national union

report

Buy Now, Pay Later!

An analysis of the Private Finance Initiative (PFI)—the newest form of privatization in the United Kingdom

Study Tour of UNISON
November 7-12, 1999

Acknowledgements

In November 1999, the National Union sent a delegation to the UK on a Study Tour of UNISON, Britain's largest public sector union with 1.3 million members.

The analysis and comment contained in following paper is based on research and interviews members of the National Union's delegation conducted with representatives of UNISON.

We would like to express our sincere gratitude to the representatives of UNISON whom we met with for their informative briefings on the major issues faced by UNISON in regards to public sector restructuring, labour relations and the union's dealings with the Labour government.

The National Union's delegation found the program UNISON put together for us to be valuable and informative in terms of our union work back in Canada. Much of what we learned has given us either a new perspective on very similar issues we currently face in Canada, or an important insight into issues that we can expect to face in the near future.

With the increasing pace of globalization and the worldwide assault on the public sector, our international solidarity work is increasingly important. UNISON and the National Union have a long history of working together and it's our hope that we can continue to build on and strengthen our working relationship and solidarity.

Members of the National Union Study Tour of UNISON -- November 1999

- ***James Clancy**, National President of the National Union of Public and General Employees (National Union)*
- ***Joan Jessome**, National Union's Nova Scotia Vice-President & President of the Nova Scotia Government Employees Union*
- ***Mike Butler**, National Union's PEI Vice-President & President of the PEI Union of Public Sector Employees*
- ***Peter Olfert**, National Union's Manitoba Vice-President & President of the Manitoba Government Employees Union*
- ***George Heyman**, National Union's British Columbia Vice-President & President of the B C Government and Services Employees' Union*
- ***Diane Wood**, National Union Board Member & Secretary-Treasurer of the B C Government and Services Employees' Union*
- ***Cindy Stewart**, National Union Board Member & President of the Health Sciences Association of B C*
- ***Derek Fudge**, the National Union's Campaigns and Research Director*

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Introduction

Private Finance Initiative (PFI), an initiative launched by the last Conservative Government in the UK in its 1992 budget, is one of the newest forms of privatization haunting the public sector. It has also spread through Europe and Japan in varying degrees and has raised its head here in Canada under the label of Private / Public Partnerships (PPP's).

PFI aims to increase private sector involvement in the provision of public services, not just by attracting private investment to rebuild Britain's public infrastructure, but by allowing private companies to own and control public services.

Back when PFI was launched in 1992, it was seen as a way of opening up the public sector to the private market – a clear reflection of the Tory ideology of the previous government.

Since being elected in 1997, however, the new Labour government has injected new life into PFI by streamlining the processes and bringing an even greater private sector emphasis. It's clear that the government remains committed to PFI to fund investment in the public sector. Since May 1997, £12.76 billion ($29 billion Canadian) of PFI schemes have been signed and government figures reveal a total of £83.8 billion ($206 billion Canadian) of revenue estimated to be spent on PFI schemes up to 2026.[1]

The first schemes were mainly in central government, prisons, computer systems and roads. The Labour government has now spread PFI schemes into the National Health Service (NHS), local government, higher and further education, waste and energy management, public transit, public housing and police services.

[1] Interview with **Margie Jaffee,** National Officer with **UNISON's** Public Policy and Affairs Department, November 9 1999.

What's behind the Labour government's commitment to PFI?

The Labour government under the leadership of Tony Blair was elected in a landslide victory on May 1st, 1997 after 18 years of right-wing Tory rule under Margaret Thatcher and John Major. It was obvious that the citizens of the United Kingdom were tired of the harsh *'survival of the fittest'* dogma of the Tories.

The 18 years of Tory rule led to a major deterioration in public services as a result of years of chronic underfunding of public programs and inadequate investment in public infrastructure. The 'Thatcherist' view of the public sector was simply that it was a drain on the economy and must be reduced in size. The Tories have been and continue to be ideologically opposed to the public sector playing an important role in the British economy; in fact, the Conservative Manifesto refers to "… liberating public services from centralized control over capital."

Along with the election of the Blair government, was the hope that the public sector would be revitalized and modernized. 'New' Labour has to some extent reinvigorated the public sector, but by an approach that emphasizes such 'centrist' policies as deficit elimination, lower taxes and increased partnerships with business.

'New' Labour has introduced a number of positive measures to improve public services since being elected. Perhaps most important, they got rid of the Tories' Compulsory Competitive Tendering (CCT) process, a scheme that forced central government, the National Health Service and local authorities to contract out public services, with the cheapest price being the main criteria of a successful bidder. In place of CCT, the Labour government has introduced the 'Best Value' program which focuses on quality and value for the service users as the main criteria for awarding contracts. Although Best Value makes the public sector a much more viable option, UNISON is somewhat skeptical considering the financial restrictions currently facing the public sector and the ideological underpinnings in which it was introduced.[2]

Within the Labour government, however, there's a dominant view that the private sector is intrinsically more efficient than the public sector. The Labour Party's business manifesto *'Equipping Britain for the Future'* in fact states "…We recognize the value that the private sector can so often bring to projects where there is scope to apply its expertise, disciplines and economies of scale."

The history of the public sector and public sector labour relations in the UK is also an important factor when considering the reasons for 'New' Labour's support for PFI. In relation to Canada, it is much different. Here in Canada, we have a much stronger tradition of being 'customer-driven' in the design and delivery of public services. Our collective bargaining system is based on a much more extensive legislative framework. Canada's history of public sector labour relations is also relatively brief (only 3 decades) in comparison to the UK where it dates back to a century ago.

The general view held by most Britons is that public services have not been that responsive to consumers' needs; two decades of deliberate neglect and underfunding of public services by the Tories has only helped to strengthen this view. Public sector unions in the UK have a much more militant history than we do in Canada. Although public sector unions have a long history of engaging in campaigns and actions taken against cuts in public services, the primary focus of their militancy was on making gains for workers. This militancy did not result in the improvement of public services, nor did it help build public support for publicly delivered services. UNISON informed us that as a result, "the 'New' labour's agenda is now strictly consumer-driven, as opposed to the agenda of 'Old' Labour, which was for the most part worker-driven."[3]

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[2] Conversation with **Rodney Bickerstaffe**, UNISON 's General Secretary, November 8, 1999.
[3] Conservation with **Malcom Wing**, UNISON's National secretary for Local Authorities, Novmber 12, 1999.

The Labour government has therefore shown little interest in 'the old way' of rebuilding Britain's public sector. Instead they are now convinced that partnerships with the private sector is the way to go with respect to procuring public services and investment. In fact, 'New' Labour introduced PFI as part of its effort to woo big business. As UNISON explained to us, from 1994 there has been a tremendous insecurity in the Labour Party with regard to business and PFI was offered as a gesture, to show that Labour could be friendly to business.

The other critical factor that has led 'New' Labour to embrace PFI is their faulty debt crisis mania, an obsession that really mirrors the thinking of federal and provincial governments in Canada throughout the 1990's. This obsession has a lot to do with the 'government debt to GDP' ratio, and is derived from issues surrounding the Maastricht Treaty, the European Community agreement on monetary and economic union. (Under the Maastricht Treaty, the limit for a country's general government debt is to be not more than 60 percent.)[4]

Although the UK's debt to GDP ratio had gone down considerably in the years between 1980 and 1990, the Tories created a huge deficit in 1992 of around 70 per cent of GDP; this lead to panic. It became part of Thatcherite / Majorite / Blairite thinking that all borrowing was bad and that we could not possibly have anything funded by public borrowing.

The Labour government's Chancellor of the Exchequer, Gordon Brown (UK's Finance Minister), has done immensely well at managing Britain's economy. Like Canada, the UK government is now recording huge surpluses and its debt to GDP is 40 per cent and in no danger of going anywhere near 60 per cent, the limit set by the Maastricht Treaty. In such a positive fiscal position, there are few, if any, circumstances where the private sector can borrow more cheaply than the public sector. Yet because of Labour's debt mania, the idea of borrowing for public investment is completely

[4] **PFI – Dangers, Realities, Alternatives**, Public Services Privatisation Research Unit, 1997, page 29.

intolerable. "It bears the implicit shadow of political red. It puts a political interest rate on government debt that is much higher than the market rate."[5]

The final factor leading to the Labour government's embracing of PFI is simply blatant political manipulation and good new management by the Labour government. PFI will allow the Labour Party to enter the next election campaign with its national accounts in a surplus position and a new hospital, school or other valued 'public' facility having been built in almost all electoral districts.

What exactly is PFI?

PFI is really nothing more than an elaborate plan to promote the privatization of public assets and services. Under PFI, the private sector pays for replacing or refurbishing public assets, such as a new hospital, renovated school or a computer system, and in return the government or the public sector agency leases the asset back from the private sector. Thus the companies which provide the asset are repaid for their capital investment over the life of the contract which must therefore cover a long period of time (usually between 25 and 35 years).

PFI contracts also can include an arrangement where the private sector also operates and runs the 'non-direct' services associated with the asset and the employees who provide those services and in fact, up until this summer it was obligatory for services to be included. A November 1998 HM Treasury document entitled *'Partnership for Prosperity'* states the following:

> *"The PFI transforms government agencies from being owners of assets into purchasers of services from the private sector."*

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[5] **The Economic Case Remains to be Made**. Professor Lord Desai of St. Clement Danes, Professor at the London School of Economics, contained in the **PFI Intelligence Bulletin**, November 1999, page 10.

In the case of a new hospital for example, it could include all staff (maintenance, housekeeping, dietary, administrative, etc.) except medical staff (doctors, nurses and other health care professionals). In the case of the renovated school, all staff (maintenance, janitorial, dietary, administrative, etc.) except teachers could be included in the contract with the private sector. In the case of a new computer system, the private sector could also employ all information technology staff associated with the new computer system.

Under traditional funding of capital projects used to refurbish or build public facilities which we are most familiar with, the public sector owns and operates the facility once it is built by the private sector. The key difference under PFI, the public sector is not responsible for its maintenance, insurance, repair, cleaning or security -- the private sector is. Instead of borrowing to fund the asset, the public sector makes a monthly payment to the private company to cover all the costs of designing, financing, building and operating the facility.

There are four key elements of PFI:

- ***D****esign* -- The private company does the architectural and engineering work involved in designing the public facility;
- ***B****uild* **-** The facility is built by private contractors;
- ***F****inance* - The private sector has to borrow the money at higher interest rates and then charge what is in effect a rental to the public sector; and
- ***O****perate* - Most public services are operated by public sector staff, who are trained to deliver the service effectively to the public. Under PFI the private contractor could operate the service including employing staff directly.

The Design, Build, Finance and Operate (DBFO) schemes pose the greatest challenge to UNISON as they can potentially threaten the job security of close to 75 per cent of the union’s membership. Generally run by a consortium of companies with involvement at different stages of the process, they contain a service element that is run by the facility management partner(s) within the consortium winning the contract.

Under the Tories PFI was compulsory. An innovation of the Labour government since their election was to longer make it compulsory, especially for smaller projects. However, for major capital projects, other forms of finance are not available, so PFI remains the only option. In other words, PFI offers the private sector first refusal for any capital project before public money is available. The severe restrictions on the 'permission to borrow' given to local councils means that local authorities do not have the option of borrowing money to fund their capital projects. This has put additional pressure on cash strapped local authorities to turn PFI for funds.

The 'Principles' of PFI

PFI supposedly must satisfy two underlying principles before the government will approve them. Schemes must demonstrate both:

⇒ value for money; and

⇒ a transfer of risk to the private sector.

Value for money (VFM) supposedly has to be demonstrated in PFI schemes, by comparison with a public sector option, and by calculating the current cost of all the payments due over the project's life (the Net Present Value). The government allows an enormous loophole to avoid proper public sector comparisons though by stating that *"public sector comparators are not necessary for projects which would not have otherwise have gone ahead other than as PFI projects'* nor where "*the public sector is the sole, or main, purchaser of the services being provided"* for example a prison or IT project.

UNISON is quick to point out that PFI does not satisfy these criteria. In fact, UNISON argues that schemes cost more than conventional procurement and have documented several examples of this (see ***Appendix II – PFI Failures***). The private sector cannot borrow capital to finance projects as cheaply as the public sector can because the capital markets give public sector bodies, which are ultimately backed by the government, a more favourable credit rating. The higher interest rates paid by the private sector must, in the end, be repaid by the public sector, through taxation. So it's the taxpayer who picks up the bill for the higher costs of PFI projects.

The private sector is supposed to take some responsibility for the risks involved in PFI projects – and the extent of that risk is at the heart of negotiations on PFI schemes. Since a key aim of PFI is to achieve public sector investment without appearing to increase public borrowing, the government insists that 'risk transfer' must be shown. This can revolve around aspects of the contract such as:

- design and construction risks -- keeping to costs and timetable;
- the demand risk – how much the service will be used;
- residual value risk – the value of the contract at the end of the project; or
- technology or obsolescence risk – the risk that the asset will cease to be the technically best way of delivering the service during the life of the contract.

In practice, however, risk transfer is limited. The public sector increasingly bears the risks of PFI projects. The ultimate risk is that if a project collapses, it will remain the responsibility of the public sector. If the type of facility or service involved in a PFI is no longer needed, then the public sector will have to continue paying for a facility or services it no longer needs. Most services provided under PFI are effectively public monopolies, so the risks stay in the public sector. If the services fails, or is of poor quality, the public sector cannot go elsewhere.

Does PFI really represent value for money and transfer of risk?

Do PFI projects demonstrate both value for money and a transfer of risk to the private sector? The answer is no! In fact, there is a growing body of evidence that PFI schemes have not produced the anticipated savings and in some cases are spectacularly failing. UNISON has been monitoring PFI projects and the companies involved in them since its introduction in 1992. UNISON 's research of many PFI projects shows that any fair comparison of costs with public sector provision makes the PFI project more expensive. UNISON 's research also shows that in several instances the extra cost of using private capital has resulted in drastic cuts in services. Attached as ***Appendix I*** is a list of several examples of PFI failures that UNISON has documented.

What's wrong with PFI?

- **Profit driven decisions**

As the amount of public money available for capital projects has been cut, only those projects which represent the best deal for the private sector through PFI have been approved. Projects are packaged on the basis of what's best for the private sector than on the needs of the public.

- **Job losses and cuts in pay and terms and conditions**

PFI projects involving the transfer of services, along with a facility, has resulted in job losses. Such projects have often led to reductions in terms and conditions of employment for those workers employed by the consortium of companies who run the facility and its associated services.

- **No new money**

PFI is a substitute for publicly financed capital expenditure, and is not additional capital funding. Increasingly, local authorities do not have the option of borrowing money to fund their capital projects because of government restrictions. Capital expenditure for public projects is decreasing rapidly and so too is central government grants for capital expenditure in local government.

- **Cost of PFI**

The costs of preparing a PFI project are huge, often five times more expensive than the public sector's traditional capital expenditure. All of these costs have to be recovered from the public purse. PFI is also an enormously expensive form of public borrowing, which in the long term will prove costly, given that the public sector can borrow money more cheaply than the private sector. The capital cost may not appear on the balance sheet but the revenue costs do.

- **Accountability**

PFI leads to the loss of strategic control over future provision of services based on planning and assessed need. It does not allow for the views and the needs of local service users to be heard on the quality of services, how services are run, and what kind of services should be provided. Service users do not have the chance to monitor the service. This lack of democratic control and the high costs, mean that services, which become PFI projects, cannot ultimately provide the best value.

UNISON ‘s twin track approach to PFI

UNISON has remained firmly opposed to PFI since its introduction in 1992 and has committed significant resources to an effective campaign against PFI. The campaign has been overseen by a working group of UNISON ‘s National Executive Council. UNISON has pursued a twin-track approach to PFI: rejecting PFI in principle while providing extensive support and advice for members facing transfer under PFI.

UNISON has highlighted the immediate and longer-term consequences for services particularly poor value for money and has continued to pursue alternative ways of funding essential investment in public infrastructure.

A series of reports and papers criticising PFI have been sponsored and published by UNISON (copies of these publications can be obtained from the National Office of the National Union and readers are encouraged to visit UNISON’s web page devoted to PFI at **www.unison.org.uk/pfi/index.htm**

At the same time, the union has been negotiating with the government and public authorities in order to secure the job security, terms and conditions and pensions of members affected by schemes. Maintaining a principled opposition has strengthened

UNISON’s negotiating position and won concessions from government on trade union consultation.

UNISON’s campaign has many dimensions that affect most parts of UNISON at national, regional and branch level. There has been an extensive political lobby in support of UNISON’s campaign against PFI. There have also been education initiatives, publications and research.

Last year, UNISON produced ***‘PFI - A Strategic Response***,***’*** which has formed the basis of UNISON’s response to PFI. This strategy paper is attached as ***Appendix II***. The strategy paper was written at an early stage of PFI and before UNISON had much experience of how PFI would work in practice. In the light of this experience and changes that UNISON has successfully lobbied for, UNISON is now in the process of reviewing this strategy.

PFI Concessions won by UNISON

UNISON made changing the government's and the Labour Party's policy on PFI a priority area of work. A lobby of Parliament against PFI in the NHS took place in July 1998.

Three hundred and fifty UNISON members from over eighty branches and all regions lobbied their MP's. Briefing meetings for UNISON representatives were held throughout the day. A number of regions also held meetings with regional groupings of Labour MP's. The event was viewed positively by most of those who took part and a supportive range of views was fed back from many of the MP's who were lobbied.

UNISON officers have also attended the regular meetings of the UNISON Parliamentary Group of MP's, where its opposition to PFI has been regularly raised. UNISON's position on PFI has been taken into the heart of Labour policy making through the policy forum process and the Labour Party conference this past fall.

As a result of its extensive lobby of the Labour Party and government, UNISON was successful at negotiating several important concessions to PFI from the Labour government just prior to this year's Labour conference. These changes include:

- The strengthening of successor rights for workers transferred from a public sector employer to a private contractor as a result of a PFI scheme;
- Allowing public authorities the right to choose to tender a project for only the Design, Finance and Build components of PFI and not include the Operate component (see page 6). In these instances the 'non-direct' employees will remain in the public sector and members of UNISON.
- At the end of the PFI lease arrangement, the infrastructure that was designed, built and financed by the private sector will now revert back to public ownership. Although this concession is potentially positive, UNISON questions whether this change will add extra cost to PFI projects now that the private contractor will not own an asset at the end of the lease arrangement. UNISON also notes that in certain circumstances, there will not be a benefit to the public sector in owning

the asset at the end of the lease period. (i.e. – owning a 25-year old school in a neighbourhood where there has been a dramatic decline in number of children); and

- Representatives of UNISON and other public sector unions now have the opportunity to interview short listed bidders of PFI projects, and make reports on how each bidder measures up against the government's commitment to fair employment and 'Best Value' service delivery.

Lessons for Public Sector Unions in Canada

UNISON's experience in dealing with PFI offers the National Union and our membership valuable lessons in dealing with new forms of public sector procurement here in Canada. Without question, over the next couple of years we will increasingly face new forms of public procurement that will threaten our members' employment security and the quality of the services they provide.

It is, therefore, critical that the National Union and its components take a proactive approach to analyzing, monitoring and developing alternative sources of funding public facilities, programs and services. Our approach should contain the following elements:

- We should continue to work with UNISON and our sister affiliates of the Public Services International (PSI) to research, analyze and monitor PFI schemes and all other new forms of public procurement.

- We should continue our emphasis on quality in the public sector. We should use every opportunity to promote public funding as the most effective, efficient, and equitable way to modernize the public sector. We should continue to use whatever opportunity to use the collective bargaining process to negotiate quality services.

- We should develop a clear policy that not only sets out our opposition to PFI and similar models of Private / Public Partnerships, but identifies alternative means of funding public sector capital spending.

- All components should pressure their respective provincial government to adopt the National Union's *'Five Point Quality Public Service Protection Plan'* (see ***Appendix III****).*

- We should do research and educate our members on the accounting processes of government and their ability to raise and borrow money for capital spending. We should also develop and lobby for alternative accounting methods within government that clearly shows public infrastructure as assets on the government books.

- And finally, we should investigate the possibility and feasibility of using the pool of funds from our members pension plans as capital that governments can access to borrow at the going rate of the market.

Appendix I

PFI Failures
as documented by UNISON

There is a growing body of evidence that the first PFI schemes, mainly in central government, have not produced the anticipated savings and in some cases are spectacularly failing:

♦ Hospitals cost more and the number of staff are reduced

UNISON's Northern Regional Council Private Finance Working Group commissioned an independent analysis of the Full Business Case for the building of the new Dryburn Hospital in Durham. The project to build the new Dryburn Hospital in Durham by the North Durham Health Care Trust was one of the earliest major Private Finance Initiatives in the NHS to receive approval.

The new District General Hospital at Dryburn is to be designed, built, financed and owned by a private sector consortium, Consort Healthcare. In return for the use of the hospital, the North Durham Acute Hospitals Trust will make annual payments to the consortium of £7m for a period of 30 years. Consort Healthcare will also provide most of the ancillary services at the hospital, for an annual fee of £5m. Ancillary staff currently employed by the NHS will be transferred to the private sector. Staff classed as clinical will remain in the employment of the trust. All in-patient services currently provided by the trust will be centralized on the Dryburn site, and the trust's other hospital at Shotley Bridge will be downgraded to a community hospital with no in-patient facilities.

The evidence provided by the North Durham business case strikingly fails to support the claims made for PFI. The PFI is extremely expensive, it fails to demonstrate extra efficiency and it demands reductions in budgets for clinical services in order to make returns to shareholders of nearly 20% per annum. On the trust's own account, this does not represent value for money in comparison with public sector procurement. Despite an investment of £96m, annual payments to the private sector of over £12m a year for 30 years, subsidies from central government and the selling off of NHS property, not a single extra patient will be treated. Instead, in order to meet the PFI bill, staffing budgets are being cut back, meaning that the remaining clinical staff will have to work to heroic productivity targets just to maintain current levels of provision, in-patient admissions will have to be reduced below the anticipated level of demand.

The PFI business case makes it abundantly clear that the trust did not go down the PFI route because of the advantages it offered by comparison with public procurement. Its own appraisal failed to show any economic rationale for the use of PFI. The trust chose private finance because of the withdrawal of public funding for major capital developments, a political decision by two successive governments for which, similarly, no plausible economic rationale has been offered.

♦ Roads cost more

A National Audit Office Report on the first four Design, Build, Finance and Operate road schemes found that savings were 40% less than predicted and that two of the four road schemes would have been cheaper if they had been built under traditional procurement rather than PFI. (*"The private Finance Initiative: The First Four Design, Build, Finance and Operate Roads Contracts" House of Commons Session 1997-8, January 1998)*

♦ Poor performance

Securicor, service provider at Bridgend prison that opened in November 1997, has paid financial penalties for its poor running of the prison. There were two suicides in the six months after the prison opened and disturbances in December, February and April. Securicor's Director of Prison Operations resigned in May 1998.

♦ IT Failures

The extent of PFI failure in government computer systems is a scandal. There has been delay after delay on a number of projects, entailing enormous disruption to vital government services. The Treasury has become so concerned that in April, it announced the launch of a study of why so many large information technology PFI schemes have gone wrong.

♦ Immigration and Nationality Computer System

A system to improve the handling of asylum, immigration and citizenship cases, worth £100m is running six months late with cases virtually at a standstill**.** Siemens, the German computer company running this and a number of other PFI schemes, including hospital-building projects, claims to be losing £1m per month.

♦ National Insurance Recording System (NIRS)

There were delays on this system to computerise all National Insurance Records from within months of Anderson Consulting starting the project in May 1995. The company has paid fines since 1996 but is still at least two years behind schedule. The result is a backlog of benefits payments and pensions that may themselves take another two years to input and the social security department is facing a compensation bill of tens of millions of pounds because the system has been unable to provide up-to-date records.

♦ Prison service drops PFI scheme

Despite the fact that the prison service has enthusiastically embraced PFI, it has suspended plans for a £350m information technology scheme whilst it looks at alternative ways of funding the project.

♦ PFI makes savings from pay cuts

The Prison Service claimed that the costs of the first two prisons built under PFI, at Bridgend and Fazakerly, were 10% lower than if they had been built under conventional funding. A House of Commons Public Accounts Committee investigation showed that the savings were due to the lower wages paid to prison officers in the private sector. A security officer in a Securicor prison gets £14,000 for a 44 hour week whilst an HMP prison officer is paid £20,000 for a 39 hour week.

♦ Government underwrites private sector

The Channel Tunnel Rail Link is the largest PFI project to date. LCR, the consortium that won the contract to build it, was given an array of sweeteners including a gift of assets worth £5.7 billion, the entire Eurostar fleet of 11 trains worth £250 million and the new terminal at Waterloo. Yet in January 1998, they asked the government for an extra £1.3 billion and threatened to pull out when they did not get it. The money was needed to cover losses on running Eurostar and because LCR could not raise finance for the project from the market.

While the government refused to hand over all the money requested, it did agree to invest a further £140 million in Eurostar and to give a government guarantee for loans of £3.8 billion. Government backing alone is estimated to have saved LCR £600 million in financing costs. The net result is that the government has assumed major risks for the project and the taxpayer will pick up the bill if it all goes wrong.

Appendix II

The Private Finance Initiative
UNISON's Strategic Response

A. Introduction

This document sets out UNISON's response to the government's Private Finance Initiative. It sets out a clear statement of opposition to PFI and similar models of Public / Private partnership; identifies alternative means of funding public sector capital spending; and also suggests changes to the current PFI regime if the government is intent on proceeding with this approach.

The proposed changes to the PFI regime recognize a distinction between projects that are at an advanced stage, at a planning stage and all future projects.

UNISON maintains its opposition to PFI projects and we believe that public funding remains the most effective, efficient and equitable way to modernize our hospitals, schools, and other public service infrastructure.

B. Alternatives to the Private Finance Initiative

1. Public sector capital spending

The major backlog of repairs and improvements work and the necessity for major capital investment in health, local government and other public services justifies an increase in the public sector capital programme. There has been a chronic under investment in our public services over the past twenty years.

2. Replacing the PSBR with the General Government Financial Deficit (GGFD)

There is a growing consensus that the General Government Financial Deficit (GGFD) would provide a better measure of government deficit than the Public Sector Borrowing Requirement (PSBR). The GGFD, the standard measure of fiscal deficit specified in the Maastricht Treaty, is widely used in Europe. It provides a more accurate government balance sheet, gives greater freedom to raise capital for investment for services which operate trading accounts and it excludes privatization receipts.

The adoption of the GGFD would enable the major public corporations and many public bodies to develop innovative public sector approaches to financing capital expenditure. These would avoid the high costs of PFI projects and encourage these public bodies to develop effective in-house facilities management approaches, improving the integration of core and non-core services rather than driving a wedge between them as under the PFI.

3. Public Investment in Public Services

However GGFD would not remove infrastructure investment in many of our public services from the government's balance sheet. We are a wealthy nation with a healthy balance sheet and UNISON strongly believes that public investment is our health, education and local services is vital to our present and future economic and social well-being.

C. Changes in National Policies

The case against PFI is overwhelming. The policy will come under growing pressure as more evidence of its failings emerges from schemes. However if, as is clear the government is intent on proceeding with and expanding the use of PFI projects, UNISON believes the following changes in national policies are required:

1. Limiting PFI to major infrastructure projects

The PFI should be limited to major infrastructure projects such as transportation, land reclamation and shopping/commercial development. The operation of buildings and facilities for local services and the welfare state are an intrinsic part of service delivery. These facilities should be publicly financed.

2. Social needs, not PFI needs

Capital investment must be firmly based on social needs and not those of PFI consortia. Needs assessment must be at the core of, and underpin, all PFI projects. Any changes proposed after the specification has been agreed must be subject to rigorous analysis and evaluation.

3. Exclusion of support services

At present Design, Build, Finance and Operate (DBFO) PFI schemes usually include a facilities management company which takes over many essential services including cleaning, catering, building repairs and security. An artificial line is drawn between clinical and non-clinical in the NHS or between teaching and non-teaching in Education. Most of these jobs are held by women. There is a substantial case for the exclusion of operational services from PFI projects. Their inclusion inhibits scope for the future development of services and reduces flexibility.

Long term contracts lock public services into unsuitable and inappropriate forms of service delivery. For example, in the NHS, if the present distinction between the clinical and non-clinical workforce continues, there will be no scope within PFI schemes to reflect the changing needs of patients.

Where PFI projects have progressed to a stage where it is not possible to exclude operational services, in-house services must have the right and ability to tender.

4. Transfer of Risk

Under PFI there is a requirement to demonstrate value for money by transferring risk to the private sector. However, genuine risk transfer will only be possible at a high premium, as bankers and financiers seek risk aversion. There is little evidence that real risk transfer is taking place - with the public sector often continuing to bear the real risks inherent in PFI schemes.

In all cases risk transfer must be open, genuine and costed. In allocating risk, the record of the public sector to change should be considered. In recent years there is ample evidence that where public authorities involve the workforce and their representatives in partnership, positive changes to reflect the ever-changing needs of the users of services have been introduced. Such flexibility is unlikely to be present in contracts between private consortia and public authorities.

5. Public priority over private users

Many PFI projects provide for both public and private use of facilities and equipment. For example a PFI hospital may have a private wing, with full access to NHS theatres, and other specialist services. PFI schools may have facilities for external conferences and exhibitions. To maximize profits PFI consortia will increasingly use these public facilities to generate income from patients, public and other users.

The boundaries between public and private use must be clearly established at the onset with an agreed and open mechanism to vary the level of private use without disadvantaging public users' needs.

6. Stream of revenue costs built into public spending

Once a public authority signs a PFI contract it will be committed to a stream of future revenue payments, usually over 25 years - in some cases 60 years. As a result the development of PFI on an large scale will mean an ever increasing proportion of budgets consisting of committed expenditure, thus 'crowding out' expenditure on 'traditional' public services or concentrating budget cuts in these services. It could also lead to distortions in the use of facilities. Authorities should publish details of the stream of revenue payments over the life of a contract, the overall lifetime cost and assess their potential impact on other priorities.

7. Ownership of schools, hospitals and other facilities

The public authority should have the option of ownership of the asset at the end of the PFI contract. It would then be open to the public body to determine the future use and development of facilities, the level of further investment, if any, that is required and how this should be funded.

8. Best Value and PFI

Best value principles of public consultation, accountability, transparency, disclosure of information, community and workforce involvement, quality and value for money must apply to all PFI schemes.

9. Full disclosure

The financial cost and the shape of public services cannot be hidden behind ‘commercial confidentially.’ The broad terms of the financial commitment being undertaken by a public body and the added value obtained should be public information and a matter for public consultation. PFI contracts should be open to public scrutiny with a presumption in favour of full public disclosure. The public has a right to know how its money is being spent. PFI consortia should be required to make a case for the exclusion of any information that it wishes to be classified as ‘commercially confidential.’

10. Genuine consultation with users and staff

The PFI process needs to be democratized. Projects have been shrouded in 'commercial confidentiality' with very limited community and trade union consultation and participation. It is essential that public and private organizations involved in PFI projects should be under a legal obligation to carry out a consultation process identifying:

- the provision of facilities and services to be provided by the project;
- the organizations responsible for these services;
- any major revisions in later stages of the tendering process; and
- the terms of the contract including the development of land and buildings.

11. Comparability with public sector options

A genuine public sector comparator should be required in all PFI projects and should also identify the whole life costs of the project. A full social, economic and environmental audit of each project must be mandatory and examine the effect on the local economy, the social impact on the community and assess the full public costs and benefits. If a public sector option is the most cost effective and gives best value, then this should be publicly financed.

12. Corporate policies

The Full Business Case should include a detailed plan for implementing the public bodies’ corporate policies such as employment, equal opportunities, health and safety and environmental sustainability. These policies must become contract obligations.

13. Employment Policies

While successor rights will apply to most PFI contracts, the protection it offers is limited to staff who transfer to the new service(s) and it does not provide adequate protection for pensions.

PFI contracts should incorporate a comprehensive set of safeguards for employees including:

- Protection of terms and conditions for staff who transfer;
- Fully comparable pension arrangements for employees including those subsequently transferred to second generation employers or subcontractors;
- Trade union recognition for existing and new employees;
- Employment protection safeguards set out in the PFI contract should be incorporated in the individual contracts of all staff;
- Trades Unions representing staff should have the right to interview all short listed bidders and submit a report to the appropriate public authority detailing the employment record of the prospective employer(s) and any other relevant matters; and
- the public authority should be required to consider the report, and respond to it in writing before approving the recommended PFI partner.

14. Performance monitoring of PFI projects

PFI contracts involve private contractors delivering a wide range of support services where reliance on self-monitoring alone would be wholly inadequate and unethical. Public bodies will have to establish well-resourced ‘client’ units in order to effectively manage and monitor PFI projects. There is a strong case for direct third party involvement in the evaluation and monitoring of PFI schemes.

15. Avoiding corruption

PFI contracts involve a two stage tendering process, part competitive, part negotiated. Conflicts of interests can arise between financial, legal, construction and operational interests within or between PFI projects. It is important to require a full discussion and reporting of PFI decisions to relevant committees, disclosure of the Outline and Full Business Cases and the terms of the contract. There should be continuous monitoring, evaluation and reporting of PFI project implementation and operation.

16. Finance from ethical investment funds

The principle of ethical investment should apply. Public bodies should be able to require merchant banks and other financial institutions to provide written assurance of the source of funding for PFI projects.

Appendix III

'Five-Point Quality Public Service Protection Plan'

1. *Any public service will not be privatized or contracted out without public consultation and clear evidence that privatization will lead to improved services.*

2. *Any decision to privatize or contract out a service will not be made without a full and open review by an independent body or individual, who will ensure full cost/benefit analyzes and comprehensive social and economic impact studies are conducted.*

3. *Public sector workers, their representatives and other interested parties shall have standing in the review process.*

4. *The reviewing body or individual will issue and table with the respective legislature a final report with recommendations along with all studies and analyses.*

5. *In the event that a specific privatization is recommended, employees will have the ability to move to the new employer with existing rights, benefits and entitlements.*

Appendix IV

UNISON Representatives that the National Union Study Tour delegation met with

Rodney Bickerstaffe
UNISON General Secretary

Anne Picking
UNISON President

Maggie Jones
Director of Policy & Public Affairs

Louise Richards
Head of International

Allan Kerr
Head of Recruitment & Organizing Culture

Malcolm Wing
National Secretary (Local Government)

Steven Weeks
National Officer (Health)

Sandra Howell
National Officer (Local Government)

Colin Meech
National Officer (Local Government)

Deborah Littman
National Officer (Bargaining Support)

Steve Torrance
Chairperson, UNISON's International Committee

Matt Smith
Regional Secretary, Scotland

Anne Middleton
Deputy Regional Secretary, Scotland

Mike Kirby
Scottish Convenor

Cath Friel
Deputy Scottish Convenor

Pat Rowland
Scottish Treasurer

George McGregor
Research Officer, Scottish Region