At What Cost?

a UNISON report on the aggregate costs of PFI/PPP projects in Scotland - and some suggestions on a way forward

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EXECUTIVE SUMMARY

A waste of public funds

New figures in this report are helping quantify the range of ways in which vast sums are wasted on PFI/PPP. Our research has produced two key figures calculated from the very documents which claim to show private funding is better value than conventional public funding of new schools and hospitals.

- Scottish PFI/PPP contracts could be costing around **£2.1 billion** more than conventional funding. That is nearly 10% of the total cost of all Scottish PFI/PPP contracts. It is also close to the entire estimated £2.4 billion cost of 'rent' payments for the use of hospitals and other facilities in all the Scottish NHS PFI/PPP projects.

- An incredible **£3.5 billion** 'insurance' policy is effectively paid to the private sector to cover the risks of things going wrong with the contracts. This is despite the fact that ultimately risk is effectively retained by the public sector, as shown by the recent collapse of London Underground PPP contractor Metronet.

- These figures also do not take account of higher financing costs in the private sector which Audit Scotland said in the case of first generation PFI schools could be as much as 10% of total costs.* UNISON Scotland has previously estimated the sums wasted on PFI as £5.8 billion, taking into account the whole range of factors (see p7 paragraph in brackets re other extra costs) including higher financing. These figures show that is in fact likely to be an underestimate.

- UNISON Scotland's analysis of official figures from 35 schemes found that estimated public sector comparators (PSCs) were 6.4% (median) cheaper than the contractors' bids. For just these 35 schemes, that means almost £720m is being wasted - nearly enough to pay the whole of the PFI bill for Wishaw General Hospital.

- In order to prove that PFI/PPP supposedly provides good value for money a notional risk adjustment is added to the PSC. This usually takes the estimate higher than the PFI/PPP contract. UNISON Scotland likens this risk adjustment to an 'insurance' policy against problems such as time and cost overruns. However, we believe that Ministers would be able to negotiate a far cheaper policy than the total estimated £3.5 billion in risk adjustments.

- In the 35 schemes examined, the median risk adjustment was 12.73% of the PSC before risk, although nine were more than 15% and one hospital scheme added 33% for risk.

Secrecy and commercial confidentiality

It is notoriously difficult to get detailed financial figures for many PFI/PPP schemes due to claims of 'commercial confidentiality'. Despite approving funding for these schemes, the (then) Scottish Executive told us in response to various Freedom of Information requests that it did not actually hold many of the key documents. Details of many of those it did hold were redacted due to commercial confidentiality and other public bodies also withheld much financial information on similar grounds.

Incredibly neither the Scottish Executive nor Scottish Water could provide a single Final Business Case for the nine Scottish waste water treatment schemes. (These schemes include the Seafield sewage treatment plant in Edinburgh, which suffered a major pump failure in April, discharging thousands of tonnes of raw sewage into the Firth of Forth.)

UNISON Scotland wants the Scottish Government to release the figures behind 'value for money' claims so they can undergo independent analysis.

We also support bringing companies involved in PFI/PPP contracts under the scope of Scottish Freedom of Information legislation.

The way forward

UNISON Scotland believes there would be a consensus in the Scottish Parliament for the following immediate action:

- Review existing contracts and do not approve any new PPP contracts.
- Offer Scottish Government grants for all new capital projects on a level playing field basis irrespective of the proposed method of procurement.
- Give Health Boards prudential borrowing powers and treat capital in a similar way to local authorities.
- Exclude staff from transfer and impose a strengthened PPP Staffing Protocol across the public sector.

In summary a new capital procurement regime should be established now that enables most public bodies to develop essential infrastructure without the expense of PPP.

In the longer term, we would support an amendment to the Scotland Act to give the Scottish Government borrowing powers similar to other devolved administrations across the world.

* From Audit Scotland's 2002 Report on PFI in schools. See Note (9)

At What Cost?

Introduction

This report aims to quantify some of the extra costs to the Scottish taxpayer of using private rather than public financing to build new schools, hospitals and other infrastructure.

Proponents of the Private Finance Initiative and other forms of Public Private Partnerships claim these provide better value for money than conventional public borrowing. We have assessed the figures that are used to justify this claim, using information from the official documentation for 35 projects - 13 health, 20 schools, one college and a waste management scheme.(1)

It is our contention that spurious calculations that are biased against conventional funding are used. The official figures show that millions of pounds are being wasted. This report provides two 'headline' figures to show this, adding to the wealth of evidence exposing PFI/PPP as an extremely expensive con-trick.

UNISON Scotland has previously estimated the sums wasted on PFI as £5.8 billion, taking into account a whole range of factors including higher financing costs. These new figures show that is in fact likely to be an underestimate.

Background

In the last 15 years billions of pounds have been committed to new projects across Scotland. They include a range of hospitals, schools, waste water treatment works and other schemes. The current capital value of the 129 projects under way or planned is £6.84 billion.(2)

Cabinet Secretary for Finance John Swinney said on 2 August 2007, in a written answer to a question in the Scottish Parliament, that the total estimated unitary charge for the 102 existing PPP projects over their contractual life (a total period of 42 years to 2041) is £22.3 billion. – an average £220m per project.

Looking just at the health sector, a 2006 report by the Centre for International Public Health Policy at Edinburgh Unversity, ***The Impact of PFI on Scotland's NHS***, said: *PFI projects create a debt for the NHS, which is far greater than the investment it provides. The total capital value of signed PFI contracts in Scotland's NHS is £602 million, but the debt created is in the order of £2.4 billion.*(3)

Authors Mark Hellowell and Professor Allyson Pollock, added: *Despite its extra costs, the PFI programme is being significantly expanded. The annual cost of PFI to the NHS will rise from £107.1 million in 2005/06 to almost £500 million within the next five years.*

Over the long term these PFI and PPP projects commit future generations to massive financial burdens at inflated costs, often for reduced provision, such as fewer bed numbers or reduced school facilities. Too often school buildings which could be maintained are knocked down and rebuilt in these deals because the private sector argues that replacement is more cost effective for them than refurbishment.

The schemes generally involve a public sector organisation such as a council or health board taking out a lengthy contract with a private sector consortium to design, build, finance and operate a number of new schools or a hospital or a prison. This has frequently involved privatising the maintenance, cleaning and catering services. UNISON Scotland and other critics campaigned against the resultant poorer pay, employment conditions and quality of service. This led to a protocol for protecting the staff involved and has resulted more

recently in changes to funding guidance to boost the ways in which these services can be retained in-house.

UNISON has long been a critic of PFI/PPP for reasons including service quality, costs, accountability, inflexibility and the effects on staff terms and conditions. We will not rehearse all the arguments here as full details are on our websites.(4) We strongly believe that the private profit motive has no place in running public services. Scottish public opinion backs this stance. An opinion poll for BBC Scotland in April 2007 showed the highest priority for the electorate in the run up to the May elections was having schools and hospitals run by the public sector not the private sector.(5)

The Scottish people want to see public funding of public services and an end to profiteering at the expense of school children, hospital patients and taxpayers. However, too many politicians - from the Tories, who launched the Private Finance Initiative in 1992, through Scottish Labour and the Scottish Liberal Democrats in their two terms of coalition running the Scottish Executive - have consistently claimed that PFI/PPP is good value for money.

We believe the facts show otherwise.

The Public Sector Comparator and Risk Transfer

To secure Scottish Executive approval and funding every council/health board or other public body proposing a PFI/PPP project must produce a business case. The main argument used for claiming value for money is that the full/final business cases (FBCs) prepared for each project show that the PFI/PPP route costs less.

Tom McCabe, then Finance Minister, said in January 2007 in a Written Answer in the Scottish Parliament: *Local authorities, as public sector procuring bodies, are required to demonstrate that the PPP projects they are undertaking represent value for money as compared to a conventional procurement approach*.

Obsessive secrecy and claims of commercial confidentiality have meant that it has often been difficult or impossible to obtain figures to properly assess the validity of value for money claims. Relevant documents have frequently either not been published or have had key financial information withheld. Hellowell and Pollock point out that the assertion that PPP is value for money *…has not been subjected to independent parliamentary scrutiny, as the Scottish Executive has refused to put the data on the value for money case for PFI into the public domain.* (6)

It is normally (although not always - e.g. Skye Bridge and West Lothian College (7)) a requirement in the FBCs that an assessment is made of 'Value for Money' using an estimated public sector comparator (PSC) that is equivalent to what is planned in the proposed PFI/PPP project. The PSC cost is then compared - at discounted Net Present Value (NPV) or Net Present Cost (NPC) levels - with the total cost of the winning consortium's bid for the contract. Somehow the PSC almost always turns out to be more expensive.(8)

This does not make sense. The public sector can borrow more cheaply than the private sector, therefore PFI/PPP schemes will inherently cost more - particularly now that there are more restrictions on cutting costs by attacking staff terms and conditions. The reason PSCs end up supposedly more expensive is because costs are inflated by adding a 'risk' factor. This is justified by claiming that, although PFI/PPP incurs a higher cost of borrowing, a large proportion of the risks (e.g. potential time overruns and price increases) are supposedly transferred to the contractor.

A range of studies has demonstrated numerous flaws in the assumptions and calculations used for risk transfer, discounting, value for money and other economic comparisons, while also highlighting the difficulty in accessing the necessary financial information for many schemes. A key complaint is that FBCs do not take account of this lower cost of public borrowing. To address some criticisms, adjustments have been made over the years in government guidance on the PSC. However, effectively the consensus has been that the figures can be rigged to 'prove' Value for Money. Such 'proof' has been necessary if the public body wanted to renew its dilapidated buildings because politically the only way that funding was forthcoming was through PFI/PPP - 'the only game in town'. Conventional funding was not available.

Audit Scotland summed this up in a 2002 report ***Taking the initiative: Using PFI contracts to renew council schools*** (9). This examined six first round schools projects and said: *No funding for the PSC option is available under the terms of the competition for level playing field support from the Scottish Executive for PFI projects. Consequently if any PSC had suggested that the PFI was not economic it would have proved fatal to the project (no PFI schools project has so far failed this test). Consequently a very great deal hangs on professional and technical judgements underpinning the PSC costings, despite the fact that in many cases the judgements simply cannot be proved or disproved in either direction.*

As Assistant-Auditor General Jeremy Colman famously said in the Financial Times in 2002, value for money exercises were: *pseudo-scientific mumbo- jumbo where the financial modeling takes over from thinking…It becomes so complicated that no one, not even the experts, really understands what is going on."* And: *If the answer comes out wrong you don't get your project. So the answer doesn't come out wrong very often.*

Several research studies have highlighted how the public sector comparator generally works out cheaper than the PFI bid and that only the risk adjustment takes the cost of the PSC above the PFI cost. Audit Scotland's *Taking the initiative* report said that in five cases, out of the six examined, the PFI construction costs were higher than the PSC and in all six cases the operating costs of the PFI option were higher than the PSC. In most cases the risk adjustment tipped the balance back in favour of the PFI option.

In a 1999 study in the ***British Medical Journal***, *PFI in the NHS – Is there an economic case?* Declan Gaffney, Allyson Pollock, David Price and Jean Shaoul(10) show how discounted cash flow analysis, used to calculate Net Present Values or Costs, is biased in favour of the private sector. They also show how remarkably fine tuned the risk adjustment to PSCs in five hospital schemes was, taking each PSC figure up to or just above the figure for the PFI. Proponents of PFI justify the risk transfer calculations being so pivotal, arguing that it is the main benefit to the public sector and saves money if things go wrong.

However, there is a limit to the extent that the private sector will actually absorb the risks because these are essential public services. The public sector must provide them if the private sector fails. In Scotland three PFI contracts(11) so far have had to be bought back at considerable cost to the taxpayer and it is the taxpayer that will pick up the pieces of the current problems with Metronet, the London Underground contractor that went into administration in July 2007 owing £2.6 billion. A report in the ***Telegraph*** newspaper on 22 July quoted a Metronet insider as saying: *There were complex arrangements with the banks so that, one way or another, the Government was always going to pick up the debt.*(12)

Access to Information and Commercial Confidentiality

Academic researchers studying PFI have generally only looked at a small number of schemes, commenting on the difficulty of obtaining full figures due to 'commercial confidentiality'. Such studies have been very important as they were able to go into detail analysing, for example, what facilities are being built in comparison with existing provision, the differences in the cost of borrowing for capital spending or the different risk allocation decisions or other factors influencing value for money.

We wanted to look at as many projects as possible to get actual hard data which is illuminating in itself, but from which we can also extrapolate to make wider estimates. We have compiled headline figures for 35 schemes following a series of Freedom of Information requests to the Scottish Executive, councils, health boards, Scottish Water and other public bodies.(13) A full table of the figures we go on to discuss here is provided on pages 15-17.

UNISON Scotland initially attempted to obtain the FBC and contract for every PFI/PPP scheme in Scotland. This covered 190 documents from the 95 projects listed at the time on the Scottish Executive Financial Partnerships Unit 'done deals' website.(14) However, a large amount of financial and other information from these documents has been withheld on the grounds of commercial confidentiality. The SE also stated that it did not hold 34 FBCs and 51 contracts, even though the Executive approves massive funding for them! None of the waste water treatment PFI FBCs can be found apparently, either by the SE or Scottish Water.(see note (16)) Some documents were withheld in their entirety, e.g. Dundee City Council refused to provide any part of the FBC

and contract for Baldovie Waste to Energy plant on the grounds of substantial prejudice to the commercial interests of the council, the contractor and third parties. Glasgow City Council refused to provide any part of the contract for their Schools PPP, citing commercial confidentiality and cost. Some documents have had ridiculous redactions, such as the already publicly available council annual revenue budget (Midlothian Council) or the PSC figures, which should be available to the public (NHS Greater Glasgow and Clyde withheld these for Stobhill and Victoria Ambulatory Care Hospitals, then provided them to UNISON Scotland in January 2007 after an FOI request, although their website's version of the FBC had still not been updated in early September 2007).

We are currently making a number of appeals to the Scottish Information Commissioner, but have used some of the information obtained so far to prepare this report. (We have not had the staff resources to appeal over every request we would choose to. In cases where there is no appeal it should not be assumed we accept the redactions made.)

We wanted to calculate the real cash costs of each scheme over the full length of the contract as we believe these provide a fairer cost comparison than the Net Present Value comparisons in FBCs.

However, these figures were extremely difficult to obtain as some or all of the necessary calculation details were either withheld due to commercial confidentiality or relevant annexes and other supporting documents were not provided. We want to see the Scottish Government agree to publish full details of 'value for money' claims so these can be independently assessed. We also support bringing companies involved in PFI/PPP contracts under the scope of Scottish Freedom of Information legislation.

As we wanted to look at comparable information for a large number of projects, we have therefore had to rely on some limited information available from questions in the Scottish Parliament. We have used the total Unitary Charge figures from Written Answers in late 2006.(15) We were not able to use figures from all the schemes we obtained documents for because it was difficult to make like for like comparisons. Some projects had no PSC and some PSC calculations have been heavily criticised, for example the waste water treatment projects and the prisons estate review.(16)

Aggregate Costs - The Money Wasted and the Cost of Risk Transfer

From the limited information available we decided to look for two figures to indicate just some of the true extra costs of PFI/PPP. These are:

A) the amount of money wasted on PFI, compared to public funding and,

B) the 'insurance' costs being charged to the public sector for the private sector supposedly taking on various risks.

(Other extra costs are reflected in: the higher cost of borrowing, as mentioned above; profiteering through high rates of return, refinancing and the PFI private equity market. There is also controversy about the use of land sales/transfer as part of these deals, a problem highlighted in September 2007 by the Northern Ireland Audit Office. Note(17))

We defined A and B as:

A: The difference between the projected cost of the PFI and the PSC before risk was applied to either. This is one way of demonstrating how much money is being wasted on PFI compared with using conventional funding.

B: The total risk applied to the PSC. This can be likened to a form of 'insurance' paid to the private sector as cover against potential problems and against the costs of the project rising. (See Note 18 re making risk comparisons on a like for like basis.)

So these figures are taken from the official PFI/PPP documents which claim to show the private funding route is cheaper. As noted above, they use calculations that are rigged in various ways against the PSC. Yet they consistently demonstrate that the PSC is cheaper before risk transfer.

Looking at the 35 schemes for which we have comparable figures, we calculate that:

The actual money wasted on PFI/PPP (A) over the entire life of the contracts is more than £550 million (£553m) or nearly £16m per project. That is 4.9% of the total amount being spent on the Unitary Charge payments over the length of the contracts. (The actual total of column 9 in table totals on p17.) The median percentage of money wasted is 6.4% or almost £720m, nearly enough to pay the entire PFI bill for Wishaw General Hospital.

Remember this is just one measure of the money wasted.

If A were extrapolated over the 129 PFI signed and potential projects in Scotland that figure could be almost £2.1 billion – close to the entire estimated £2.4 billion cost of the Scottish NHS PFI capital debt. See Note (3).

Calculating B in the same way would give a figure of **£3.51 billion of notional risk, or 'insurance', that has been charged to the public sector comparators to balance how much risk is supposed to be transferred to the contractor.**

It would be interesting to find out what the costs would have been if the Scottish Executive had tried shopping for insurance for all these projects against the risk of something going wrong. We suspect it would cost considerably less than £3.5bn.

The total figure for **B** in the Full Business Cases is nearly £500m (£473.3m) of risk or £13.5m per project. (Note 18 explains that this is a large underestimate due to trying to compare like for like information as more recent Treasury Green Book guidance applies taxation and optimism bias.)

Expressed as a percentage of the PFI costs, then of the total Unitary Charge payments of £11.2bn, that is 8.5% or **£952m - £27.2m per project. For 129 projects this is £3.51 billion.**

Expressed as a percentage of the PSC costs, the median risk added is 12.73%. This can be compared with the median saving on the PSC of 6 per cent found in the Scottish Executive review of PFI in 2005, which covered PSCs from 26 projects. (19)

Obviously projects vary in size and scope. The range in this sample covered smaller projects such as NHS Lothian's Tippethill House hospital in West Lothian where the figure wasted using this calculation was 0.27% of the PFI costs. And it included large school and hospital projects including Glasgow Schools where the City Council is wasting 8.2% or £114m over the contract lifetime.

Risk, acknowledged by most to be a very inexact science, has been added to baseline PSCs in percentages ranging from 0.84% (new Royal Infirmary of Edinburgh where we used the lower PSC base cost, reflecting a 5 year build like the PFI, rather than the 8 year build) to 33.42% (replacement of Mid-Argyll Community Hospital). Other high figures include East Renfrewshire Schools PPP2 at 23.88% and Highland Schools PPP2 at 19.17%. The money wasted figure (A) for the Highland project is £83.5m (13.48%). Variations in risks and other comparisons have been commented on by Audit Scotland, suggesting that some seemed "unreasonable". (20)

However, UNISON has previously analysed the FBC for the new Royal Infirmary of Edinburgh (21). We concluded that a number of "distorting assumptions" meant that instead of the PFI being slightly cheaper it would cost between £6m and £10m more than conventional funding. The Scottish Parliament finance committee's inquiry into Public Private Partnerships (whose report was published in 2002) studied the RIE in depth. The MSPs said that health bosses and Consort, the contractor, agreed that criticisms that the FBC did not compare like with like meant it would all be calculated very differently if it were done again. The report also said that, although the FBC initially showed a £29m saving over the PSC, later calculations in Lothian Health Board's review of its estate effectively reduced this by £18m to £11m. (22)

We believe that the figures in this report confirm that PFI/PPP is a scandalous misuse of funds, portrayed as providing good value for money when in fact the cloak of secrecy provided by commercial confidentiality still cannot hide the truth of the real costs to the public purse.

We concur with the conclusions of the ‘Value for money and risk transfer’ section in a 2004 report by Manchester University Business School for the Association of Chartered Certified Accountants, ***Evaluating the Operation of PFI in schools and hospitals*** (23).

Although the Government’s case rested upon value for money, including the transfer of risk, PFI is likely to lead to a loss of benefits in kind and a redistribution of income, from the public at large to the corporate sector. It has boosted the construction industry, whose PFI subsidiaries are now the most profitable parts of their enterprises, and led to a major expansion of the facilities management sector. The principle beneficiaries, however, are likely to be the financial institutions whose loans are effectively underwritten by the taxpayers.

The Way Ahead

This report, following on from many previous UNISON reports, again demonstrates the huge waste and inefficiency in using PPP as a procurement route - literally billions of pounds of public spending wasted that could have been used to build the public infrastructure that Scotland needs.

This waste must stop now.

UNISON Scotland believes that the time is long overdue for a new approach. An approach that is deliverable before any more public money is wasted. It is also important that given the current parliamentary arithmetic we develop an approach that can achieve a sufficient consensus to deliver prompt action.

Building a New Consensus

Surprisingly there may be more consensus in the Scottish Parliament since the May 2007 election than is at first apparent.

The SNP manifesto correctly identified “the costly and flawed PFI/PPP” and went on to commit the party to the following:

Over the first term of an SNP government we will introduce a not-for-profit Scottish Futures Trust, which will provide lower cost borrowing opportunities. We expect the Scottish Futures Trust to emerge as a more attractive source of funding for both national and local projects which will effectively crowd out PFI/PPP over time. Current PFI/PPP contracts will be unaffected and it will be open to local authorities and other public bodies to choose between PFI/PPP and Scottish Futures Bonds for planned and future projects. In particular, we will match brick for brick current plans for improvements in our schools and hospitals.

The essential idea behind the Scottish Futures Trust is that public borrowing is cheaper than private and that tax efficient bond issues would generate sufficient funds to finance large infrastructure projects that would be difficult to fund within conventional capital budgets.

In principle this is correct and UNISON Scotland would support this approach. The problem is that the Scottish Government does not have the necessary powers under the Scotland Act to borrow in this way. Other federal and devolved administrations elsewhere in the world have these powers and we would support the necessary amendment to the Scotland Act. It does not require an independent Scotland.

One of the UK government’s primary concerns over this change will probably be the impact additional public spending will have on the UK economy and European Union spending limits. Ironically as the SNP policy is for independence in Europe the same financial disciplines would apply to an independent Scotland. The way forward,that would also assist public spending elsewhere in the UK, would be to adopt across the UK the measurements of public spending used elsewhere in Europe. In simple terms these have the effect of removing certain items of public spending from the calculation of aggregate public spending creating headroom for spending for investment.

Even without this change it would be possible to give the Scottish Government borrowing powers on the same basis as local authorities, what is known as prudential borrowing. This would ensure that the borrowing was used only for investment and was affordable within the total budget. If a PPP project can be financed within revenue budgets then much cheaper conventional borrowing can also be financed without any significant impact on UK finances.

So what about building a consensus?

It is certainly the case that ministers in the last administration favoured the use of PPP for at least some capital projects although it was by no means the largest element of capital finance. This was driven more by the need to deliver much needed public infrastructure rather than any ideological commitment to private finance. The Scottish block grant creates a perverse incentive for off balance sheet financing.

In contrast Labour in Wales demonstrated a more pragmatic approach by refusing to use PPP for certain categories of projects. Following the 2007 elections, the new Cabinet there decided against using PFI for any new health schemes. The last Scottish Labour manifesto also showed signs of a more pragmatic approach with this commitment:

We will review our approach to all PPP to ensure a level playing field between PPP and conventional finance arrangements. A substantial aspect of this review will be the aim of excluding soft FM services from future PPP contracts. In addition, we will review the implementation of the PPP staffing protocol to examine how to apply it across the public sector.

Apart from the very welcome commitments to address the invidious impact of PPP on usually the lowest paid public service workers, the commitment to a level playing field could also be the basis for cross-party agreement.

Delivering a New Approach

The way ahead could therefore be to adopt an evolutionary consensus on this issue. This would involve some short term actions achievable using existing powers with longer term changes dependent on further devolved powers.

Short term actions include:

- Existing contracts should be reviewed. These contracts are legal commitments that are difficult to extract public authorities from without cost although this has been done in the past including the Skye Bridge and Inverness Airport. This may be appropriate in certain circumstances and where an advantageous agreement to the public purse can be negotiated. This strategy should include rigorous monitoring of the contract and advantage should be taken of price review clauses, typically for FM services.

- In line with the SNP manifesto commitment no new PPP contracts should be approved. This includes all projects in the planning phase where no contract has been entered into. It may be argued that projects

that have been published in the OJEU must be proceeded with. We do not agree. It is perfectly possible to adopt a legal strategy that ensures that additional costs do not fall on the public purse. Even under the current rules final project approval is subject to an evaluation based on value for money and affordability.

- For new capital projects Scottish Government grants should be offered for all projects on a level playing field basis irrespective of the proposed method of procurement. The current arrangements generally only provide funding for PPP projects. Take away the incentives to use PPP and give them to public authorities who use the more cost effective conventional finance solutions and PPP will be 'crowded out' very quickly.

- This leaves methods of attracting conventional finance within the current powers of the Scottish Government. The largest user of PPP has been local authorities, primarily for school building. They have prudential borrowing powers granted by Scottish legislation so with level playing field grants being provided by the Scottish Government that were formally only available for PPP projects these powers can be used more extensively than at present. Scottish Water hasn't used PFI since 1998 and the cost of existing schemes has been criticised by the Water Industry Regulator (WIC) so are an unlikely procurement option in future.

- The only other major users of PPP are Health Boards that do not have prudential borrowing powers. The best option would be to pass legislation to give them those powers and treat capital in a similar way to local authorities. It is a debatable point if the Scottish Parliament can do this but if not it should be remembered that the UK parliament has given a form of prudential borrowing to Foundation Hospitals in England. On that basis it would be difficult to oppose Scottish legislation on this point. For the avoidance of doubt we are proposing only the financial powers not the importation of the discredited Foundation Hospital system. As a last resort other innovative solutions might be found for many health projects where an element of joint working is involved. Local authorities could use their powers with health boards providing revenue funding.

- Any new procurement arrangements should at a minimum ensure that staff are excluded from transfer and the principles of a strengthened PPP Staffing Protocol are applied across the public sector.

Conclusion

In summary a new capital procurement regime could be established quickly that enables most public bodies to develop essential infrastructure now without the expense of PPP. Longer term solutions like the Scottish Futures Trust could be developed whilst these interim arrangements are put in place.

The people of Scotland expect Parliament to ensure that public infrastructure is developed in the most efficient manner. This should not be delayed because of constitutional differences between the major parties.

NOTES:

1. The 35 projects are listed in the tables on pages 15-17, with the complete figures used to compile this report.

2. £6.84bn is the total capital value of current and planned PFI projects, taken from the 'facts and figures' lists of projects on the Scottish Executive Financial Partnerships Unit website at www.scotland.gov.uk/Topics/Government/Finance/18232/13368 on 3 August 2007.

3. Full report at: www.health.ed.ac.uk/CIPHP/Documents/CIPHP_2006_ImpactOfPFIOnScotlandsNHS_Hellowell_000.pdf Hellowell and Pollock point out in a response to Scottish Labour Party criticisms of their report (www.health.ed.ac.uk/CIPHP/Documents/Response_to_SLP_April_2007.pdf) that the £2.4bn is an estimate, based on the breakdown of availability ('rent') to service charges being 60:40 respectively. Of the £4bn total estimated unitary charges, they say £2.4bn is related to the capital payments. They state: "This estimate is derived from English Department of Health analysis, because the Scottish Executive will not make these data available. (A Freedom of Information request was turned down by the Executive on the grounds that it did not hold this information.)"

4. Scottish site at: www.unison-scotland.org.uk/comms/pfi.html UK site at: www.unison.org.uk/pfi/

5. http://news.bbc.co.uk/1/hi/scotland/6526715.stm

6. www.health.ed.ac.uk/CIPHP/Documents/Response_to_SLP_April_2007.pdf Page 1, response to pt 2.

7. Many early schemes were not required to do this, including the Skye Bridge and West Lothian College contracts (both of which had to be bought back at a cost of millions of pounds to the taxpayer) as it was made clear that no public funds would be made available. See also Note 16 re why some projects are not included in this report.

8. Where it doesn't, this can be 'ignored'. The FBC for East Ayrshire Community Hospital in 1996 concluded that the PFI option did not offer value for money as it was costed at £1.7m more than the PSC. In the FBC addendum in 1997, various adjustments bring the difference down to £11,000 still in favour of the PSC. But the Trust said: "The small margin by which the NPV of the PFI bid exceeds the risk-adjusted PSC leads the Trust to the conclusion that the PFI option offers value for money."

9. www.audit-scotland.gov.uk/index/02ar03ac.asp The report also said: "The councils' analyses of the PFI compared to the notional publicly funded alternatives (Public Sector Comparator or PSC) demonstrate that the cost advantage was narrow. The PSC is used to compare the cost of PFI with other procurement options but the cost estimates are subject to inherent uncertainty and subjectivity. Current approaches to the PSC take no account of the higher cost of private finance compared to council borrowing." And… "The additional cost of private sector finance may be equivalent to approximately 10% of the total estimated cost over the 25 or 30 years lives of the 12 first generation PFI school projects."

10. www.bmj.com/cgi/content/full/319/7202/116

11. Skye Bridge, Inverness Airport, West Lothian College.

12. www.telegraph.co.uk/money/main.jhtml?xml=/money/2007/07/22/ccmetronet122.xml

13. The SE FPU has made some of these documents available at: www.scotland.gov.uk/Topics/Government/Finance/18232/FOI

14. This has been updated several times since as new projects are signed off and bought out contracts

(e.g. West Lothian College) are removed.
www.scotland.gov.uk/Topics/Government/Finance/18232/donedeals

15. Scottish Parliament Answers S2W-28685, S2W-30691, S2W-30414, answered Oct - Dec 2006. These covered 73+ projects (totals from a number of small health projects were added together).

16. Several documents supplied are for smaller projects, for which we don't have the individual unitary charge figures. Some, we have been told, were not in fact PFI, although until recently they were listed as such on the SE FPU 'done deals' website. We asked the Scottish Executive and Scottish Water for the FBCs for the 9 Scottish waste water treatment PFI projects. Both said they do not hold these, which we find incredible. Two of them are listed as published on the 'done deals' website, (although that listing seems totally haphazard). It was not possible to extract meaningful financial figures from the waste water contracts we were provided with. Scottish Water's predecessor water authorities provided some basic information in a report to the Scottish Parliament's Transport and Environment Committee in 2001, although MSPs were asked to treat some financial information as confidential. Outline figures were given showing a supposed total saving for eight schemes of £175m. The savings ranged from 1% to 42%. But, as UNISON said in evidence to the committee, we need to be able to properly assess financial information through access to FBCs. The Committee's report on the water industry www.scottish.parliament.uk/business/committees/historic/x-transport/reports-01/trr01-09-vol01-01.htm stated: "The Committee wishes to emphasise the importance of ensuring that the public sector comparators used in evaluating PFI projects are fully comparable and transparent. Scrutiny of this and other factors in the PFI process will be improved by the Minister's commitment to ensuring that the full, rather than the outline business case, for all future PFI/PPP projects is made available." Yet six years later no-one in the Scottish Executive or Scottish Water can find an FBC for even one of these projects! The Committee also criticised the different approaches to risk within the three water authorities and urged the Finance Committee inquiry into PFI/PPP to look at this. That report in 2001 recommended that "there should be a strong presumption that business cases and contracts be made public after agreement is finalised." The M6 DBFO M74 extension PFI roads project is claimed to have shown a saving against the PSC of £17m. However, National Audit Office analysis, scrutinised in "Evaluating the Operation of PFI in schools and hospitals", a 2004 report by Manchester University Business School for the Association of Chartered Certified Accountants (link in Note 23), shows this was at a minimum, over optimistic. The report said there was a possibility the PSC was overstated by £10m and the NAO was concerned about the cost of the road increasing by £10m because early opening led to extra shadow tolls. Authors Pam Edwards, Jean Shaoul, Anne Stafford and Lorna Arblaster concluded: "The NAO's evidence...if not its conclusions...shows that the Highways Agency was unable to demonstrate (even using the Government's methodology), which favours private finance over public finance) that these DBFO schemes had lower whole-life costs than conventional procurement. Since the discounting methodology serves to reduce the apparent cost of the DBFO option, this means that the cash cost of DBFO must be very much more than a publicly funded option and that DBFO is a very expensive way of constructing, operating and maintaining roads." Inverness Airport, whose contract was bought back for more than £25m in 2005 had been originally judged to be cheaper than the PSC by 1.6%. The Skye Bridge contract buyout, for £26.7m, was said by First Minister Jack McConnell in 2004 to be good value for money but he was contradicted by Auditor General Robert Black who told the Scottish Parliament it was "cost neutral". www.audit-scotland.gov.uk/auditor/pdfs/SE_2005_231.pdf. On prisons, the Scottish Parliament Justice 1 Committee's 2002 Prisons Estate Review report, available at www.scottish.parliament.uk/business/committees/historic/justice1/reports-02/j1r02-06-vol01-02.htm looked at the claimed cost justifications, including Public Sector Comparator, for three new prisons to be privately built and run; claimed to be roughly half the cost of keeping them in the public sector. The Committee said it was "crucial" to meaningfully compare the NPV of the options. But the absence of comparable performance data to support a like-for-like operational comparison between the public and private options made it "almost impossible to assess the financial options on a comparable basis." The Committee had serious concerns about public accountability and a "culture of secrecy" over private prisons contracts, pointing out it took six months before any Committee member was allowed to see the Kilmarnock contract. And it highlighted strong criticisms of the PricewaterhouseCoopers ' Financial Review of Scottish Prison Service Estates Review', including that public sector costs were inflated and private sector ones deflated. (UNISON Scotland welcomes the announcement by the new Scottish Government in August that new prisons at Bishopbriggs and Peterhead will be publicly operated. However, ministers are continuing with existing plans for a privately built and run prison at Addiewell in East Lothian, citing "the prohibitive costs of reversing the outcomes of previous procurement policies".)

17. The report "Transfer of Surplus Land in the PFI Education Pathfinder Projects, published by the Northern Ireland Audit Office on 11 September, said that value for money was not obtained in the land part of four of the five deals, including the controversial PFI project for Balmoral High School, closed last year but for which the taxpayer will still be paying until 2027. www.niauditoffice.gov.uk/pubs/reports/2007/SurplusLand/FullReport.pdf Land deals have been part of many Scottish PFI/PPP projects.

18. Risk figures in the table in Appendix A are not for all projects the actual risk detailed in the FBC as being added to the PSC. In an effort to have like for like comparisons as far as is possible, risk figures are 'net'. This means that if a figure was also added to (or deducted from) the PFI/PPP total we used the net figure. Also, for newer projects, risk adjustments now include tax and optimism bias. These have largely been excluded in as uniform a way as is possible, given there are many variations in these figures across the schemes. As an example of both the 'net' calculation and the newer projects' risk and tax figures, for East Ayrshire schools, the PPP base cost had £1.6m of risk added as a 'Pre FBC OB (optimism bias) Adjustment'. This was subtracted from the figure of £3.67m charged for that to the PSC, giving a net Pre FBC OB. That was then added to the PSC's 'Post FBC OB Adjustment' of £14.6m for a total risk figure in our table of £16.67m. That is not the total in the FBC because it also excludes the 5% taxation adjustment (designed to reflect that the contractor would be paying tax). Using the £16.67M figure, we show the risk to be 14.39% of the PSC. However, if we used the taxation figure too, then risk for this project would be 19.03% of the PSC. Instead, East Ayrshire Council use this Value for Money summary to say that there is a 10.55% Value for Money difference in favour of the PPP. With North Lanarkshire, we have included a risk mitigation and risk premium figure, but excluded tax adjustment and optimism bias. Without them, the risk figure, as in our table, is £14.7m. This is 6.61% of the PSC, but if we included all figures in the VfM test, it would turn out to be 14.43% of the PSC. The 'test' instead concludes that the PPP is 10.55% cheaper than the adjusted PSC.

19. Public Private Partnerships in Scotland: Evaluation of Performance Final Report 2005 www.scotland.gov.uk/Publications/2005/05/05153704/37269

20. In June 2006 the SE FPU held a PPP seminar for Local Authorities. Audit Scotland provided a presentation on Key Issues. One slide looked at comparisons between the PSC and PFI costs, showing significant variations in twelve schools projects and noting that "a reasonable citizen might ask why the difference is so marked." Another slide looked at Risk Transfer, noting that some adjustments seemed "unreasonable". www.scotland.gov.uk/Topics/Government/Finance/18232/fpu4 These PSC/PFI figures for 9 of the 12 schools, and risk transfer figures for 8, were provided by Audit Scotland following a UNISON Scotland FOI request. These showed that, for example, North Lanarkshire's preferred bidder's Facilities Management costs were 78% higher than the PSC before risk. The council then made a 42% risk adjustment on the PSC FM costs. The difference in LifeCycle Maintenance costs varied from the PSC being costed at 28% less than the PFI bid to East Dunbartonshire where the PSC figure was 57% more. Most risk adjustment is for capital costs. These ranged from 6% to 25%.

21. UNISON Scotland PFI Briefing July 1998.

22. www.scottish.parliament.uk/business/committees/historic/finance/reports-02/fir02-05-vol01-01.htm

23. Evaluating the operation of PFI in roads and hospitals. 2004. Pam Edwards, Jean Shaoul, Anne Stafford and Lorna Arblaster. Manchester Business School. www.accaglobal.com/publicinterest/activities/research/reports/accountability/rr-084

NB: There may be some minor discrepancies in figures, due to rounding up or down where appropriate. If public bodies/anyone else has more up to date figures than in the FBCs that we have, we would be happy to receive these and incorporate them in any future update.

PROJECT	Financial Close by year	NPV of Public Sector Comparator Before Risk £000	B: Insurance - NPV of Risk added to PSC	A: Wasted - NPV of PFI Before Risk minus PSC BR	Total estimated Unitary Charge payments over contract life in £000's (Note 1)	NPV of PFI/PPP Before Risk £000	Wasted as % of PFI/PPP	Wasted as % in £000's of Total UC payments	Insurance (Risk) as % of PSC
NHS Grampian - Kincardine Community Hospital	1997	2402	215	66	11800	2336	2.83%	334	8.95%
NHS Lanarkshire - Hairmyres Hospital	1998	751100	54141	40794	599500	791894	5.15%	30874	7.21%
NHS Lanarkshire - Wishaw General Hospital	1998	177500	23100	-7100	762400	170400	-4.17%	-31792	13.01%
NHS Lothian New RIE	1998	1637719	13685	4188	1490900	1633531	0.26%	3876	0.84%
North Ayrshire College, Kilwinning	1999	12806	728	149	37100	12657	1.18%	438	5.69%
NHS Highland - New Craigs	1999	40943	1330	-2757	106200	38186	-7.22%	-7668	3.25%
NHS Ayrshire & Arran E Ayrshire Community Hospital	1999	23009	1997	1710	37600	26716	6.40%	2406	8.68%

PROJECT	Financial Close by year	NPV of Public Sector Comparator Before Risk £000	B: Insurance - NPV of Risk added to PSC	A: Wasted - NPV of PFI Before Risk minus PSC BR	Total estimated Unitary Charge payments over contract life in £000's (Note 1)	NPV of PFI/PPP Before Risk £000	Wasted as % of PFI/PPP	Wasted as % in £000's of Total UC payments	Insurance (Risk) as % of PSC
NHS Lothian Tippethill	1999	7310	570	20	28600	7330	0.27%	77	7.80%
NHS Argyll & Clyde Larkfield	1999	11880	2583	2087	47000	13967	14.94%	7022	21.74%
NHS Tayside Carseview	1999	8525	1085	238	58200	8763	2.72%	1583	12.73%
City of Glasgow Schools	2000	389373	70886	34641	1394400	424014	8.17%	113922	18.21%
Stirling Council Balfron School	2000	24278	2078	539	83200	24817	2.17%	1805	8.56%
East Renfrewshire Schools PPP1	2000	27700	2891	1332	79500	29032	4.58%	3641	10.44%
Highland Schools PPP1	2001	27900	3220	2990	86900	30890	9.68%	8412	11.54%
Argyll & Bute Waste Management	2001	48598	6525	6198	130800	54796	11.31%	14793	13.43%
West Lothian Council Schools PPP1	2001	50907	4825	1085	180800	51992	2.09%	3779	9.48%
Aberdeenshire Schools Project PPP1	2001	29973	4117	2970	98400	32943	9.02%	8876	11.52%

PROJECT	Financial Close by year	NPV of Public Sector Comparator Before Risk £000	B: Insurance - NPV of Risk added to PSC	A: Wasted - NPV of PFI Before Risk minus PSC BR	Total estimated Unitary Charge payments over contract life in £000's (Note 1)	NPV of PFI/PPP Before Risk £000	Wasted as % of PFI/PPP	Wasted as % in £000's of Total UC payments	Insurance (Risk) as % of PSC
City of Edinburgh Schools PPP1	2001	116520	13424	6080	501900	122600	4.96%	24894	11.52%
East Lothian Schools	2002	71814	10151	4632	221100	76446	6.06%	13399	14.14%
Midlothian Schools PPP1	2002	41640	4760	560	154100	42200	1.33%	2050	11.43%
NHS Tayside Forfar & Whitehills	2003	18546	2731	1547	44200	20093	7.70%	3403	14.73%
NHS Highland - Easter Ross County Community Hospital	2003	11012	1647	1201	36200	12213	9.83%	3558	14.96%
Aberdeenshire Schools Project PPP2	2004	58807	9871	4154	200300	62961	6.60%	13220	16.79%
NHS Argyll & Clyde - Replacement of Mid-Argyll Community Hospital	2004	17596	5881	1464	66300	19060	7.68%	5092	33.42%

PROJECT	Financial Close by year	NPV of Public Sector Comparator Before Risk £000	B: Insurance - NPV of Risk added to PSC	A: Wasted - NPV of PFI Before Risk minus PSC BR	Total estimated Unitary Charge payments over contract life in £000's (Note 1)	NPV of PFI/PPP Before Risk £000	Wasted as % of PFI/PPP	Wasted as % in £000's of Total UC payments	Insurance (Risk) as % of PSC
NHS Ayrshire & Arran - Provision of New Maternity Unit, Crosshouse Hospital	2004	23613	3271	5902	76000	29515	20%	15200	13.85%
East Renfrewshire Schools PPP2	2004	88999	21250	9926	173700	98925	10.03%	17422	23.88%
Renfrewshire Schools	2005	160100	27900	8500	501900	196800	4.32%	21682	17.39%
North Lanarkshire Schools	2005	222500	14700	16600	678800	239100	6.94%	47109	6.61%
Argyll & Bute Schools	2005	145757	21309	11359	207300	157116	7.23%	14988	14.62%
South Lanarkshire Schools	2006	395513	34495	12101	1184700	407614	2.97%	35186	8.72%
Midlothian Schools PPP2	2006	71063	6615	910	171300	71973	1.26%	2158	9.31%
North Ayrshire Partnership for Schools	2006	133034	20354	14628	349800	147662	9.91%	34665	15.30%

Column 1	2	3	4	5	6	7	8	9	10
PROJECT	Financial Close by year	NPV of Public Sector Comparator Before Risk £000	B: Insurance - NPV of Risk added to PSC	A: Wasted - NPV of PFI Before Risk minus PSC BR	Total estimated Unitary Charge payments over contract life in £000's (Note 1)	NPV of PFI/PPP Before Risk £000	Wasted as % of PFI/PPP	Wasted as % in £000's of Total UC payments	Insurance (Risk) as % of PSC
Stirling Schools PPP2	2006	139641	23378	13920	424800	153561	9.07%	38529	16.74%
Highland Schools PPP2	2006	213165	40920	33258	619710	246723	13.48%	83537	19.17%
East Ayrshire Schools	2006	115789	16668	8726	334400	124515	7.01%	23441	14.39%
						actual is	4.94%	552617	
						median is	6.40%	715508	12.73%
TOTALS		5317632	473301	235812	11179810	5583341	5.63%	629966	12.85%

(Totals row shows average percentages and related total for columns 8,9 & 10. Median in row above. Actual total 'wasted' cost & related % above that.)

NOTES:

1. All Unitary Charge totals taken from Scottish Parliament Answers S2W 28685, S2W 30691, S2W 30414, answered Oct Dec 2006.
2. All NPV data is from Project FBCs or extrapolated from FBC data. Taking figures from FBCs may not represent later adjustments to schemes.
3. Columns 6 and 7 are not 'directly' related. The Net Present Value figure looks at so called current cost if paid now, while the estimated Unitary Charge payments are the sum of the payments over the contract life, with a range of variables, differing between projects, covering inflation and other factors.
4. See Note 18 of main report for explanation of how risk figures have been extrapolated to give comparable totals across projects.
5. Some figures are 'negative', meaning the PFI is calculated as being cheaper than the PSC before risk. However, a range of 'fiddles' can help achieve this. See main report. For example UNISON's analysis of the new Royal Infirmary of Edinburgh FBC (Note 21) calculated the PSC as in fact £6m £10m less than the PFI figure & the FBC was criticised by the Scottish Parliament Finance Cttee.

Column 1 Colour Scheme of Projects Listed:
Yellow = School: Pink = Health: Blue = College: Green = Waste Management.

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