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PPP/PFI projects in Scotland

UNISON Scotland

POLICY BRIEFING

Introduction

This briefing looks at the continuing use of Public Private Partnerships (PPP) in Scotland through PPP/PFI, the Scottish Futures Trust, the hub programme and the so-called Non Profit Distributing (NPD) model.

PFI is dead – long live PFI

The Private Finance Initiative (PFI) is supposedly dead. Scottish and UK Government Ministers regularly distance themselves from the disastrously expensive funding mechanisms used to build schools, hospitals and other public infrastructure over the last twenty years. But, both governments are continuing to use it, as shown in UNISON UK's 2011 briefing *The role of private finance in public investment*. (Chancellor George Osborne has proposed a "fundamental reassessment", but we predict tinkering at the edges, as has happened here, and not an end to the policy, even though two House of Commons Committees this year produced damning reports on PFI.)

PFI was the first model of PPP and the acronym 'PFI' is widely used interchangeably with PPP. Yet Scottish Ministers claim they have killed off PFI, thanks to that old trick of a name change – to NPD, avoiding all reference to it being a form of PPP - and some slight financial tweaking.

Despite the SNP's vociferous criticism of the previous administration's use of PPP/PFI, the Scottish Government has been taking it forward using NPD and via the hub programme, which uses Design Build Finance and Maintain (DBFM) PPP contracts for 'community' facilities e.g. health centres, schools, police & fire services. Several projects originally set to use conventional public funding were recently switched to NPD (e.g. Edinburgh Sick Children's Hospital, Dumfries & Galloway Royal Infirmary, the Scottish Blood Transfusion Centre, Inverness College) and many schools NPD projects now come under hub. (Some school projects expected to receive capital funding have been switched to NPD/hub revenue funding.) Also, waste infrastructure contracts are based on English PFI ones and the National Housing Trust is a form of PPP.

The Scottish Futures Trust (SFT) – the quango that was originally proposed by the SNP as an alternative to PFI - is currently in charge of a £2.5 billion Scottish Government PPP pipeline of NPD and hub DBFM projects, one of the biggest of its type in Europe. Ministers talk mainly about NPD, arguing that it removes the "excessive profits and financing costs" of PFI. DBFM is a traditional PPP model. The SFT says it and NPD differ from PFI in various ways including that profits are capped to prevent "super profits". However, health and public policy expert Mark Hellowell, of Edinburgh University and expert adviser to the House of Commons Treasury Committee for its summer 2011 PFI inquiry, says that the long-term cost to taxpayers of NPD is "similar" to that of the classic PFI model and that it "makes PFI a bit more politically acceptable without changing any of the economics."

KEY POINTS:

- **Ministerial talk of Scotland being "set free from the shackles of PFI" misrepresents the continuing widespread use of private finance in public infrastructure through a range of PPP models**
- **Private financing is far more expensive than conventional public funding**
- **PPP is still 'the only game in town' for many projects because there is not a level playing field with conventional funding**

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Ministerial talk of Scotland being "set free from the shackles of PFI" fundamentally misrepresents the continuing widespread use of private finance in public infrastructure through a range of PPP models. Private financing costs Scottish taxpayers billions more than conventional public funding, as shown in UNISON Scotland's 2007 *At What Cost* report.

The Scottish Government and current PPPs

Scottish Futures Trust
The SFT is headed up by merchant banker Sir Angus Grossart. It was not initially intended to be a standard bearer for PPP. However, in Nov 2011, Chief Executive Barry White told the Scottish Parliament Finance Committee that "PPP is a generic term that covers almost everything that we do." The hub initiative and the NPD model were introduced by the 2003-2007 Labour/Liberal Democrat coalition administration. At that time the SNP opposition were highly critical of PPP/PFI. They proposed a new Scottish Futures Trust to 'crowd it out' by providing Scottish Government bonds for cheaper conventional public financing of public infrastructure. UNISON supported this idea. We welcome the fact that the Scotland Bill currently going through the UK Parliament will give the Scottish Government the power to issue investment bonds, although this is limited and subject to Treasury authorisation. The SG could use this and new borrowing powers to help end PPP, but their current enthusiasm for it makes that seem unlikely.

The £2.5 billion PPP investment pipeline managed by the SFT includes up to £770m of roads NPD projects, including the M8 'bundle' and the Aberdeen Western Peripheral Route (AWPR) 'bundle' (subject to successfully defending legal challenges). It also includes: £500m of acute health NPD projects, £250m of hub health projects, £300m of NPD college projects - the new City of Glasgow College, Inverness and Kilmarnock Colleges – and ten hub secondary schools worth £450m.

The SFT is also advising councils on funding for a range of waste treatment infrastructure projects, which includes PPP contracts (e.g. in Glasgow and Edinburgh/Midlothian). The SFT says it is estimated up to £1billion of investment is needed in the next 10 years. It bases its standard residual waste treatment contract on similar English PFI contracts. Its other work includes the National Housing Trust, a PPP, and support to councils investigating the development of renewable energy projects, with PPPs an option.

NPD *(The link to a table of the £2.5 billion NPD pipeline is in box opposite)*
UNISON argues that the NPD model is simply a cosmetic change to existing PFI schemes. It retains the higher borrowing costs, private profit at the contractor level and elements of the risk transfer costs all leading to the same profiteering and inflexibility inherent in PFI.

In September 2011 the Borders Railway NPD project collapsed after two of the three bidders pulled out and negotiations with the remaining bidder ended. The NPD model is now being tried for the first time in the FE sector, and the Scottish Blood Transfusion Service had some concerns when expected conventional capital funding was switched to revenue funding, using NPD, for its new blood processing centre.

hub
The hub initiative is based on the English Local Improvement Finance Trust (LIFT) health PPP scheme, and is managed by the SFT. There are five

Further information:

UNISON 2011 briefing *The role of private finance in public investment*
www.unison.org.uk/file/B5485.pdf

Scottish Futures Trust website
www.scottishfuturestrust.org.uk

Scots Gov £2.5billion NPD pipeline SFT Oct 11 table (incl details on specific projects)
www.scottishfuturestrust.org.uk/docs/504/NPD%20Pipeline%20October%202011.pdf

Scots Gov Infrastructure Investment Plan Dec 11
www.scotland.gov.uk/Resource/Doc/364225/0123778.pdf

House of Commons Treasury Committee 2011 PFI Report
www.parliament.uk/business/committees/committees-a-z/commons-select/treasury-committee/news/pfi-report/

House of Commons Public Accounts Committee 2011 PFI Report
www.parliament.uk/business/committees/committees-a-z/commons-select/public-accounts-committee/news/pfi-report-publication/

Scottish Government PPP/PFI & NPD web info
www.scotland.gov.uk/Topics/Government/Finance/18232/12308

UNISON Scotland PPP/PFI web info
www.unison-scotland.org.uk/comms/pfi.html

UNISON Scotland At What Cost 2007 Report
www.unison-scotland.org.uk/comms/atwhatcostoct07.pdf

UNISON UK PPF/PFI web info
www.unison.org.uk/pfi/index.asp

geographical ‘territories’, with a range of public sector partners, including NHS boards, local authorities, fire and police services and the Scottish Ambulance Service. Five hubcos are being set up as joint ventures between the public sector partners and a private sector development partner (PSDP). The public sector partners, can, if they wish, take a share of the 30% public sector participant shareholding in hubco, contributing to the share capital and possibly a share of hubco’s working capital. The public sector also has directors on hubco boards, normally two (one from SFT, one a public sector appointee), with three private sector ones. The PSDP holds a 60% share, the SFT 10%.

Under a 20 year partnering agreement, the hubco will build/refurbish a multi-million pound pipeline of smaller individual (e.g. NHS or council) and/or shared community facilities. (Larger projects such as hospital developments won’t go through hub, but are likely to be through NPD.) These will mostly use DBFM PPP contracts that are revenue funded, although some could be Design and Build under a capital cost option.

In effect, hub bundles most local ‘community’ facilities projects over the next 20 years into a pipeline as one ‘supercontract’. A variety of projects have already been agreed or proposed for the various hubcos. This includes ten schools (See Schools for the Future Programme, below) and more than £250 million of revenue funded health projects.

Problems with hub include the higher cost of private finance, accountability and conflict of interest questions. Joint planning and procurement work for such collaborative projects could be done more cost-effectively using conventional funding, with no need for a joint venture company.

Scotland’s Schools for the Future Programme

More than 60 schools are being built or refurbished under the £1.25 billion programme (£800 million from the Scottish Government and £450m from local authorities). The SFT manages it. To receive funding support from the SG, local authorities must go through the relevant geographical hub, using hub DBFM PPP contracts, or must use the NPD model, if the Scottish Government agrees – making PPP once again the ‘only game in town’. In November 2011 construction started on the first hub school site, in East Lothian.

National Housing Trust

UNISON wants to see more low cost housing but a giant PPP scheme is not the best way to deliver this. The National Housing Trust sees local authorities borrowing money from the Public Works Loan Board to provide loans for Special Purpose Vehicles (SPVs) in their area. The SPV uses the loan to buy houses from the appointed developer at 65-70% of the agreed purchase price. The developer will provide the remainder as a mix of loan funding and equity investment. The Scottish Government guarantees the councils’ funding in case the SPV is unable to pay back the loan. These will provide homes (let using criteria agreed with the council) at affordable rents for five to ten years (the rents paying the interest on the loans, management, maintenance etc), then the houses would be sold to pay back the loans. UNISON is disappointed that the SG Infrastructure Investment Plan says variants of the NHT are being developed for Housing Associations. Conventional public funding is best.

Provision of Services – SG should rule out staff transfer

One of the criteria for these various projects being revenue funded is that there is a contract for the provision of services. (Other criteria include that

hub programme:

hub South East
£300m programme
Joint Venture Company formed with Space consortium in Aug 2010
www.hubsoutheastscotland.co.uk
SPACE is comprised of Galliford Try, Fulcrum and Davis Langdon

hub North
£435m programme
Joint Venture Company formed with Alba Community Partnerships in March 2011
www.hubnorthscotland.co.uk
ACP is comprised of Cyril Sweett Investments Ltd and Miller Corporate Holdings, part of The Miller Group

hub East Central
£500m programme
Update Feb 2012: Joint Venture Company formed with Amber Blue.
www.hubeastcentralscotland.co.uk
Amber Blue is comprised of Robertson Group (Holdings) Ltd, Amber Infrastructure and FES

hub West
£200m programme
Update Jan 2012: PSDP announced as Wellspring Partnership Limited.
Wellspring is comprised of Community Solutions Investment Partners Ltd, Morgan Sindall Group PLC and Appollo Capital Projects Ltd.

hub South West
£500m programme
Update Aug 2012: Preferred bidder announced as Alliance Community Partnerships (comprising Equitix Holdings Ltd, Kier Projects Investment Ltd, Galliford Try Investments Ltd and John Graham Holdings Ltd.)

construction risk and availability or demand risk must be transferred.) Previous PPP/PFI projects have seen both hard and 'soft' Facilities Management (FM) services included in contracts. SFT documentation shows that the hub DBFM/NPD standard project agreements now seem only to include hard FM and lifecycle maintenance and not 'soft' FM - catering, cleaning, security etc. This is welcome but the SG should make excluding staff from transfer an explicit policy commitment.

Accounting rules / the financial crisis

Despite changes in 2009 to bring in International Financial Reporting Standards (IFRS) accounting, which means most PPP assets are on, not off balance sheet, these projects still do not show up in Public Sector Net Debt. This is because borrowing statistics are reported under the European System of Accounts (ESA) framework. ESA is also used for measuring the level of capital expenditure, meaning that PPPs are attractive because they can be recorded as additional to government and departmental capital budgets. This is the basis of the attraction to governments of PPP/PFI – it is a sleight of hand that fits the short-term approach of so many politicians who seem happy to pile up expensive debts for the next generation. And PPP appears even more attractive to them when there is major pressure on public finances. This is despite the fact that the financial crisis has increased the cost of PPP. The National Audit Office warned in 2010 that "PFI is less likely to be value for money unless there are substantial and credible savings to offset higher financing costs." The SG Infrastructure Investment Plan states that it is currently facing a severe reduction in the level of traditional capital funding available, so alternatives that finance investments through revenue, such as NPD, are being taken forward. But the House of Commons Treasury Committee 2011 PFI report said earlier that higher borrowing costs since the credit crisis makes PFI an "extremely inefficient" financing method. It said investment could be increased in the long run if government capital investment were used instead of PFI as the average cost of capital for a low risk PFI project is over 8%, double that of government gilts. Analysis commissioned by the Committee suggested that paying off a PFI debt of £1bn may cost taxpayers the same as paying off a direct government debt of £1.7bn.

Operational projects

There are 87 operational projects in transport, schools, health, waste and wastewater etc, with a total annual unitary charge of nearly £1bn. There are strong concerns that, with tight public finances, the repayments on these will cause severe pressures on budgets for some councils and health boards.

What should be done?

UNISON reiterates our proposals for: PPP/PFI contract buyouts that produce savings (A 2011 SFT review didn't calculate potential savings because, it said, "termination would bring assets back into the public sector for accounting purposes and the capital budget required for this is not currently affordable"); prudential borrowing for health boards; staff to be explicitly excluded from transfer and for a strengthened PPP staffing protocol. It is essential that there is a genuine level playing field, with Scottish Government funding support offered to new projects irrespective of the proposed method of procurement. When the Scottish Government borrowing powers become available, ministers should use these and bonds to announce no more private financing of schools, hospitals and other public buildings. Similarly, while UNISON could support proposals for using pension funds to invest in public infrastructure, this should not involve investment in PPPs. Finally, ministers should extend Freedom of Information laws to all companies and other bodies providing public services. The capacity to effectively scrutinise the true costs of PPP is essential.

ACTION FOR BRANCHES:

- **Monitor existing PPP projects in your area and what new ones are being planned, whether hub, NPD or other models of PPP**
- **Campaign to influence decisions on these, by a) highlighting problems or issues with existing projects b) challenging the costings for new projects. (Obtain Outline or Full/Final Business Cases (OBCs/FBCs) or similar project documentation)**
- **Campaign for FOI laws to be extended to cover PPP companies**
- **Keep the Bargaining & Campaigns team up to date with your campaigning and any significant local PPP issues, particularly any workforce problems**

bargaining & campaigns team

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