ACTUALITY AT SCHOOL, BELL RINGING

NORTHAM: It’s clear that a building programme of shining new schools is central to the government’s hopes of re-election. And new hospitals and health centres and roads. The Private Finance Initiative, PFI, once derided by New Labour, has become the key to rebuilding Britain’s ageing infrastructure. Tens of billions of pounds have already been invested, and there’s much more to come. But File on 4 has discovered that, almost unnoticed in the first two terms of Tony Blair’s government, these public services have been turned into tradable commodities in the city. Multi-million pound shareholdings in education, health and transport projects now change hands in secretive deals between contractors and financiers, releasing some immense cash windfalls for businesses – at the taxpayer’s expense.

SIGNATURE TUNE

ACTUALITY IN CAR PARK

DONALDSON: Just here is the entrance to our car park. There’s a very big turn-around in the car park. Certain parts of the day there would be queues to get in.
NORTHAM: Vincent Donaldson worked as a security officer at Belfast’s Royal Victoria Hospital, where the car park was notoriously dangerous. Thefts and hijackings of staff and visitors’ cars were all too common.

DONALDSON: You press for a ticket there.

NORTHAM: Here’s the barrier.

So, when a new safe car park was built, Vincent and his colleagues were relieved. Until they learned that the thousands of daily parking fees would be lost to the NHS.

DONALDSON: Staff were saying at the time that they didn’t mind paying some money for car parking, providing that once the car park was paid, then the money that would be made from the car park would go into patient care or work around the hospital. But they found out that a company was coming in and they would have this profit on a rolling basis for twenty years. It really angered staff.

NORTHAM: What did you do?

DONALDSON: People used to come into work early in the morning, abandon their cars outside on the barriers where nobody else could get into the car park and walk off and leave them. There was protests out on the road. We had our rally right round the whole site.

NORTHAM: What was the resolution of these blockades and protests?

DONALDSON: Well what eventually happened then that the hospital trust then came to the decision that they would subsidise the car parking for the staff here on site, and that was agreed by the staff.

ACTUALITY WITH TICKET MACHINE

NORTHAM: This was an early PFI project, and it’s proved to be a moneyspinner for the company that built and operates the car park. Many more people than expected use it, most days it’s full to capacity, and there are queues here at the pay stations.
NORTHAM cont: Profits are comfortably in excess of £500,000 a year, and they will continue to flow over the twenty year contract. But for the health service, things look less rosy. For the cost of the hospital’s subsidies over just the first five years, the NHS could have built the entire car park without any commitment to the private sector. And if it had, the hospital would now be reaping the profits.

DALLAT: This particular report on the hospital car park is a classic model that I think everyone should read before they consider signing up for PFI, because all the mistakes you could possibly make are in this.

NORTHAM: A report from Northern Ireland’s Audit Office has coldly dissected the failings of the car park deal. But, with the Stormont Assembly suspended, there’s been no political hearing of the case, which is perhaps just as well for the hospital, given the verdict of John Dallat of the SDLP, a prominent member of the Public Accounts Committee.

DALLAT: There’s a lot of anger among the public, because this happened at a time when money was not available to treat people, and here was a hospital trust paving a car park with gold.

NORTHAM: Paving it with gold?

DALLAT: Paving it with gold. £2.2 million to the provider of the car park in the first four years. The car park only cost £2 million. Now if that’s not a good deal, you tell me.

NORTHAM: The hospital’s Chief Executive, William McKee, didn’t want a PFI in the first place, but had to accept it and puts a brave face on the way the deal’s worked out.

MCKEE: The consequences for us have been good. We have the benefit of a good safe car park with very low charges, and we have avoided the need to spend public money either for the capital investment or the continuing running costs of the car park.

NORTHAM: It doesn’t look good though, does it, because you’ve spent more in subsidies in the first five years of this scheme than it cost to build the car park.
MCKEE: The subsidies are a different issue altogether.

NORTHAM: .. public money being spent.

MCKEE: Yes, but those subsidies are as a consequence of industrial relations on the site, and not really to do with our relationship …

NORTHAM: If you owned and had built it, you wouldn’t be subsidising it, would you?

MCKEE: Yes, that’s correct, and I think that was part of the difficulty.

NORTHAM: From the point of view of the company who built this car park, this looks almost too good to be true, doesn’t it? They are making something like £500,000 profit a year. In the first four or five years they’ve completely covered the cost of building the car park, and for the next fifteen years they’re going to be taking those kind of profits out of it.

MCKEE: Uh-huh. On the other hand we transferred all the risk to the private sector. They were the cheapest and they provide a good service.

NORTHAM: And they’re making half a million a year.

MCKEE: But that’s the nature of the private sector.

NORTHAM: The risks taken by PFI contractors are the main justification for the high finance costs inherent in the contracts. To avoid public sector fiascos like the Jubilee Line or the Scottish Parliament, the principle of PFI is that the risks of cost overruns or projects delays are lifted from the government’s shoulders and carried by the private sector. But this is questioned in new research to be published tomorrow by the public sector union, Unison. The analyst, David Price of University College London, examines the degree of risk private companies actually take on under PFI, and finds the evidence far from convincing.

PRICE: There are, according to the government, 451 operational PFIs – roads, hospitals, prisons. Only eight have been looked at to see whether or not the risk
PRICE cont: actually borne by the private sector is the risk that they have charged the public sector for carrying. In seven of the eight, the evidence suggests that the risk was not transferred, and therefore that the rate of interest charged by the private sector was not justified.

NORTHAM: How do you mean, the risk was not transferred?

PRICE: I mean that, when things went wrong, the private sector was bailed out by the public sector and the government or the hospital authority or the prison service put in more money. And because of high political commitment to the policy of using private finance instead of public finance, there isn’t the impetus to actually go out and look and see whether or not the policy is worthwhile.

NORTHAM: But ministers do repeatedly claim that PFI gives the public good value for money.

PRICE: The problem with that claim is that it’s based on evidence that’s collected before a scheme is up and running. To find out the truth about value for money, you have to go and look at schemes that are actually up and running, and since nobody has looked at those systematically, and since information about them isn’t systematically collected, then there is no basis for the ministers’ claim.

NORTHAM: PFI contractors, in contrast, do go back and look at projects once they are built, with a view to making substantial windfalls out of them – in some cases, greatly to the embarrassment of the government. Three years ago, File on 4 reported on a lucrative financial manoeuvre, equivalent to a remortgage, which yielded a windfall of £12 million for the company which built Britain’s first PFI prison at Fazakerly in Merseyside. It emerged that the public sector was originally to have none of this windfall, and in the end it had to settle for a net half million out of the twelve. Now a gigantic cash windfall at the first major hospital PFI in Britain is proving even more controversial.

ACTUALITY OUTSIDE HOSPITAL
WOMAN: This is the new hospital. It’s a thousand bed, university teaching hospital, built on a 63 acre site, just next to University of East Anglia …

NORTHAM: At the newly-built Norfolk and Norwich University Hospital, the public sector has once again found the terms on its side of the contract woefully inadequate.

MAN: I need someone to take a patient round to X-ray for PHS. Would you be willing? He’s in Resus.

NORTHAM: The most important parts of the hospital, its medical wings, are state of the art, among the best equipped in Europe. In place of the familiar chalk and blackboards, staff in the accident and emergency department track patients on a computerised plasma screen. The gentle décor and lighting contribute to the air of calm efficiency.

WOMAN: We have … you can fast-track them straight through emergency assessment unit.

NORTHAM: But local healthcare professionals have spoken privately to File on 4 of a scandal over the financing of the hospital. The figures are breathtaking. The cost of construction was £229 million, mostly paying off high interest loans. But once the buildings were up and running, the private contractor, Octagon HealthCare, was able to refinance the project at lower interest, releasing a cash windfall of £110 million – almost half the building cost. Under the PFI contract, the hospital’s share of this was to be precisely nothing. A local Conservative MP is following the case with particular interest as a member of the Commons Public Accounts Committee. Richard Bacon is astonished at the sheer scale of this transaction.

BACON: It does seem extraordinary, and I think taxpayers would be right to be outraged by it. When the government first started letting PFI contracts, it actually explicitly avoided encouraging departments and authorities to include a refinancing clause, I think as a bit of an encouragement to contractors to get involved in the process. When PFI was quite young, people weren’t sure how it was going to go or whether it was going to be successful or not, and therefore they wanted to create a bit of honey, as it were.
NORTHAM: £100 million is quite a lake of honey.

BACON: It is a lake of honey, it is a lake of honey, and it seems to me that the public should be outraged, because at the end of the day they are having to pay more than they otherwise would for a certain level of service for many many years to come. The National Audit Office is looking at the Norfolk and Norwich Hospital at the moment, and we haven’t seen the report from them yet, but it seems to me that when you’ve got sums of money of this scale sloshing around, it’s likely that the taxpayer has not been well served.

NORTHAM: It was only after the public outcry over windfalls like this, and some fairly unsubtle arm-twisting by the Treasury, that a national ‘voluntary’ agreement was reached for the public sector to get a share. In Norwich, all the £110 million has gone to Octagon HealthCare, who would not be interviewed for this programme. The NHS is to get its much smaller share, not in cash, but in slightly reduced annual payments to Octagon, saving £1.7 million a year. The rent alone on the building costs £25 million a year. In its defence, the NHS points out that its contract with Octagon followed the standard PFI terms of the time. The hospital’s Resources Director, Anna Dugdale, is content that at least some benefit will come to the NHS.

From the outside, doesn’t it look in this contract as if the private sector have done exceptionally well? They’ve got the whole of the windfall, you’re going to get some of it back in reduced payments over thirty years, but having had nothing written in the contract in the first place you’ve always been one step behind them, trying to catch up?

DUGDALE: I think what’s really important to remember is, we had nothing written in the contract, but at the end of this negotiation we had a significant benefit which we didn’t have at the beginning.

NORTHAM: But that’s you trying to catch up.

DUGDALE: I don’t agree. I mean, under the contract we weren’t entitled, strictly speaking, to any of this gain.

NORTHAM: But the reality is, £110 million has been raised as a windfall. It’s all gone, been cashed to the private sector, and you’re going to get a small reduction in your payments over thirty years. It’s very much a second best for you, isn’t it?
DUGDALE: It’s certainly better than the position we were in before the refinancing negotiation.

NORTHAM: You mean, the original contract was even worse than what you’ve got?

DUGDALE: Absolutely not. The original contract didn’t foresee the benefit, and we’re now enjoying the benefit for the next 35 years.

NORTHAM: In order to get the rapid growth it wants in PFI, the government openly dangled before the city the prospect of huge sums of public money guaranteed in long term contracts. The Chancellor, Gordon Brown, made a direct appeal to financiers four years ago. “These are core services,” he said, “which the government is statutorily bound to provide and for which demand is virtually insatiable. Your revenue stream is ultimately backed by the government. Where else can you get a long term business opportunity like that?”

ACTUALITY IN CITY OF LONDON

NORTHAM: The traders and bankers here in the City quickly got the message. As PFI schemes have flourished, billions have been invested in the expectation of continuing flows of cash. The revenue stream the Chancellor promised is in full flood. And not only for companies directly involved in building and running public services. File on 4 has found a lively trade in PFI shareholdings, with portfolios of schools, hospitals, roads and other public projects sold in mainly secret deals on a so-called secondary market. Once again this is bringing companies the chance of substantial windfalls, but with no obligation to share them with the public sector.

ANNOUNCEMENT OVER LOUDSPEAKER

WOMAN: The next train at platform 1 …

NORTHAM: The Docklands Light Railway, DLR, is one of the main commuter routes to thousands of well-paid jobs in the new commercial hub at Canary Wharf and on to Threadneedle Street in the City of London. Five years ago, this line was extended south
NORTHAM cont: under the Thames to Lewisham. It was a PFI scheme the local councils supported in the hope of economic regeneration. And Lewisham’s Deputy Mayor, Gavin Moore, rates it a success.

GAVIN MOORE: There are now 12 million passengers using the DLR just from the three stations within this borough, let alone the extra 30 million who begin their journeys elsewhere on the network. It’s brought job opportunities to the borough in Canary Wharf and Stratford. It’s really opened up the Thames gateway to Lewisham, so it’s allowed us very much to reorient ourselves in London terms. We are attracting £250 million investment into Lewisham town centre, and I just can’t believe that that investment in the town centre would be happening unless we had an important transport interchange there from DLR to rail to bus.

NORTHAM: The rail project has been particularly successful for one of the private partners, the construction firm Mowlem plc. Mowlem invested almost £3.5 million of its own money in the railway, and recently decided to see what it could get by selling its shares. The result was a profit of over £15 million in cash – in City terms, a ‘net exceptional profit’. Not bad for a stake of £3.5 million. Arthur Moore, Mowlem’s Development Director, regarded it as a good day’s work.

ARTHUR MOORE: We were very effective in creating an asset, and I think we’ve been very effective in operating the asset. Along the way we’ve managed to make some changes which improved the returns to the shareholders, and it’s that that’s really had the impact on a final selling price.

NORTHAM: Was there anything in the contract which said that you should share this windfall with the public sector?

ARTHUR MOORE: No, there was nothing in the contract.

NORTHAM: Did you consider that this might be something you would do?

ARTHUR MOORE: Well we didn’t consider it for very long. It’s not normal practice to do that. When we take the risk of losing money, we expect to take the risk of making the money in as well. The advantage falls to us, the disadvantage falls to us. If the government
ARTHUR MOORE cont: wants to participate in the equity, it’s welcome to do so. It can take a share alongside us. It can put its money in as well. That would be a perfectly legitimate thing for the government to do, and I don’t see why it wouldn’t choose to do that.

NORTHAM: But the gain you made you see as entirely Mowlem’s?

ARTHUR MOORE: Absolutely.

NORTHAM: Lewisham Council put in more money than Mowlem – almost £6 million – but it was as a grant rather than shares, which means not only does the council get nothing from Mowlem’s windfall, but it can’t generate one of its own, which is quite a loss. If Lewisham had bought shares in the project, at Mowlem’s rates they could now be worth £30 million. So does the borough’s Deputy Mayor, Gavin Moore, feel a twinge of regret?

GAVIN MOORE: Our key concern was to make sure that the project went ahead. We’re a local authority after all, we’re not in the business of speculating on financial markets. What we’re trying to secure is investment in our community that will change people’s lives. And of course the DLR did go ahead and we have received all those benefits, and to the community as a whole they are worth a huge amount of money. So I think we still did the right thing from our position as a local authority serving the community.

NORTHAM: It’s quite a contrast though, isn’t it? Mowlem put in just over £3 million and have made a profit of more than £15 million. You put in nearly £6 million and you haven’t even had that back.

GAVIN MOORE: We haven’t had it back in terms of the council’s coffers.

NORTHAM: It could now be worth something nearer £30 million if you got the same kind of deal that Mowlem have struck.

GAVIN MOORE: Yes, that’s a good point and I think …

NORTHAM: That’s an amazing amount of money for a council to turn down.
GAVIN MOORE: I don’t think that was on offer at the time.

NORTHAM: Was the public sector, in other words your council, an innocent abroad in this negotiation?

GAVIN MOORE: No, because the point I would make to you is that what our concern was, was to bring the DLR link here. That was the key objective. We don’t have a problem with the fact that some parts of the private sector were willing to take a risk on the DLR, invest in it when things weren’t certain, and now they’ve made a good return on it, well, well done them.

NORTHAM: The fact that companies can keep the whole of a PFI profit themselves if they sell their shareholdings on the secondary market is privately seen at the National Audit Office as a loophole. It was criticism from this official watchdog, represented by the Assistant Auditor General, Jeremy Colman, which embarrassed PFI companies and the government into making the compromise agreement to share the proceeds of refinancing windfalls.

COLMAN: I’m sure that, from the private sector point of view, they realised that for the private sector to be seen to be making what might be regarded as unfairly large windfall gains would not be sustainable because the flow of deals would cease.

NORTHAM: You mean the government would get fed up with the bad publicity?

COLMAN: That’s what I mean by unsustainable, that if there was a perception that the deals operated unfairly to the benefit of the private sector, that is a perception that is damaging to the private sector just as much as to the public sector.

NORTHAM: And if a number of sales in the secondary market yield very substantial windfalls, none of which come to the public sector, is that sustainable?

COLMAN: Well, we shall see. Sales of land and buildings to the private sector by the public sector very commonly have a requirement to share future gains with the
COLMAN cont: original public sector vendor, and that share of claw-back, it’s called, arose precisely because in some of the early cases the private sector was seen to make what were regarded as unfairly large windfall gains.

NORTHAM: And could something similar be done in the case of sales of PFI shareholdings?

COLMAN: Technically I’m sure a way could be done to claw-back on the sales of equity. It’s another matter as to whether it would be sensible to do that, but it could technically be done.

NORTHAM: Politically, though, it seems unlikely. The PFI industry body, the Public Private Partnership Forum, maintains close contacts with New Labour ministers, and its chairman, David Metter, sees no prospect of having to share profits from sales of PFI shareholdings.

METTER: The PFI sector has always had its red lines, and one of the red lines is that the equity investors would be free to buy and sell their equity without having to share in the gains or losses of that process, because in any other investment industry the investors are free to buy and sell without having to share the gains. So the government has always been very clear with PFI that they would never seek to share the gains in disposals of equity in PFI projects.

NORTHAM: So if somebody makes two, three, four times their original stake in a PFI project, you’re saying the government doesn’t expect the public sector to get any of that at all?

METTER: Absolutely not, because the transaction is a private transaction between two private sector investors, and if one private sector investor wants to pay three or four times the amount that the first investor spent, that’s up to them. It’s not a matter for government.

NORTHAM: Has anybody suggested from the government that this is something they think you might begin a negotiation about?
METTER: No. In fact, the government have in the past suggested that’s exactly what they would not do.

NORTHAM: This is an issue barely discussed outside the trade press. Investors Chronicle calls PFI shareholdings ‘hidden gems’ waiting to be discovered by the financial markets. And there are clear signs of vigour in the market for long term PFI contracts. Mowlem, for example, are not going to stop after their success on the Docklands Light Railway. The company’s Development Director, Arthur Moore, is looking at Mowlem’s other projects with a view to further gains.

ARTHUR MOORE: We’ve got a long list of new projects we want to put money into, and we have a limited amount of capital we want to apply, therefore we have to recycle the projects which have completed.

NORTHAM: Does this mean you’re likely to sell more of your PFI interests?

ARTHUR MOORE: We’ve openly declared that it is our policy to buy new assets and sell old ones and keep on recycling that pool in order to make a continuing gain for shareholders.

NORTHAM: But if these are contracts that run for typically 25 or 30 years of maintenance and servicing, that’s not going to be something that Mowlem will be doing – you’ll sell it on to someone else to do that?

ARTHUR MOORE: Yes, we will sell that on.

NORTHAM: And you’ve made that as a policy decision?

ARTHUR MOORE: Yes.

NORTHAM: And do you expect the secondary market to become established and grow?
ARTHUR MOORE: Oh absolutely. The number of projects the public sector is bringing to the market is so large that it’s inevitable that people will have to recycle capital in order to keep on doing new projects, otherwise it will completely silt up the balance sheets of companies like ourselves.

NORTHAM: It’s one of the consequences of PFI that shares in public projects of all kinds are now tradable commodities in the City – not just rail links, but roads, prisons, barracks and health centres, hospitals, universities and schools.

ACTUALITY IN SCHOOL PLAYGROUND

NORTHAM: This is a showpiece secondary school in East London, the Lammas School. Built under PFI and gleaming like a modern corporate headquarters, with yellow brickwork, bright blue windows and a stylishly curved metal roof. A shining beacon of modernity in the somewhat drab streets around it. Sadly we’re not permitted inside for this programme, and the head said she’s unavailable to answer our questions. But the fact is that a large shareholding in this school was quietly sold four months ago from one company to another. The deal involved shares in this school and twenty others, with a total value of £75 million. The school investments were bought by the investment fund, Innisfree. Its Chief Executive is the same David Metter who is chairman of the PPP Forum. And he’s proud of his company’s portfolio of shares.

METTER: We are the largest investor in hospitals and schools outside the state.

NORTHAM: How many schools and hospitals do you own?

METTER: We have investments in over two hundred individual schools, and we have investments in fourteen hospitals.

NORTHAM: If you then sell them on, how transparent will those transactions be?
METTER: If we sell our equity investments on to other investors, they need not be transparent because these are private sector transactions between two private sector parties, and it’s questionable whether one will publicise those transactions.

NORTHAM: Why questionable?

METTER: Well, people aren’t that interested.

NORTHAM: If you were using a particular school or a particular hospital, you’d want to know if a stake in it had been sold on, wouldn’t you?

METTER: Well it depends. You know, the operation of the school or the hospital is essentially done by contractors and by the personnel involved in the project company. It’s not done by the shareholders.

NORTHAM: But these are public assets. Private companies are now buying a stake in them. Don’t the public have a right to know who owns what?

METTER: Well they’re not public assets. They’re private sector concessions.

NORTHAM: These are schools and hospitals we’re talking about, which the public use and the public pay for.

METTER: Well, the schools and the hospitals are under private sector concession, so it’s effectively during the period of the concession, the private sector effectively owns the school or hospital.

NORTHAM: And if the public don’t know who owns a stake in their school or their hospital, you don’t mind?

METTER: I don’t think the public sector needs to be too concerned. They do know there are legitimate owners of these projects, but subject to those conditions being fulfilled, I don’t see why they should mind.
NORTHAM: We found a general coyness in the City over revealing the
details of deals in PFI shareholdings. But overall, insiders put the total value of funds traded so
far at around £1 billion, mostly over the past year. There are now special funds set up with the
specific purpose of buying into PFI contracts. The largest is SMIF, the Secondary Market
Infrastructure Fund based near St Paul’s. Its leading partner, Bill Doughty, claims a total
shareholding to date of more than £200 million with a target of £500 million over the next three
years or so. He too is happy to talk about the market in general rather than the specifics of who
owns what.

DOUGHTY: We are a very discreet player in this market and certainly
won’t seek to, you know, generate any publicity around the secondary trades that we undertake.

NORTHAM: Do you mean you’re discreet about individual trades?

DOUGHTY: Absolutely.

NORTHAM: So if I were to ask you, tell me the deals you’ve done in the
past few months …

DOUGHTY: I’d have to respectfully decline to answer that.

NORTHAM: You’re not going to go into any details?

DOUGHTY: Unfortunately not.

NORTHAM: And the reason for that is?

DOUGHTY: You know, we’re a market which is, you know, in the
private equity market, private investors, albeit they’re generally major institutions, are such that,
you know, they prefer to invest in private equity because it’s a discreet way of deploying their
capital, and at the same time I think that the media has had a habit in the past of misconstruing the
very valid and genuine intentions of participants in this market in a way which, you know, is
unhelpful.
NORTHAM: Can you tell me how many schools, how many hospitals, how many roads you have a shareholding in?

DOUGHTY: It’s probably fair to say that we have, our fund is, you know, if you look at the make-up of the PFI industry as a whole, then out of the nearly forty interests that we have, then our portfolio is shaped as a reasonable blueprint of the market itself.

NORTHAM: So it reflects roughly the number of projects that there are in the country?

DOUGHTY: Absolutely, yes, yes.

NORTHAM: But you’re not going to tell me which they are?

DOUGHTY: I’m not, if that’s okay with you.

NORTHAM: One City advisor to PFI deals has told File on 4 that companies even use accounting tricks to camouflage the fact that they’ve sold their shareholdings. Among the best informed observers of the growing trade in PFI shares is Paul Cleal of Price Waterhouse Coopers, who has acted for companies involved in a number of transactions and was on the original Treasury task force a decade ago that set PFI going. In a secretive market, he should be as well-placed as anyone to know what proportion of deals is made public.

CLEAL: Difficult to say, because I don’t even claim to know all the deals that have happened. I mean, I would be surprised if more than probably one in four was in the public domain.

NORTHAM: About three-quarters then are not?

CLEAL: There’s quite a few projects that have changed hands that I’ve not seen in the press, but equally there are some that have. Individual companies, for instance, might decide that, when you read their annual report for instance, their commitment to working on government projects under the Private Finance Initiative is a big part of what they do, and they might be concerned that by selling their investments, it might be interpreted that they
CLEAL cont: were about to exit the market and create the wrong impression in government for winning future work, so for that reason they may well decide, you know, not to publicise such a sale.

NORTHAM: The sale may still happen, you mean, but they just keep it quiet?

CLEAL: Certainly it is possible to sell the economic interests in a project without necessarily the world knowing it.

NORTHAM: We wanted to put a number of questions arising from this programme to a Treasury minister and were told no one was available for interview. To test the government’s approach, the Labour MP Alan Simpson, a longstanding opponent of PFI, tabled Parliamentary Questions to the relevant ministries asking what each knew about sales of shareholdings in its field.

SIMPSON: These are all closed markets and they are closed from public scrutiny, so I wanted to see what is happening, what the government knows about the emergence of a secondary market in those PFI or PPP schemes.

NORTHAM: The answers, completed last week, show a certain consistency. The Minister for Health says:

READER IN STUDIO: Records are not held centrally for private finance schemes where there has been an onward sale of the private sector equity stakeholding.

NORTHAM: The Minister for Transport says:

READER 2 IN STUDIO: The Department does not hold data on the onward sale price on PFI projects it sponsors.

NORTHAM: And the Minister for Education says:
READER 3 IN STUDIO: As far as schools PFI projects are concerned, the Department does not collect or collate such information.

NORTHAM: So what does Alan Simpson MP conclude from these answers?

SIMPSON: [laugh] They tell me that by and large no one wants to know. Every department that I have written to says such information is not held centrally or we do not keep records of such secondary market transactions, and I think by implication they’re saying we don’t care, that if a market emerges, then let them get on with it, fair enough.

NORTHAM: And why should the government care if one private trader is selling interests to another private trader?

SIMPSON: I think the first thing is that it will bring home to the public that what we describe as public assets for public services are actually a new private market.

NORTHAM: Well those involved in this market say that what the public actually want is good schools and good hospitals, and as long as they get those, why does it matter who owns the shares?

SIMPSON: Because the ownership of the shares is driven by a rate of return to the shareholder. As a tax-paying public, we’re massively paying over the odds and will continue to pay massively over the odds for 25 to 30 years for each of the schools or hospitals involved. So you create this private market with a guaranteed bonanza of returns that are paid for by the taxpayer. And I think if the public understood that, they’d be horrified.

NORTHAM: For the government, this carries little weight. Alan Simpson’s criticism of PFI is dismissed as ‘ideological’. But the Conservative MP, Richard Bacon, who has no objection in principle to PFI, is also alarmed, as a member of the Public Accounts Committee, at the rapid emergence of a new market in PFI shareholdings in which traders buy and sell portfolios largely in secret.
BACON: The negotiations tend to get conducted in private, and then once it’s agreed, it’s all declared by all sides to be a great triumph. My own view is that if you are a contractor taking money from taxpayers for providing services, you have to accept that that entails on your part a higher degree of disclosure and a higher degree of transparency than would be the case if you were operating purely in the private sector. And that means that the taxpayer has a right to know roughly what rate of return you’re getting on the project, so that the taxpayer and the Public Accounts Committee operating for Parliament on behalf of the taxpayer, can see whether or not we’re getting value for money or not.

NORTHAM: But these are private companies doing what they see as private deals. That’s the way they’re used to working, isn’t it?

BACON: That is the way they are used to working, but they are doing private deals with public authorities. They are doing private deals with hospital trusts. They are doing private deals with the Prison Service. They are doing private deals with local education authorities, and hospitals and prisons and schools are paid for by taxpayers. And if the contract is written correctly then it ought to state that if there’s any beneficial change in the ownership of the PFI contracting company, then that is something that needs to be agreed with the hospital or the prison or the school or whoever it is before it goes through. Ultimately, what I think it boils down to is this: if you’re going to take the taxpayer’s shilling, then you have to be prepared to operate with a higher degree of disclosure than you otherwise would. Otherwise go and play somewhere else.

SIGNATURE TUNE