Solving a hospital disaster that was caused by privatisation with more privatisation, makes little sense - until you see who’s been benefiting all along.

Imagine construction was dominated by 4 giant firms. They help draw up construction laws, sign off blueprints and advise governments round the world. A government invites one of these giants to construct a large public building. It collapses in months. The same firm is paid millions to assess what went wrong and how to put it right. Flog it, they say; they’ll even help out with the sale. They reassure the government the building was sound in theory, and business continues as usual.

Even in the shadiest banana republics this would be called a racket. But this is the UK. And it’s your government, your money, your hospitals, and the industry? Accountancy.

Take debt-stricken Peterborough Hospital, for instance. Last week David Bennett, head of health regulator Monitor, announced it would be offered to private sector bidders to take over.
Peterborough Hospital’s finances have collapsed under the weight of its Private Finance Initiative deal, in which private firms build NHS hospitals but the taxpayer is forced to pay an expensive annual mortgage and management fees. The ‘turnaround plan’ put forward by management consultants PwC, and accepted by Monitor, will now open the door to private companies to take over parts of the hospital, or even take over the management of the entire hospital through a ‘franchise’ model like that of neighbouring Hinchingbroke Hospital 24 miles away.

Before moving to the PFI site in 2010, the Trust was in the black. But the PFI deal plunged it into the red on the day it opened - and it has stayed there ever since.

A devastating National Audit Office report last year was followed by the Public Accounts Committee labelling it “catastrophic” in February. The health unions and campaigners whose warnings were ignored will have no joy in saying ‘we told you so’. Not when local health services are on the line.

In 2011/12 the PFI repayments were costing the Trust £41.6m a year - over 20% of its budget. There are 31 years of the contract left to run. The Trust is now running annual deficits of £46million and rising - it simply has no money to pay its PFI bill. The Department of Health has been putting in an additional £1million every week just to keep the debt repayments flowing to private investors.

This year Monitor paid PwC £3million to send in a ‘turnaround team’. PwC’s first report stated that whilst there were no problems with clinical care, the hospital was ‘financially unsustainable’ under present arrangements. The PFI scheme cost more on a “per bed basis” than other projects and was “£3m per annum more expensive than its peers” although PwC added, strangely defensively, “the deal was competitive at the time”.

Monitor boss David Bennett talked of buying out the PFI to save money.

But PwC’s first report said “we assumed that ending the PFI arrangement early would require a very substantial one-off payment and not represent value for money”.

Not “investigated”, note. “Assumed”.

In last week’s final report they give the idea of ending the PFI contract one way or another just one dismissive paragraph, calling it ‘unfeasible’.

Instead, they recommend “that the Trust undertakes an open, fair and transparent competitive tender exercise to attract offers for the Trust’s services and best use of its estate.”

In other words, flog it off.

And Monitor has accepted the plan. At least the multi-million PFI payments will keep flowing to investors, regardless of what happens to local services.

John Hully of the National Health Action Party in Cambridgeshire spoke out. “There is no evidence to suggest that any private company would have the expertise to run a large, busy general hospital on the scale of Peterborough, or be equipped with any magic wand to solve its financial problems. Circle, the private company running nearby Hinchingbroke Hospital, has remained dependent on repeated Department of Health hand-outs, and has still not balanced the books after 18 months in charge.”

So how exactly did the “unsustainable position that the Trust finds itself in” (in PwC’s words) come about?

Who helped construct and sign off Peterborough’s ‘catastrophic’ PFI deal?

There seems to have been a collective forgetting. It was PwC.
On 13 June 2007 PwC partner Ian Wootton wrote to Peterborough NHS Trust lead St. Clair Armitage, in the former’s capacity as the Trust’s financial advisor, stating:

“In conclusion, the current funding proposals from Progress Health [the PFI consortium] that underpin the project appear competitive, robust and demonstrate value for money.”

The Board report at the point of PFI sign-off subsequently reassures:

“The financial advisors to the Trusts, PriceWaterhouseCoopers (PWC) have monitored and reviewed [the PFI] funding assumptions and assessed the terms offered for the project against the current market for PFI health deals. In their view the funding structure is robust and the terms achieved in line with the current market for health PFI projects. PWC have also audited [the PFI’s] financial model.”

So it was PwC who, as the Trust’s financial advisors, helped construct the deal, and gave it a clean bill of health. And now the deal has sunk the hospital, they’re back for more spoils.

PwC’s business model resembles a vertical integration between a dreadful matchmaker and an excellent divorce lawyer.

Why is Monitor - who at the time disagreed strongly with PwC’s approval of the deal - now so keen to seek their advice on fixing the problem (and indeed, to continue to pay them tens of millions more [13] to advise the NHS [14], hospitals [15] and health regions across the land [16])?

Whilst there’s no suggestion Monitor’s directors themselves have personal financial interests in all this, it certainly benefits their old friends. Monitor has changed since 2007. Two out of seven of its directors are ex-PwC [17] themselves (and all but one of the others are former employees of the other ‘Big Four’ management consultants, McKinsey, KPMG and Deloitte).

All of the ‘Big Four’ have done well out of the deal that sunk Peterborough.

Along with PwC, KPMG were paid to audit the original PFI deal.

When the “PFI development” fees from Peterborough finally began to dry up (from a peak of £2million in 2009/10), this was “more than offset by the costs of consultants brought in to analyse and diagnose the Trust’s increasing financial problems”, according to the National Audit Office.

Between 2010 and 2012 the Trust hired successively Ernst & Young, Deloitte, and McKinsey, mostly to help it ‘analyse’, ‘plan’, and ‘recover’ from PFI.

By 2011/2 Peterborough NHS Trust was spending nearly £5million a year on such consultancy.

As the NAO report dryly notes, “Minutes of the Trust board indicate varying levels of satisfaction with the results of this work”. The financial projections provided in each of those years “proved to be inaccurate”.

The consultants who set the deal up and then suggested ineffective ways of rescuing the Trust from it are accountable only to their millionaire partners.

The companies behind the original deal - Australian mega-bank Macquarie, Multiplex Infrastructure, Medirest (part of the Compass Group) and ‘asset managers’ and ‘income providers’, Asteral and Gentian - have mostly cashed in and sold up [19] to even more anonymous investors.

But what of the public servants and elected representatives involved?

None of those who ignored the warnings and plunged the Trust into crippling debt have faced any sanction.

The National Audit Office criticised the Trust’s board, who “failed to recognise that the PFI scheme
would place considerable strain on the Trust’s finances for many years to come.”

Malcolm Lowe-Lauri signed off the deal as Trust Chief Executive. He staunchly defended the deal against critics at the time [20], saying “It is ridiculous to suggest that we want to bring in a service that we cannot then afford to run”.

Having picked up a CBE [21] for “services to the NHS”, he now advises private healthcare companies in Australia and globally for KPMG [22].

The East of England Strategic Health Authority signed off Peterborough’s business plan. The Public Accounts Committee said they had ‘failed’ and showed “a complete lack of strategic oversight”. Their Chair Keith Pearson (now Sir Keith [23]) now heads new quango Health Education England. His Chief Executive Neil McKay (now Sir Neil [24]) had no answers when he was grilled on the PFI by the Commons Public Accounts Committee. He picked up a £1 million payoff [25] when the Authority was abolished this year.

As for the politicians, Alan Milburn signed off Peterborough’s Strategic Outline case in 2001. He now works for PwC’s health arm [26].

Patricia Hewitt approved the final deal just before leaving the cabinet in 2007. The National Audit office report remarks [27] that her Department ignored two specific warnings from regulators that the deal should not go ahead ‘because it’s long term affordability was in doubt’. Hewitt now works for private medical giant Bupa’s financial backers, Cinven.

So who can we hold accountable for this mess?

The Government blames the Trust, saying “The main failure in the case of this trust has been its ability to deliver its own savings plans.” The Trust blames government [28], but no-one’s really listening to them. Our elected representatives - even our supposedly fiercest scrutineers like Margaret Hodge - tell the civil servants, “The buck has to stop with you, I’m afraid [29]”. The civil servants, not daring to blame the elected representatives, blame each other. Meanwhile the private consultants who advised on it all are hired by government to blame the Trust again.

And nobody has any answers. PFI contracts like this are insoluble problems, tied into rising annual charges they cannot pay. The profitable ‘elective’ patients are picked off [30] by the private sector, and government funding is slashed as a ‘punishment’ [31] for treating too many ‘unprofitable’ emergency patients. At least 20 more [32] Hospital Trusts are similarly threatened.

Health academic John Lister urged ministers to think again. “Instead of kicking the can down the road again with a plan that might reduce the annual deficit by only a quarter, while the PFI cash haemorrhage continues, Peterborough and other trusts need a fundamental government rethink to end the PFI nightmare once and for all.”

But the consultants and government ministers are far from chastened. Nick Clegg tours stricken states like Egypt and Greece, pushing PFI as the solution to their ills. PwC is expanding its privatisation and PFI brokering globally, under the leadership [33] of Ian Wootton [34] - the same PwC partner who gave the original Peterborough deal a clean bill of health. Monitor pushes Trusts [13] and Clinical Commissioning Groups [35] to use management consultants, even as Hunt talks of a shift in culture [36]. And back home Cameron is forging ahead with Private Finance Mark 2 [37] where the private sector push even more of the risk and inflated cost back on to taxpayers.

Is the government’s priority really to provide the health services that patients need? Or is it to ensure taxpayer money keeps flowing to business models like PFI and privatised hospitals that deliver returns for rich investors - and hefty commissions for those who grease the wheels?

It seems odd that those with the greatest responsibility for the Peterborough’s PFI ‘catastrophe’ have been so richly rewarded for their failure.

But then - with the private sector now gearing up for bids to take over a whole NHS hospital -
perhaps their actions aren't seen as failures in the boardrooms and dining rooms that matter.

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About the author

Caroline Molloy is co-editor of openDemocracy UK, editor of OurNHS, a journalist and speaker. She has been involved in many community campaigns, including successfully overturning the privatisation of 9 hospitals. Her particular interests include technology, services and the welfare state.

Subjects

PFI [39]

Privatisation [40]

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