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TRANSCRIPT OF "FILE ON 4" – "PRIVATE FINANCE INITIATIVE"

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“FILE ON 4”

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ACTUALITY IN PARLIAMENT

MAN: In our, in our exchanges last week, the Prime Minister read out figures for total Government spending after 2011 ….

ROBINSON: Arguments about spending cuts to pay for Britain’s banking bailout are now centre stage.

ACTUALITY IN PARLIAMENT

BROWN: I relish the chance to debate for once policy with the opposition party …

ROBINSON: With the Prime Minister under pressure to justify his numbers, we’ve been looking at how the crisis is hitting his flagship policy for public investment - the Private Finance Initiative. And we reveal new research showing how much more we’re paying for PFIs compared with publicly funded projects.

CUTHBERT: For what the hospital trust is paying, they could have borrowed more than twice the capital which they actually got, so the conclusion we came to was that this particular scheme looked to be very expensive.

ROBINSON: And as new international accountancy rules come into force, we explain why the Treasury is accused of manipulating them – and what the consequences might be.

HEALD: We'll get a new generation of distortions whereby hospitals and Government departments will choose schemes based upon how it will appear against the Government's budgeting system - we'll have the decisions driven by whichever set of accounting standards best suit Government purposes.

SIGNATURE TUNE

ACTUALITY OF MACHINE NOISE

SWANNICK: They've come on remarkably. Since closing the deal on April the 8th, as you can see, we've actually got a structure of a building there and there's already piling going on. I was last here the day that we'd signed it and there was virtually nothing to be seen apart from a few site cabins. I have to say I'm very impressed with the work that's taken place to date.

ROBINSON: At a traditional waste disposal depot in South East Manchester, Councillor Neil Swannick showed me the beginnings of a £3.8 billion scheme designed to revolutionise the way household rubbish across North West Britain is processed. He claims the scheme is the biggest municipal project of its kind in Europe.

ACTUALITY OF DIGGER

SWANNICK: What we're going to have here is state of the art facilities, which will deal with both the residual waste that people put in their rubbish bin, and it will have facilities for dealing with those other bins that are collected, the one that's got the cans and the bottles. There's also the facility for dealing with green waste and potentially food waste as well.

ROBINSON: Councillor Swannick's scheme is a public project. But it nearly didn't get off the ground at all because it's privately financed, under the Private Finance Initiative. With traditional public funding, the Government borrows the money needed to pay for an investment. But with PFI, contractors borrow the money instead and get their money back in the monthly charges they make over 25 or 30 years for designing, building, financing and operating whatever it is they built. Either way, taxpayers end up footing the bill – only with PFI they do it indirectly, through the payments to the contractor. It's like a massive kind of mortgage, with the Government as the borrower. But the whole PFI system depends on banks being prepared to lend, and last year John Bland, the Treasurer of the Greater Manchester project found that was something he could no longer rely on.

BLAND: In April 2008, we were in a position whereby the contract was almost close-able. What happened then, the finances started to unwind. The funding started to fall away. The banks said that they weren't in a position to close.

ROBINSON: How did you react when you realised the banks were in a bit of trouble? I mean, did you lose sleep?

BLAND: I lost quite a bit of sleep on this.

ROBINSON: John Bland took emergency action to keep the project afloat. He persuaded the local authorities commissioning the PFI to inject public money into what should have been an entirely privately financed project. That bought time for the consortium of contractors building and operating the scheme to look for new lenders. By spring this year, the consortium reassured John Bland that their finance was once again in place. But he was about to get another nasty surprise.

BLAND: On Friday 13th March we had a funding package, everything put together, we knew where everything was coming from.

ROBINSON: Then what happened?

BLAND: Unfortunately we lost £120 million of funding.

ROBINSON: What happened?

BLAND: One of the banks had problems putting together its money package, indicated that it couldn't put £120 million in, and therefore that left us a gap.

ROBINSON: You're suddenly £120 million short?

BLAND: Yes. I went from a situation at 4 o'clock in the afternoon where I believed we had a deal put together to a very difficult conversation with the clerk to the authority, the chair and vice-chair at about half past 6 that night, where we were in London, they were in Manchester, telling them that the deal had fallen apart.

ROBINSON: John Bland and his board then turned to the only option they had left to keep the PFI on track – and it delivered.

BLAND: We sat down with Government, who were with us every step of the way in this, and by that stage we had a very close relationship with Treasury. They did a process of due diligence, we resolved issues of potential conflict and we got to a situation where having no deal on Friday the 13th of March, the deal was fully concluded on Wednesday the 8th of April.

ROBINSON: The Treasury put up £120 million of taxpayers' money to keep the Greater Manchester Waste PFI going. As with the bank bailouts, it hopes to get the money back when markets eventually recover. And it says it stands ready to provide more loans if other PFI projects get into trouble and need bailing out. The Treasury has already had to rescue two key projects for the 2012 Olympics – the athletes' village and the media centre – when private funding and sponsorship disappeared. And it was touch and go with another massive scheme, which the Government says is crucial to the games' success.

ACTUALITY ON BRIDGE

ROBINSON: I'm standing on a bridge looking down on Britain's busiest motorway, the M25, the orbital motorway that runs around London. And improving this road is a big part of Britain's Olympic bid. And, you've guessed it, it's going to be done through a PFI. This PFI is going to widen around 36 miles of this road, and pay for that to be maintained and looked after over the next thirty years.

BLAIKLOCK: The M25 is the latest big deal that's had to be funded and they've had to raise something like £1.3 billion sterling. And we're in a market where the cost of money has gone up and the banks are not prepared to lend for the long periods like twenty or twenty-five years that they were previously.

ROBINSON: When it comes to financing and delivering major infrastructure projects such as power stations or roads, Martin Blaiklock is as experienced as they come. He's been putting together major deals, in Britain and around the world, for over thirty years.

BLAIKLOCK: The actual costs of building and extending the M25 probably haven't changed that much, it's purely now a problem the cost of money. The interest rate on those loans is 2½% on the base rate for lending for these kinds of projects.

ROBINSON: Normally what would it be?

BLAIKLOCK: Two years ago, you would say it was much closer to 1%, so margins have doubled at least, more than doubled.

ROBINSON: What does that mean for us as taxpayers?

BLAIKLOCK: What this means is that the repayment amount each year are higher.

ROBINSON: Mike Denham from the Taxpayers' Alliance has understandably been watching the M25 closely as well. Especially since the total repayments over thirty years for the project have increased from an expected £5 billion to £6.2 billion.

DENHAM: Well it's certainly the case that tighter money from the banks has increased the funding costs of the PFI consortium. I think that what we've got is a lot of uncertainty in the economy and I think that probably what's happening is that the PFI contractors here, the consortium, are very keen to make sure that they're building in a very high allowance for all the risks they're taking on.

ROBINSON: But why does Government pay it? Why does anyone agree to that?

DENHAM: Well again, that is a very good question. I think the key reason right now is that the Government is putting a lot of pressure onto the various spending departments to get on with these PFI contracts, to get the things underway and to make sure that the employment that flows through them comes through to the economy, because the last thing they want to see is, for example, a double dip recession. It is very very interesting that the work on this M25 widening actually started within hours of the contract being signed. I put it down to the Government pressure to get on with things.

ROBINSON: That's not a bad thing, is it, at a time like this?

DENHAM: It's not a bad thing, but unfortunately, when you've got Government pressure of that kind, it is very very easy to spend far too much money and not to stop and think, are we getting value for money here?

ROBINSON: The Treasury has always said that PFI projects such as the M25 can only go ahead if they can be shown to provide taxpayers with better value for money than if the project was publicly funded, and that should take account of higher borrowing costs. But Martin Blaiklock says with the secrecy surrounding PFIs in Britain, it's near impossible – even for an experienced practitioner like him – to find out whether that claim is true.

BLAIKLOCK: Treasury does not publish the evaluations of whether they undertake projects publicly or privately. A lot of the information is not in the public domain, so it's guesswork.

ROBINSON: Should it be?

BLAIKLOCK: I can understand that during the bidding process then Government has to keep a certain amount of data under wraps, but once a contract has been awarded, I see no justification for keeping the actual costs hidden at all. Certainly, I know from other countries it's all open and available and in the public domain. Not so here unfortunately in the UK. That information is still not properly disclosed.

ROBINSON: Have you asked for it?

BLAIKLOCK: I've asked on a number of occasions for that kind of information and never, never received it.

ROBINSON: It's normally only when a deal goes badly wrong and the Government – in the shape pf the National Audit Office – steps in to investigate that you get a chance to find out what's going on.

ACTUALITY ON TUBE

ANNOUNCEMENT: Stand clear of the closing doors.

ROBINSON: This month, the NAO issued a report on the London Underground and the collapse in 2007 of Metronet – the consortium of contractors responsible for upgrading and maintaining two-thirds of the tube network.

HUMPHERSON: The taxpayer picked up the tab for hundreds of millions of pounds because of the failure of Metronet. What the report looks into is, how can that have come about?

ROBINSON: Ed Humpherson was responsible for the NAO report into the Metronet failure, published earlier this month. The report found the hoped-for competition, efficiency and scrutiny from private sector involvement hadn't materialised. One reason for that, the report says, is because the five major companies who made up Metronet – its shareholders – were able to sub-contract all of the work to themselves.

HUMPHERSON: The principal problem is that there is no incentive on the parent company to drive a really hard bargain on the sub-contracts as they would do normally. The escalations of cost that came about as a result of the tied supply chain are really eye-watering, as our report reveals - billions and billions of pounds of cost overrun in a fairly short space of time. We're talking about three or four years of a contract which was expected to run for well over twenty.

ROBINSON: The other promised benefit from private sector involvement – transferring project risk from the taxpayer to contractors and their bankers - didn't happen either. Partly because, as it turned out, to persuade the banks to lend to Metronet, the Government had agreed to guarantee most of their loans.

HUMPHERSON: The banks were supported by a guarantee from the Government that 95% of the outstanding money would be repaid.

ROBINSON: So what the result of that 95% guarantee?

HUMPHERSON: They did not monitor to the same level of intensity as they would have done in the absence of a guarantee of this kind. I think the guarantee is an important factor in the failure of Metronet.

ROBINSON: For the Chief Executive of the London Underground, trying to manage the Metronet contract was a nightmare.

O'TOOLE: Basically they were trying to back us into a corner of writing a blank cheque. Whatever they did must have been the best of all possible worlds and if it cost more we would have to pay them. I mean, it was this … approach to contracting that whatever it is, it is. And they thought, I think, it doesn't matter if we're over budget because London Underground will have to write us a cheque.

ROBINSON: Under the terms of the private finance deal, Tim O'Toole was effectively prevented from checking progress by the contract and by the complexity of the company and management structures Metronet created.

O'TOOLE: We were desperate to establish that they should be able to deliver the work for the original price, that the price quoted should be a price honoured.

ROBINSON: You, as the client here, I mean, were you able to see what was going on?

O'TOOLE: No, we couldn't see it, and so we were flailing about, trying to unlock this puzzle. We could not break through, we just couldn't get the information and …

ROBINSON: So where did that leave you, as Chief Executive?

O'TOOLE: Well, you know, obviously I had to carry that baggage. It was this very diabolical structure, frustrating structure that we had to live with, basically.

ROBINSON: How could you finally find out what was going on there?

O'TOOLE: Well we actually didn't until Metronet collapsed, went through administration and we took it over, and we were able to go in there and actually get the detail.

ROBINSON: The London Underground is an extreme example where taxpayers obviously lost out. But, despite complaints - some serious - about particular PFIs, up and down the country hundreds of hospital, school and road PFIs have been delivered by contractors on time, to agreed budgets and to the general satisfaction of the public bodies which commissioned them. That's good news, but it also means that the question of whether they provide value for money remains mostly unanswered. Until now.

ACTUALITY AT HOSPITAL

ROBINSON: Like pretty well every PFI hospital I've ever seen, the Royal Infirmary of Edinburgh is big, it's shiny – in this case white – and it incorporates pretty well everything. It's got a huge A&E department over there on my right hand side. In the centre is the main entrance and to the left is the University building, where doctors study. It's clearly a hugely important institution. It's the result of a PFI done in 1998 and the headline figure is £180 million. But, until now, whether that's really value for money is something that's been shrouded in secrecy.

JIM CUTHBERT: The information that we needed was not available. The financial detail was always removed from public view – not released.

MARGARET CUTHBERT: If you can't see the numbers there's no way of working out whether you're getting value for money, whether the scheme is affordable or not, and whether, in fact, it satisfies what the Government was looking for, which was risk transfer away from the public.

ROBINSON: In their retirement, Margaret and Jim Cuthbert have set out to discover what Scottish PFI hospitals are really costing taxpayers. The Cuthberts are a formidable pair. Margaret's had a successful career as an economist and business consultant. Jim was a top civil servant – formerly the Chief Statistician in the Scottish Office. Just like the campaigners on MPs expenses, Jim and Margaret used the Freedom of Information Act to get some of the raw data behind PFI deals such as that for the Royal Infirmary of Edinburgh.

MARGARET CUTHBERT: Where before, since 1998, we had had a only few pages describing a final business case for this hospital in the public domain, now in fact what we had were ten thousand pages.

ROBINSON: Ten thousand pages? Is that the contract?

MARGARET CUTHBERT: This is the contract, the final business case, the addendum to the business case, the financial projections …

ROBINSON: So this ten thousand page document, where is it?

JIM CUTHBERT: Well, it exists on the computer. I mean, we couldn't print out ten thousand pages, and it doesn't exist in a very helpful format. It's not searchable, potentially it's a facsimile.

ROBINSON: Well let's get it up on the computer then.

ACTUALITY WITH COMPUTER

ROBINSON: Okay, here we go, PFI.
The contract is detailed and vast. The chapter on car parking alone turned out to be 325 pages long.
Where are the numbers? Where are the numbers that matter?

JIM CUTHBERT: Well the numbers are in annex 12.

ROBINSON: Annex 12, let's go to annex 12.

MARGARET CUTHBERT: Okay.

ROBINSON: Bring them up, let's have a look.
Like the best financial investigators, Jim and Margaret set about their work by following the money. How much was going in to the PFI consortium in terms of monthly payments for the hospital? How much of that was going to cover running costs and maintenance costs? And how much was going to pay loans for the building and profits to the contractors in the PFI consortium? Once they'd established that, they'd have something to compare with what a publicly funded hospital would have cost.

JIM CUTHBERT: The important thing about having this detail is that you can separate out the service element of what's happening – what's being spent on operating costs, from what's being spent on debt service and what is being taken out as dividends.

ROBINSON: And could you do that before?

MARGARET CUTHBERT: Oh no. This, with the other seven that we have, as far as we know, are the only contracts where the detail is given that are actually in the public domain.

JIM CUTHBERT: And when you look in more detail at what was actually happening, you see indeed that there were these huge profits being taken out.

ROBINSON: Nothing wrong with huge profits for contractors, if the taxpayer also gets value for money. But Margaret and Jim conclude that didn't happen. Far from it.

JIM CUTHBERT: For what the hospital trust is paying, if they'd borrowed from the national loan funds, they could have, for that same cost they could have borrowed more than twice the capital which they actually got.

ROBINSON: More than twice the capital?

JIM CUTHBERT: More than twice the capital.

ROBINSON: That seems a huge amount.

JIM CUTHBERT: It is a huge amount, but remember, for that double, you're getting not just the hospital. You're also getting an allowance for a certain amount of risk transfer. Things are bound to go wrong in building a hospital and running a hospital, so there's an allowance for that in that double.

MARGARET CUTHBERT: There could be strikes, bad weather, that type of thing.

ROBINSON: And all of that's down to the operator?

JIM CUTHBERT: All that's down to the operator, so that's included in this extra, extra cost. But on the other hand, in most PFI projects, the allowance for risk transfer is assessed at something like 15% of the total cost of the project.

ROBINSON: 15%?

JIM CUTHBERT: 15%. So the double cost here looks very large indeed. So the conclusion we came to was that this particular scheme looked to be very expensive.

ROBINSON: Making every allowance they could, Jim and Margaret concluded that the Royal Infirmary of Edinburgh is costing taxpayers at least 40% more than it would with public sector finance. The seven other Scottish hospitals they studied showed a similar pattern. So how could that be, when the Treasury's detailed evaluation procedure is meant to ensure that PFIs are better value for money than equivalent publicly financed projects before they're allowed to go ahead? The Cuthberts have a disarmingly simple explanation. They say the Treasury's procedure was flawed because a bias of around 3% a year was built in to the calculations in favour of PFIs and against publicly financed projects. 3% doesn't sound very much. Does it really matter?

JIM CUTHBERT: Yes it does, because remember, this is compounded up over the full thirty years of the project, and the compounding effect will be very significant on the comparison.

MARGARET CUTHBERT: There must be many cases in Britain today where the comparison is wrong and the public sector, old-fashioned type build should have been the right one.

ROBINSON: So the comparison was unfair?

JIM CUTHBERT: That's right, there's a basic unfairness in the comparison in early PFI schemes.

ROBINSON: Faced with mounting suspicion about its methodology, in 2003, the Treasury rewrote the PFI rule book, setting out how public and privately funded projects should be compared. The 3% bias in favour of PFI funding disappeared, but international project consultant, Martin Blaiklock, said it was immediately replaced with a new device, which had exactly the same effect.

BLAIKLOCK: They introduced another concept which no other Government, in my experience, has actually used - something called 'optimism bias', which means that when you're doing the public sector evaluation of the cost of a project, then the various Government departments do their estimates, go along to Treasury and say, 'We have a project which is going to cost say £100 million.' The Treasury say, 'No, we think you've got it wrong, its going to cost £130 or £150,' - in other words they add a multiple to the basic cost and that is called 'optimism bias'.

ROBINSON: Had they done that before?

BLAIKLOCK: No, and I know no other Government who does it anywhere.

ROBINSON: So they were using an unfair comparison before, then they changed it and got rid of that unfairness, but then they added another one – the optimism bias?

BLAIKLOCK: That's a fair comment, yes.

ROBINSON: What was the result of having the optimism bias built in?

BLAIKLOCK: Well, I find the whole concept slightly unfortunate, it means that a number of projects have been undertaken as private sector projects where it might well have been better value for money for the taxpayer if they'd been done as public sector projects.

ROBINSON: Why did it happen?

BLAIKLOCK: I think you'd have to ask Treasury that question.

ROBINSON: We have asked – repeatedly – to question a Treasury minister on these issues. But our request for an interview was denied. Instead the Treasury sent us a rationale they published in 2003, explaining why they loaded extra costs onto

ROBINSON cont: public sector projects when making a PFI comparison. This says it's because with public sector projects, the Treasury:

READER IN STUDIO: Recognises the demonstrated tendency of appraisers to be over-optimistic when estimating costs, benefits and time profiles for proposals.

ROBINSON: That claim matters because it's been a key justification for the Treasury's PFI programme. But, because no minister would agree to be interviewed, we were unable to ask the Treasury to justify it. No-one denies that in the past plenty of public projects were delivered late and above budget. But after years in which the vast majority of public infrastructure has been built under PFI, is that claim still really true? In Scotland, they think not.

ACTUALITY IN GLASGOW

ROBINSON: Here, on the other side of Scotland, in Glasgow, another hospital – Glasgow Southern General, and this one is waiting to be refurbished. But here, there's a big, big, difference. Because the Glasgow Southern General is going to be fixed up with money borrowed by the state.

CALDERWOOD: The Scottish Government decided that the South Glasgow Hospital should be a prime project for Treasury funding, conventional Treasury raised capital, and they've given the health board a grant for this project.

ROBINSON: Robert Calderwood, the Chief Executive of NHS Greater Glasgow and Clyde, has worked in the health service for 37 years, so he knows all about old-style late delivery and cost overruns. But he is now confident that lessons have been learned about how to transfer risk to contractors and how major projects can be effectively delivered with cheaper public borrowing, as for Glasgow Southern General:

CALDERWOOD: Where we will go with the new hospital to avoid the historic cost overruns and late delivery of public sector projects is use all of the contractual techniques that have been brought to the marketplace by PFI, and therefore there is a large element of liability placed on the building contractor for cost over-runs.

ROBINSON: So if they get it wrong, they pay?

CALDERWOOD: Correct. And equally, if they under-spend, they are incentivised to do that by getting a proportion of the under-spend as a return.

ROBINSON: So the risk to the private sector is the same, it's only the money is being done in the public sector?

CALDERWOOD: Correct. We've incentivised the building contractor in exactly the same way as they would have been incentivised under PFI, but they are in a direct contractual relationship with me. So we believe we will get all the benefits of the PFI procurement methodology, of on time on budget, but we'll get it using Treasury funding.

ROBINSON: With a price-tag of £800 million plus, the Southern General hospital project is huge. But it's because of the way it's financed that it's now catching attention.

HELLOWELL: The Southern General is very significant, I think. It's the first publicly financed hospital of any scale that's been entered into since 1992, so it's a really significant change.

ROBINSON: Mark Hellowell, of Edinburgh University, is an expert on funding public infrastructure. He believes that with the Southern General, taxpayers will get the best of both worlds: a project where construction risk is transferred to the contractors, paid for with far cheaper, publicly borrowed money.

HELLOWELL The interest rate you would pay on Government borrowing, so on a publicly financed scheme, would be at the moment around 4%. On average, the overall rate of return on private finance is more like 9 or 10%, so there's a fairly significant difference in terms of finance cost between a public and private sector deal. In this case, you still have this quantum of risk transfer, this certainty that the private sector is going to deliver for a set price, but you don't have this extra cost of private finance associated with the contract.

ROBINSON: Publicly financed projects may prove better value for taxpayers' money, but there's an often-cited reason why, in Britain, they've been the exception. Public borrowings, as for the Glasgow hospital, show up on the national accounts as Government debt, whereas money borrowed by contractors for PFI projects usually doesn't count – even though, of course, in the end taxpayers end up paying for the loans, whichever method is used. David Heald, Professor of Accountancy at Aberdeen University, has no doubt that the difference in accountancy treatment has been a key reason why so much British public investment has ended up being done as PFIs.

HEALD: In the past, we've had evidence that the choice of actual hospital and school schemes has been distorted by the question of whether something should be on or off balance sheet, and indeed, it was made clear to hospitals and local authorities that they wouldn't get approvals for PFI schemes if they didn't comply. If these projects are very good value for money that's fine, but if they've been driven solely by accounting treatment there's sufficient evidence to worry about whether they are good value for money.

ROBINSON: And what do you think is driving it, of those two?

HEALD: It's very clear that accounting treatment is often the driver.

ROBINSON: The Treasury have always denied that getting debts off the Government's national accounts has ever been a factor in deciding how projects are funded. But, though the vast majority of PFIs for hospitals and schools now aren't part of the national debt, elsewhere in the Government's accounts, the situation is changing. This year, Britain has been required to adopt new International Financial Reporting Standards, and that's directly affecting the way PFIs are accounted for.

ACTUALITY AT ADDENBROOKES HOSPITAL

ROBINSON: Where are we going?

GOODCHILD: We're going down to the new centre, which came into being in 2007. It's called the Addenbrookes Treatment Centre, and it's PFI funded.

ROBINSON: At Addenbrookes Foundation Trust Hospital in Cambridge, Deputy Finance Director, Adrian Goodchild, showed me their new PFI-funded wing.
Now we've going through a corridor.

GOODCHILD: Yes. So we come through here into the atrium, which is the centre of the building, and you'll see it's nice and light, so it's very pleasant for patients.

ROBINSON: Clean and bright?

GOODCHILD: Yes, absolutely.

ROBINSON: Very different to the old entrance, which was all pokey and small.

GOODCHILD: Absolutely, that's correct.

ROBINSON: So what did it all cost you?

GOODCHILD: The cost is about £65 million. Being a PFI build, we don't pay for that in one go, we pay for it over a 30 year period.

ROBINSON: Because the consortium raised the money?

GOODCHILD: Yes, yes. That's right.

ROBINSON: This year, as Adrian Goodchild showed me, the new PFI wing doesn't show up in the Addenbrookes balance sheet – the part of the accounts where an asset like a building would normally be recorded.

ACTUALITY WITH BALANCE SHEET

GOODCHILD: So here's the balance sheet.

ROBINSON: So what does it tell you?

GOODCHILD: It summarises the Trust's assets and liabilities, so at the end of 2008 we had fixed assets – buildings and equipment and so on, as you'd expect – of £245 million.

ROBINSON: But is the PFI part of that?

GOODCHILD: No, that does not include the PFI building.

ROBINSON: Right. So where is it? It must be on someone's books.

GOODCHILD: Well, it's owned by the private sector partner.

ROBINSON: So it's on their books?

GOODCHILD: It'll be on their books.

ROBINSON: So, because it's not on your books, it's not on the Department of Health's books either, I presume.

GOODCHILD: No, that would be correct. PFI schemes were constructed in such a way that they were off balance sheets.

ROBINSON: But at Addenbrookes, that's changing, because the new international accounting standards stipulate that if a PFI project is under the control of the public body which commissioned it, then it should be on that body's books. Since Addenbrookes' new PFI wing is obviously under the hospital's control, this year it'll be on Adroan Goodchild's balance sheet, along with a matching liability to reflect the 30 years of

ROBINSON cont: repayments which the hospital is committed to make to the consortium which built it. Adrian thinks it's all an improvement:

GOODCHILD: I think it makes the accounts more transparent. I think it's correct that we show the building on the balance sheet and also the liability.

ROBINSON: Why?

GOODCHILD: I think it's a better description of reality. It's a fairer position to show.

ROBINSON: Because Addenbrookes' PFI will now be on its balance sheet, Professor David Heald says it, along with most other PFIs in Britain, will also end up on the books of Government departments. He's in a good position to know. As well as being a Professor of Accountancy, he's a special adviser to the House of Commons Treasury Select Committee and he's a member of the body which advises the Government on public accounting policy.

HEALD: In terms of the departmental accounts, the adoption of international financing reporting standards from 2009/10 will mean that virtually all existing PFIs and new PFIs will be on the departmental accounts and the books of public bodies like NHS Trusts. There may be some small exceptions, but the general rule is unquestionably all will be on balance sheet.

ROBINSON: So, if most PFIs are now on the books of Government departments, alongside publicly funded projects, what does that mean for the choice about whether infrastructure projects should be publicly or privately funded? Will that reduce the incentive for public bodies to choose PFIs even when they're more expensive to finance? For nearly two weeks now I've been asking the Treasury about new guidelines to Government departments they were rumoured to be preparing - in the hope that that would answer the question. On Friday, the Treasury finally told me they'd already published them - earlier this month at the height of MPs' expenses scandal. The guidelines themselves are 150 pages long and have the obscure title "Consolidated Budget Guidance 2009-10 (IFRS Updated)". The title may be obscure but the guidelines really matter. It's already clear that, ROBINSON: under the new international accountancy rules, most PFIs will end up on departmental books. But there's a catch, because that doesn't actually happen until a PFI project is up and running – and that could take years. Until then, the new guidelines instruct Government departments to go on treating PFI projects just as though they were still off the balance sheet.

Professor Heald is dismayed by the new guidelines, because he says they mean the artificial incentive for British public bodies to fund new projects with expensive PFI finance, rather than cheaper public borrowing, will continue.

HEALD: I thought that the argument that has been going on for ten or twelve years in terms of PFI accounting had finally been resolved. And what really worries me is that the success that has been achieved in terms of the financial reporting, whereby almost all PFIs will be on balance sheet, will be discredited by the manipulation in terms of the budgeting.

ROBINSON: And why do you use the word 'manipulation'?

HEALD: The very clear motive for the budgeting treatment is not to show PFIs as being part of public spending.

ROBINSON: What's the advantage of that?

HEALD: The only reason one can see why it's being done is to actually reduce the apparent size of public spending and the apparent size of the public debt. I thought we'd come to the end of that unfortunate period, but I see that is now going to continue.

ROBINSON: For the Treasury, burdened with debt from the banking bailout, continuing to keep PFIs off the books could prove helpful, especially at a time when the Prime Minister is promising spending increases, as he did last week in Parliament.

ACTUALITY IN PARLIAMENT

BROWN: Real count expenditure will grown in every year to 2013, 2014, not just in cash terms but in real terms. Capital expenditure will grow until the year of the Olympics. After the year of the Olympics ….

ROBINSON: At Edinburgh University, Mark Hellowell believes the new Treasury's guidance could help explain another puzzle: the apparent difference between the investment programme the Prime Minister is promising and the one set out in the official papers published at the time of the last budget.

HELLOWELL: We had the Prime Minster talking about increased levels of capital expenditure over the next five or six years, that's in real terms. Meanwhile, the main document that contains the Treasury's projections of capital expenditure over the next few years suggests that there's going to be around about halving of conventional capital funding by the middle of the next decade. Now the only way you can understand that, I mean either the Prime Minister's not being honest or there's going to be a big expansion in private finance, and I think that the latter scenario is quite likely.

ROBINSON: Why?

HELLOWELL: Because they're simply not going to be able to fund the investments that they need to carry out any other way, there simply isn't going to be the capital there.

ROBINSON: The British Government's accounting policy has to comply with many, often conflicting regulations from the UN, from Europe and from international accountancy bodies. But Professor Heald of Aberdeen University says, on the question of how to treat PFIs in future spending budgets, the Treasury was free to decide either way.

HEALD: The Treasury did not have to make this decision. The Treasury could quite reasonably have run the UK budgeting system on the basis of international financial reporting standards, and what I would argue is that, both for reasons of financial transparency and for reasons of avoiding distortions to value for money decisions in terms of individual projects, that the budgeting should be run on exactly the

HEALD cont: same basis as the accounting. It is not true that there was no choice. This is a conscious policy decision to actually make them different. In my view this decision is a complete mistake. What the Treasury is proposing in terms of budgeting will discredit the accounting, and we're going to get a new round of criticism about dishonest Government accounting.

ROBINSON: Is it a good idea to risk that at a time when public trust in politics is at an all-time low? We wanted to ask the Treasury. But, of course, they weren't available to answer the question.

SIGNATURE TUNE