According arguments played out in private finance

Business, Management

According to Alexander Dielius, CEO of Goldman Sachs, “ Banks do not have an obligation to promote the publicgood” (Wall Street Journal, 2010). This may seem self-evident given thefinancial crisis of 2007-8. However a general definition of the public good is” to the benefit or well-being of the public”, sothis should be something that the private sector (even banks) ought to be ableto deliver whilst maintaining their duties to the shareholders and staff of thecompany.

There will always be some” public goods” that can or should only be delivered by the public sector suchas financial governance or defence but these days, in the UK, a significantnumber of public services have an element of private delivery to a greater orlesser extent. Inthis essay I will look in more detail about how to quantify “ a public good” anddelve further into the meaning of private delivery. This will provide the starting position forexamining the arguments, for and against, the delivery of a public good by theprivate sector. I will then examine howthese arguments played out in Private Finance Initiatives (PFIs) which wereconceived in the UK in 1992 by the Conservative but became widespread under theLabour Party after 1997. So to start let’s look at the public good. Economically speaking, public goods are goods which can be consumed by allwithout exclusion (Non-excludability), and which are not decreased by use(Non-rivalry) (Pettinger, 2017). A common example is national defence, if you protect the country from invasion, itbenefits everyone in the country (Elliott, 2018).

Another is the policeservice; providing law and order meanings everyone in the community willbenefit from improved security and reduced crime rates. Public goods can alsobe defined as externalities, social costs and benefits provided by privateactivities, which are not taken into account in the private transaction. Notall goods provided by the government are not necessarily public goods, forexample, education isn’t a public good it is a merit good which is when peopleunderestimate the benefits of consuming (Pettinger, 2017). In more generalterms, public goods are activities that produce a positive outcome for allmembers of the community. Typically, public goods are not provided in a freemarket because firms cannot charge people directly. However, because there isno excludability, this can lead to a ‘ free rider’ problem. Consequently thismeans there are no incentives for people to pay for the good because they canconsume it without paying.

This will then lead to no good being provided andsocial inefficiency (Pettinger, 2017). Moving on to private delivery, this relatesto a service that has been privately delivered, it is simply a service wheresome or all of the funding has been provided by the private sector, either asingle company or consortium from the private sector sometimes due to fundingdeficiencies, or lack of expertise in the public sector. Where funding for aservice has moved from the public to the private sector it is calledprivatisation such as train operators, though this word historically has somenegative connotations it is still seen as an option in some servicedelivery.

Another style of privatedelivery is sometimes through philanthropy. An example of this is from the largest philanthropic organization in theworld, the Bill and Melinda Gates Foundation. This foundation is dedicated tothe elimination of malaria and polio, and controlling the spread oftuberculosis and HIV. In total, they have given £24. 2bn in grants to health programmes all over the worldwith its work focusses on prevention, immunisation and vaccination (Mathiesen, 2015). Huge investorssuch as Warren Buffet, whojoined the foundation as a trustee with a £30bn pledge, have helped thefoundation become a powerful catalyst for the improvement of lives in the world's poorest countries (Mathiesen, 2015). So while the initialfunds have been generated in the private sector, they are making a significantdifference to the lives of many individuals across the world. Seeing examples like this, begs the questionwhether having third party actors funding public goods is something whichshould be promoted more vigorously.

So having defined what is meant by publicgood and private delivery it allows us to investigate further the argument thata public good can be privately delivered. Also the example of the Bill and Melinda Gates foundation that hasprovided an excellent public good in health care, it would seem clear that thepotential for private involvement in the delivery of public goods is huge. However, where the private delivery is lessphilanthropic and more centred on delivery from the corporate world, there area lot of additional constraints that become involved. David Cameron stated during his time as primeminister ' it says loud and clear that it shouldn't matter if providers are from the state, private or voluntarysector – as long as they offer a great service'. During the coalition government, there was a push for moredelivery and financing by the private and third sector as it would help to easeshort-term financial constraints by providing investment (Grout, 2010). Itcould also potentially keep long term cost down if they provided a cheaper andbetter service.

Nevertheless, a big problem with privately funding public goodsis the public’s scepticismand suspicion surrounding them. Interestingly, the public are more likely toquestion a private sectors intentions because of the profit motive, compared tothe non-profit delivery from the voluntary sector even though the public knowvery little about this sector and there is no evidence to suggest they provide abetter service. The conflict between what the government want and what privatedelivery can offer with what the public want and think of it is the biggestconstraint for the growth of the private sector delivering public good (Grout, 2010). Another question raised if a public good is to be delivered privatelyis, are the profits perceived to be legitimate. This doesn’t mean illegally ofcourse, but private companieswill always endeavour to explain profit from delivery of public services unlessit is legitimised (Grout, 2010). Even implementing fixed priced contracts willnot legitimise profits as profits can be maximised by delivering the minimumservice. To fully understand if public good can be delivered privately, evenwith the scepticism, we will look at a policy example and assess whether it wasa success or not. The example I will be using for this is Private FinanceInitiatives or PFI’s.

PFI’s were first introduced by theConservative government in 1992 under John Major, but became widespread under theLabour government in 1997 (Telegraph, 2017). They are a means of the statefinancing the construction of new public infrastructure without the governmenthaving to find the funds themselves. This includes hospitals, schools, prisons, railways or any other public buildings. Usually, to fund this infrastructure, the governmentwould raise the money in taxes and then and pay the builders to deliver theproject.

After the work is complete, the public sector would then own theasset. However, if the project was under a PFI, the Government would commissionthe builder to deliver using its own money, which is normally borrowed from thecredit market. The state then pays the builder (or a separate company that buysout the contract) regularly to effectively lease the building or piece ofinfrastructure for a substantial time period, agreed as part of the PFI. PFIs'were put in place with the prospect that the private sector would be moreefficient at delivering and managing projects than the private sector.

Theywere extremely popular to start as it meant ministers could invest in largeinfrastructure projects for the public good, such as building new schools andhospitals, without paying any money upfront. However, the repayments would lastover 30 years at a high interest rate meaning these huge debts were piling upready for future tax payers to pay off. But how much will the uk exactly bepaying off? Currently, the taxpayer will be paying off £305bnin across 700 projects for the next 30years. The most expensive single project is the Ministry ofDefence's Future Strategic Tanker Aircraft (FSTA). It has a capital cost of£2.

7bn which, by the time the debt is paid off in 2035 would of increased to cost £10. 5bn. However, this may bethe most expensive single project, but the most expensive department in termsof PFI is the Department of Health. There are currently approximately 117projects within the NHS with a capital value of £11. 6bn, which will have costaround £79. 1bn by the time they are paid off (Rogers and Ball, 2016).

Seeingsuch a huge volume of debt definitely colours the public perception, not justagainst PFIs but against private delivery in general. However it can be argued, even in the case of PFIs and the NHS, there were (and are) both positive and negativearguments. Firstly, we will look at the advantages ofusing PFI's regarding the department of health. Financially, the advantages arethat the project is service led and centred on patient need, not that of theprivate company investing. Interestingly, before a hospital is built, both theNHS and the strategic Health Authority need to agree that the scheme would beaffordable and deliverable, so in theory it is agreed by the public sector thatthe scheme will produce appropriate benefits. There is also the shared liability, as no one company within aconsortium is liable for the entire financial risk, it is shared.

Once all isagreed the infrastructure project can begin. Sometimes, if agreed, the privateconsortium can also provide non clinical services such as catering or cleaning, making administration costs less. The advantages to the NHS and therefore thegeneral public also seem reasonable. From 1997 to 2010, over 118 new hospitalswere built under PFI's (Rogers and Ball, 2016). By increasing the number ofhospitals, access to healthcare is greatly increased, leading to helthimprovements across the communities.

Norfolk and Norwich Trust had estimated in 2010 that it is treating23, 000 more patients each year as a result of moving to new PFI premises(Lambert, 2010). Without the PFIschemes, these hospitals would not of been built in such short time frames ifdone by the public sector. The advantages are not only in the building ofhospitals, but the private consortia also maintain and update the buildingswhen needed too efficiently.

This is backed up with the survey done in 2002which showed that 88% of new facilities were deliver on time (Ford et al., 2005). The use of privateinvestors has also opened up new employment options, not only increasing theamount of health care professional due to new hospitals opening, but alsofinanciers, project managers, human resource advisers, legal and riskmanagement representatives.

An example of a PFI scheme in the NHS which hasworked excellently is University College London Hospital. It is now the largesthospital PFI in the country at £442 million. The scheme was signed in 2000, andwas completed on time and met the budget in 2008. Sir Robert Naylor, who is the chief executiveof the UCLH NHS Foundation Trust, says ‘ the decision as possibly the bravestand the best “ ever made in this part of the NHS’ (Lambert, 2010). Not only didthis hospital grant excellent healthcare to all patients, but it also has oneof the largest teaching hospitals for one of the top universities in the world. In an ideal world this has all been done with no risk to the public purse asthis is taken by the private consortia.

So, what could go wrong? Well, having established a significant numberof PFI the impact is now becoming apparent. Currently the NHS will have to pay back £79. 1bn with the repaymentsgoing until 2050, and the repayments will be coming from money made in taxes. In the next 5 years, £1bn of the taxpayers money, will go to the PFI companiesin profits.

Whilst the public will be paying back the governments debt theprivate companies would have made serious profits building and running the NHShospitals. The Centre of Health and public interest put out a report sayingwhat PFI’s will do to the NHS over the next 6 years, finically speaking. Overthe past 6 years, they have made pre-tax profits of £831m , this money hasobviously not been available for patient care over this period. If the NHShadn’t been paying these profits, deficits in hospitals would of reduced by aquarter in the 6 years (CHPI, 2017). A number of PFI schemes are generatingparticularly high pre-tax profits for their operators. The company which holdsthe contract for the hospital at University College London has made pre-taxprofits of £190m over the past 11 years out. This is out of £527m paid to thecompany by the NHS (CHPI, 2017). This report clearer shows that profits have notbeen transparent, and feeds back into the publics’ scepticism of the privatesector.

To try and reduce excess profits, the report makes somerecommendations. Firstly, to use public sector loans to buy out these privatecontracts. If this was possible, it would give control back to the publicsector, but could hinder things such as maintenance and efficiency. Capping theamount of profit a PFI company can make is another suggestion, however, tocontrol and keep transparency could prove difficult if these companies havealready been making huge profits (CHPI, 2017). The only real way forward is totry and renegotiate contract with the PFI companies and the NHS, seeing if theamount that the NHS pays could be reduced due to private companies alreadymaking substantial profit.   Poorly negotiated PFI contracts are the rootof all the problems caused. One example was risk sharing. The NHS wanted theprivate companies to take all the risks, however if the risks were sharedequally, there would be more innovation.

This is a huge problem when it comesto healthcare as new technology and medicines are being developed every day, however the lack of knowledge by the private companies, results in new ideasnot being tested. An example used one of the “ successful” PFI’s (Norwich andNorfolk hospital), the PFI was negotiated so poorly that the rates that werepaid by the local Trust, put it deep in the red. When rates were reconfiguredin 2003, two years after it opened, the NHS didn’t benefit, however the private consortium didto the tune of £70 million . Badly drawn up contracts have also lead hospitalsto be tied to expensive, overpriced contractors for maintenance and catering. One example is the Queen Elizabeth Hospital in Woolwich. Each year they haveover 60 visits from pest controllers even if there have been no reports ofpests on sight.

(Telegraph, 2011). This is not just a waste of time, but a hugewaste of money that could be going towards healthcare. Contractors are charginghigh end prices simply because they can, in Central Middlesex Hospital they said on average a contractor willcharge £210 to fit a plug socket. The greatest criticism that PFI’s have facedregarding the NHS has been that they a poor value for money. (Lambert, 2010)Seeing the amount of debt that the NHS is now in makes it very difficult forthe public to see how it is good value.

Dr. Flynn who is the deputy chairman ofthe BMA’s ConsultantsCommittee said “ The NHS has been saddled with debt. Had the Government borrowedin the usual way, the amounts would have faded into insignificance by now.

“(Telegraph. co. uk, 2011).

However, from the government’s point of view, they aregood value as government borrowing is the same and has always been spreadacross a number of years. PFI’s are an example where the private sectordid and still are delivering public good, however, contracts were negotiated sopoorly that the positives are strongly outweighed by the negatives. However, even though PFI’s were seen as a failure, other projects privately funded havebeen a success. The Bill and Melinda Gates foundation is astrong example of how private funding can be truly successful.

Bill Gates for along time was the richest man in the world, and saw that if he partnered withgovernments and the public and private sectors this would then promote greaterpublic awareness of urgent global issues (Gates and Gates, 2018). What thefoundation has done for developing countries is phenomenal, providing vaccinesand developing new research everyday for diseases such as malaria and TB. If public good can be privately deliveredsuccessful, it heavily relies on putting polices in place to make sure there iscomplete transparency.

Firstly, there needs to be clear objectives with eachindividual project and a way to measure its success. If it is made clear to thepublic how well a project is doing, suspicion may decrease. If there are clearobjectives, this would also make it easy to negotiate fair and realisticcontracts which is the main cause of failure in private funding currently. However, the biggest obstacle facing private sector funding is the public itself. Due to the antipathy towards private companies, and evidence showing how thatsome can and have made huge profits from public goods, it’s clear to see whythe public have their suspicions so are inclined to be anti any form ofprivatisation. However, if every detail was done with complete transparency, evidence of success and profits being put back into the projects, then there isdefinitely room to believe that public good can be privately delivered.