land sales at knockdown prices to the private sector, and "challenging performance targets" for nurses and clinical staff.

The National Audit Office, the parliamentary watchdog, also criticised the government's claims as based upon unreliable evidence.

My recent research showed that the first 12 hospitals were paying about 8 percent interest for private finance compared to 4.75 percent for public finance. This adds up to £60 million a year extra every year of the twelve 30-year contracts. For the 155 schemes worth nearly £9 billion signed so far, the additional cost of private finance is £480 million a year. That sum would build several new hospitals every year.

While the government justifies this on the basis of risk transfer to the private sector, it is far from clear what risks have been transferred since the payments are to all intents and purposes guaranteed by the government. These deals are shrouded in secrecy and immune to Freedom of Information requests from the public, due to "commercial confidentiality."

But this is only the observable cost of private finance. Other costs that cannot be quantified on a systematic basis include:

* the massive profits made on the land deals;
* the refinancing of the deals;
* the profits derived from subcontracting to sister companies;
* the income received directly from patients and their families for car parking and canteens, and the scandalous charges for pay telephones and televisions.

Furthermore, once the hospitals have been built, many companies have been able to take out larger loans, repayable over a longer period, pay off their pre-existing debt and walk off with the difference as profit. For example, the consortium that has the Norfolk and Norwich hospital contract was able to generate a lump sum of more than half the cost of the £210 million hospital in this way.

Secondly, we found that most of the hospitals were paying more than they expected when they signed the deals. While the average increase was 20 percent, 3 of the 12 hospitals were paying between 50 and 70 percent more. This was due to higher-than-anticipated caseload that had triggered volume-related increases, and the failure to specify precisely everything that they needed in the contract: from filling the patients' water jugs to including marmalade with breakfast!

One of the most egregious examples to hit the headlines was the failure to move a patient who had died of natural causes in a mental health unit. Because this had not been specified in the contract, the contractor refused to move the body within the requisite 30 minutes on the grounds that they were only required to move *patients* within 30 minutes and a patient was someone who was receiving treatment, not a corpse. In the end, the hospital had to call in commercial undertakers to move the deceased patient to the morgue.

Even after a 56 percent increase in funding since 2000, PFI payments were still taking 11-12 percent of the hospitals' income. Without the increase in funding, PFI charges would have been unaffordable. It also shows that much of the government's increase in health spending has gone on the cost of private finance, not service provision.

Once the hospitals were operational, the post-tax returns on shareholders' funds were at least 58 percent a year. Yet the Treasury was on record as saying the average returns were between 7 and 15 percent and that 15 percent was too high.

Finally, our study showed that many of the hospitals were in a parlous situation. Meridian, the private sector "partner" for the Queen Elizabeth II Greenwich Trust, was making far more than it had set out in its bond offer document to the London Stock Exchange in 1999. The Trust attributed its "technical insolvency" to the £9 million a year that was the additional cost of private finance. Its finance director said that the PFI deal locked the Trust into an annual deficit of £20 million, which it could not afford. Without government support, its long-term prospects were unviable and patient care was threatened.

Irrespective of any causal role in the hospitals' deficits, which our research was unable to determine, since PFI charges are essentially fixed costs that must be paid, they matter when margins are already low due to other rising costs. They reduce flexibility in managing budgets, under conditions where the Trusts have always struggled to break even.

The Labour government and various public agencies have long known of my critical work on privatisation in general and PFI in particular.

Public Finance, as the weekly journal of professional accountants and financial managers in the public sector, is also widely read by journalists and policymakers. The research referred to is an updated version of part of a much larger study on PFI hospitals and roads that had been funded and published by the Association of Chartered and Certified Accountants in 2004. The Department of Health and the NHS neither acknowledged nor challenged any of the findings of that study, despite being sent copies and the publicity it received in the financial press. They could not do so.

Our work has since been accepted for publication in at least four peer-reviewed journals. It has been the subject of numerous invitations to speak at international conferences and seminars on healthcare and transport financing, as countries around the world seek to adopt the self-same policies and rhetoric as Labour.

The article on the cost of PFI hospitals will come out shortly in *Public Money and Management,* the academic and professional journal of the Chartered Institute of Public Sector Accountants (CIPFA).

Public Finance had sent its summary of the research to the Department of Health so that its comment would form part of its article. The NHS's press officer at the DoH wrote back to *Public Finance,* without having read the paper on which the article was based, saying, "We would strongly urge you to get this data independently audited before you even consider running an article."

The DoH specifically challenged the additional cost of private over public finance and the increase in PFI charges since the deals were signed. It asserted that PFI charges were no higher than they would have been if the hospitals had been procured conventionally. It repeated the claim that PFI was only used if it was expected to deliver value for money and was affordable.

When *Public Finance* said that it would go ahead with its article, the DoH asked for a page in a subsequent edition of the magazine to rebut our research.

However, Health Minister Andy Burnham, after giving the research paper to his officials in the NHS PFI unit, simply wrote a short letter to the magazine. In it, Burnham quibbled with the figures cited for the shareholders' rate of return, saying that we had simply cited one set of figures (58 percent in 2005) that gave a misleading picture. In fact we had deliberately cited only one year, because we thought that this was likely to be more normal and we did not want to overstate our case. Returns in the other years for which the hospitals were operational were 1,000 percent!

While other definitions of shareholders' returns are indeed used, all of them show that these deals are highly profitable. That is why so many of the consortia are able to sell their shares at a massive profit to international companies specialising in hospitals, schools, prisons or roads across the world.

Burnham claimed that annual returns were "much more *likely* to be between 12 percent and 14 percent" (emphasis added), the figure the Treasury had earlier rejected as too high. But he did not define the term, identify the evidence from which this was derived or cite evidence as opposed to "likely" returns.

Above all, he did not refute our finding that—extrapolated to all signed hospital deals—PFI would cost an extra £480 million a year due solely to the observable higher cost of private finance.

The DoH had attempted to suppress a summary of research with a tissue of lies that even its own staff could not substantiate in public. It had to back down on every one of its claims against us.

This is by no means the first failure on the part of the DoH to rebut our work. In 1999, after four of our papers on PFI hospitals were published in the *British Medical Journal*, Colin Reeves, the director of finance and performance at the NHS, wrote a strong letter promising a response. While the BMJ invited him to submit, his response was not deemed suitable for publication. Nevertheless, Reeves claimed in *Health Services Journal* that criticisms of PFI had been comprehensively rebutted elsewhere.

Unable to rebut our work, the DoH has largely ignored evidence that does not sit well with its claims about PFI. This is despite the fact that it has a rebuttal unit whose task is to counter any criticism of PFI.

It is notoriously difficult to get clear, consistent and up-to-date information about expenditure under PFI, and future commitments, let alone details of any guarantees, implicit or explicit, that the government has given. Such information that does become available is typically via the Stock Market, which requires facts in order to price the bonds and securities that underpin PFI. Thus, more information is given to the financiers than the public as users or taxpayers that ultimately underwrite their profits.

This is hardly surprising. The PFI policy was designed and implemented by big business. International financial consultants lent their staff for two-year secondments to the Treasury's PFI Task Force and PFI units in key departments and in some cases even paid their salaries. The constant revolving doors between the City and senior civil servants meant that policies always reflect the wishes of the financial institutions.

The Labour government has sought to justify its turn to private finance by citing "evidence" that PFI constitutes "value for money." But this evidence is anything but independent. Commissioned from financial consultants such as Arthur Andersen, PwC and KPMG, who have a vested interest in such policies, it is based upon surveys of the opinions of managers involved in such deals, evidence that it refuses to make public, or inappropriate comparisons.

In 2000, the government reconstituted the Treasury PFI Task Force, which managed the PFI procurement process, as Partnerships UK (PUK), and sold the majority of PUK's shares to the very corporations that are closely involved as owners, financiers and subcontractors in PFI projects. Legislation was amended to give PUK the authority to do so. It thereby handed over the control of policy development and implementation from the civil service to the private sector, an unprecedented change in the process of government that went largely unnoticed.