# Britain's very own Enron

## All it has delivered is one financial scandal after another – but the government remains wedded to PFI

How much longer can this farce carry on? Everywhere the chickens released by the government's private finance initiative are not so much coming home to roost as crashing into the henhouse and sliding down the wall in a heap of blood and feathers. The prediction made in 2002 by the Banker magazine – that "eventually an Enron-style disaster will be rerun on a sovereign balance sheet" – could be starting to materialise.

The private finance initiative (PFI) is the scheme allowing private corporations to build and run our public services and lease them back to the government. The government says that this allows it to commission more schemes than it could with public funds, and offers better value for money. And it doesn't seem to matter how often the story falls apart.

Last week, after spending £14m on lawyers, consultants, architects and miscellaneous money-wasting schemes, the NHS ditched its plans for a massive hospital in west London. The projected cost of the Paddington health campus had risen from £360m to £1.1bn, while the number of beds had fallen from 1,000 to 800. This is pretty normal for a PFI scheme; in one case I've studied, beds fell by 20%, while costs rose by 1,100%. What makes this case unusual is that the project was dropped before the money was spent.

Last Wednesday, the government admitted that PFI projects for council house repairs had been a costly disaster. This is hardly news to anyone who has watched this programme's seven-year meltdown. But despite the admission, the policy has not been officially scrapped; councils are still told they will receive no new money for refurbishments unless they hand their houses to the private or voluntary sector.

On the same day, we discovered that the PFI computer system that is meant to keep a record of MOT test results for cars in the UK has been delayed by another year. It was supposed to have been ready in May 2002.

On June 17, Scottish ministers decided it was cheaper to spend £25m buying out the private financiers who built the Inverness airport terminal than to let them carry on. In six years, the corporations had made £8.5m on an investment of just £5.5m. This is a photocopy of the Skye bridge bail-out; it was bought back by the Scottish executive last year for £27m. A bridge that should have cost £15m has hit the public for £93.6m.

Two days before the Inverness announcement, the Ministry of Defence quietly dropped a £1bn PFI scheme for military training. It didn't disclose how much money it had spent developing it.

On June 14, a leaked government report revealed that so many corners have been cut in the construction of a £47m privately financed mental health unit in Leeds that it might have to be pulled down and rebuilt.

On June 10, the National Audit Office published a report showing how the companies that had built the Norfolk and Norwich hospital had, as well as making stupendous profits, legally walked off with an additional payment of £73m by exploiting the gap between the financial risk the government said they had taken on and the risk they had really shouldered. It wasn't as if the government didn't know this was coming: in June 2001, a summary of leaked documents that showed this was going to happen was published in this column. The Treasury sat back and watched.

On June 9, the Health Service Journal published an extraordinary admission by a senior civil servant in the Department of Health. PFI deals, Bob Ricketts revealed, were locking the NHS into 30-year contracts for services that might become useless in five. "I've seen some awfully grand PFI schemes," he warned, "that are starting to give us a real problem."

So what has the government learned from all this? Nothing. It is ideologically committed to part-privatisation. It won't disclose how much it is planning to spend on PFI schemes – a spokesperson at the Treasury says this is "commercially confidential" – but it is locked into £3.6bn of new deals this year. According to a spokesman for the Department of Health: "The government has no intention of abandoning PFI." The heap of blood and feathers, though brain dead, keeps running.

So the government fobs us off with spin, misreporting and lies. PFI, the Treasury tells us, "is a small but important part of the government's strategy for delivering high-quality public services". Small? £42bn has been officially committed so far. This, according to the public-spending specialist Professor Allyson Pollock, is an underestimate, covering only the 43% of PFI contracts classified as "off balance sheet".

Less true still is the Treasury's assertion that there is "no bias in favour of any particular procurement route". As people working for NHS trusts and local authorities will testify, the government made it clear that for certain kinds of projects, public funds are not available.

But the biggest lie involves the government's claims of value for money. "All PFI projects," the Treasury says, "were delivered within public sector budgets ... no construction cost overruns were borne by the public sector."

Well, it's a bit like hospital waiting lists: it depends when you start counting. The genius of PFI is that the overruns take place before the project begins. There are three ways in which this happens. The first is that the schemes are tailored to suit the private sector. Where public money might have been used to renovate a hospital, PFI demands that it is pulled down and rebuilt. But the two costs are not compared; instead we are told we have a choice between rebuilding it with public funds or with private funds.

Then the next fiddle kicks in. Civil servants, knowing that, as the former secretary of state for health announced, "it's PFI or bust", must mash the "public sector comparator" figure to show that PFI delivers best value for money. As Jeremy Colman, at the time the UK's assistant auditor-general, said: "If the answer comes out wrong you don't get your project. So the answer doesn't come out wrong very often."

The third fiddle is that the concept of "risk transfer" can be used to come up with any figure you want. You simply announce that x million pounds of "financial risk" is being transferred by PFI to the private sector, and hey presto, it's x million pounds more expensive to build the project with public money. As the Norfolk and Norwich hospital fiasco shows, the risk costing bears no relation to any actual hazard taken on by the contractors.

Is it an exaggeration to say that we might be facing "an Enron-style disaster" in the public sector? I don't know. But there's something familiar about Colman's warning that the "pseudo-scientific mumbo jumbo" behind the private finance initiative's financial modelling "takes over from thinking. It becomes so complicated that no one, not even the experts, understands what is going on". And the record of the past three weeks is hardly reassuring.