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Private finance, public risk

Can public sector values survive Britain's private finance initiative?

Budget day brought an announcement of funding for the NHS in the coming year. More importantly, it also confirmed the British government's commitment to use private finance to pay for capital projects. After a slow start the private finance initiative seems to be gaining momentum across the public sector. In the case of the NHS, a number of major schemes are under development and private finance is increasingly replacing Treasury funding as the preferred method of raising money for new hospital developments. This is illustrated by projects in Norwich, Swindon, Leeds, Bishop Auckland, and Edinburgh, which are at an advanced stage of negotiation.

Government spokespeople cite these examples as evidence of the success of the private finance initiative and of the benefits that accrue from public-private partnerships. With £2bn of private finance initiatives in the pipeline, including 25 schemes each to the value of £25m or more, it would indeed seem that the initiative is beginning to bear fruit. Whereas originally private finance was used for projects such as hospital car parks and incinerators, it is now being extended into the mainstream of NHS provision.

Despite this, serious doubts remain about the initiative. The government's critics maintain that capital raised through private sources will always be more expensive to finance than capital available from the Treasury. They also argue that politicians are engaging in creative accounting in seeking to take borrowing off the balance sheet. This may bring some short term benefits by seeming to reduce public borrowing, but in the long term the costs will be reflected in higher levels of public spending. According to this school of thought, the principle of "buy now and pay later" on which the private finance initiative is based is fundamentally flawed and is simply storing up problems for later.

In response, the advocates of private finance point out that the additional costs of raising money privately will be more than offset by the efficiency gains that will result. The key point here is that private companies will not only finance NHS developments but also take responsibility for running services when these developments are completed. This creates an incentive to design a new facility as efficiently as possible and not simply to construct a building that is cheap to build. Ministers argue that this is already happening as private companies introduce radical ideas into the design of hospitals.

The debate about the private finance initiative is partly technical but mostly political. The technical arguments are dominated by concerns about the detailed rules involved in

preparing private finance cases and the delays that result. Not least, the construction industry and the Confederation of British Industry have been critical of the complexity of private finance procedures and the impact of this on companies involved in hospital building and redevelopment. An even greater uncertainty is whether private companies will be able to undertake major developments of this kind. The organisations now coming together to bid for NHS projects, which are consortiums of building firms and companies providing services, are largely untried and untested, and their use in a public service like health care is a gamble. The rules established by the Treasury require the private sector to bear some of the risk of privately financed projects, but how realistic this is and what will happen if the projects fail are unclear.

Even more important are the political arguments. Margaret Beckett, the former opposition spokesperson on health, was an outspoken critic of private finance within the NHS and promised to reverse this policy if the Labour party was elected at the next election. For many people in the Labour party the private finance initiative represents privatisation by the back door and final confirmation that the government really does have a hidden agenda for the NHS. Stephen Dorrell, the health secretary, has gone some way towards acknowledging these concerns by excluding the provision of clinical services by private finance and by reiterating his commitment to the principle of a health service funded through taxation and free at the point of delivery. Yet, importantly, Mr Dorrell has shown no signs of backtracking from the initiative and used a speech at the Royal College of Physicians at the end of November to restate his personal commitment to the use of private finance in the NHS.

In reality, applying the private finance initiative to a large number of NHS projects may make the scheme impossible to reverse. A future Labour government will certainly find it difficult to replace private funding of capital schemes with Treasury funding at a time when there are competing claims on public funds. This suggests that yet again the politics of pragmatism may overrule the politics of principle. If this is the case then the challenge is to ensure that public sector values are not sacrificed in the pursuit of private profit. Whether this can be achieved remains to be seen.

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