UNISON Scotland

Scottish Government Budget and Spending Review

The UNISON Scotland Submission to the Infrastructure and Capital Investment Committee

October 2011

Introduction

UNISON is Scotland's largest public sector trade union representing over 165,000 members delivering services across Scotland. We are the largest trade union in the energy industry in Scotland. UNISON members deliver a wide range of services in the public, community and private sector. UNISON Scotland is able to collate and analyse members' experience to provide evidence to inform the policy process. We therefore welcome the opportunity to submit evidence to the Infrastructure and Capital Investment Committee to support its scrutiny of the budget.

Response

There is no doubt that the cuts to public spending by the UK government mean real cuts in the money available to the Scottish Government and has therefore limited their choices. However the Scottish Government still has scope to protect public services and invest in our infrastructure to support the Scottish economy. Infrastructure investment can help to pull the economy out of its crisis by creating and maintaining skilled jobs and supporting the development of for example "green" manufacturing. It is essential that the government stops wasting money through Public Private Partnerships in any form.

Public Private Partnerships

UNISON's has a long-standing opposition to the disastrously expensive Public Private Partnership infrastructure schemes. There have been many name changes through successive governments: Private Finance Initiative (PFI), Public Private Partnerships (PPP), Non Profit Distribution(NPD) but the core problems remain. Our position has been vindicated by report after report. Despite the Scottish government's rhetoric on this issue PPP continues to be used through the hub and Non Profit Distributing (NPD) schemes being taken forward by the Scottish Futures Trust (SFT). There is a serious risk to future public finances if the government proceeds with transport, and other public projects such as schools and hospitals, using the NPD version of PPP. The Scottish Government must, as a minimum, create a genuine level playing field to avoid the current situation where NPD is the latest version of PPP to be seen as 'the only game in town'. A position which was strongly criticised by the SNP when in opposition.

The Scottish Government is keen to claim that it doesn't use discredited PPP schemes. Alex Neil, Cabinet Secretary for Infrastructure and Capital Investment, claimed that the Scottish Government has "set the country free from the shackles of PFI". This is not the case, the NPD model is just another form of PPP. As with ministers in the UK Coalition Government, they have strongly criticised PPP from out of office[1],[2], but the Spending Review 2011 and Draft Budget 2012-13 details a £2.5 billion pipeline of new NPD projects.

---

[1] Sunday Herald report highlighting the collapse of the Borders railway as an NPD project, which shows how the SNP came to embrace NPD PPP/PFI schemes.
www.heraldscotland.com/business/analysis/all-aboard-the-gravy-train-but-where-is-it-really-going-1.1127122

[2] As well as earlier vociferous criticisms, in fact the SNP said on its website in April 2008, at the time of the announcement of welcome conventional funding for the new South Glasgow Hospitals complex: *"The SNP opposes the use of private sector funding – through private finance initiative (PFI) or public-private partnership (PPP) schemes – to build schools, hospitals and other projects."*

UNISON argued in the 2008 Scottish Government consultation on the role of the Scottish Futures Trust that the NPD model would simply be a cosmetic change to existing PPP schemes. It retains the higher borrowing costs, private profit at the contractor level and elements of the risk transfer costs all leading to the same profiteering and inflexibility inherent in PPP. We pointed out that the Scottish Government Financial Partnerships Unit said that the model could deliver only "marginally lower" costs of financing. We argued that if the Scottish Government intended to use NPD, urgent independent research should be carried out to examine whether it actually delivers the benefits attributed to it. This has not been done. Meanwhile two hospital schemes (Edinburgh's Sick Children's Hospital and Dumfries and Galloway Royal Infirmary) that had been expected to go ahead using conventional funding are now set to use the NPD model – back to 'the only game in town' - and despite problems associated with the Edinburgh Royal Infirmary PFI. The planned Borders railway NPD project has collapsed and will now be taken forward by Network Rail.

The drive to rebuild Scotland's ageing infrastructure has involved the extensive use of PPP. Billions of pounds of public money have been wasted[3]. Currently, there are 87 operational projects in transport, schools, health, waste and wastewater etc, with a total annual unitary charge of nearly £1billion. There have been strong concerns that at a time of tightening public finances, the repayments on these projects will cause severe pressures on budgets for some councils and health boards.

Much more needs to be done on the alternatives in Scotland. Some of them require amendments to Treasury rules including new definitions of public expenditure in line with European models. Off balance sheet incentives inherent in the current block grant system and Departmental Expenditure Limits (DEL) also need reform. The Scotland Bill currently going through the UK Parliament unfortunately does not go far enough on borrowing powers as it does not give the Scottish Government the power to issue investment bonds.

The Spending Review and Draft Budget state that the NPD model does not have the "excessive profits to the private sector and financing costs to the public sector associated with past PFI projects". However, health and public policy expert Mark Hellowell, of Edinburgh University, and expert adviser to the House of Commons Treasury Committee for its recent PFI inquiry, says that the long-term cost to taxpayers of NPD is "similar" to that of the classic PFI model and that it "makes PFI a bit more politically acceptable without changing any of the economics".

This summer's Treasury Committee and Public Accounts Committee reports[4] came to damning conclusions, adding to the huge amount of evidence that shows what a waste of taxpayers' money PPP is over conventional spending. Both highlight not only the well known problems with PPP but the fact that the financial crisis has made it even more expensive compared to conventional government borrowing.

---

[3] At What Cost. UNISON's 2007 report on the aggregate costs of PFI/PPP www.unison-scotland.org.uk/comms/atwhatcostoct07.pdf

[4] Treasury Committee PFI Report 19 Aug 11
www.publications.parliament.uk/pa/cm201012/cmselect/cmtreasy/1146/1146.pdf
Public Accounts Committee PFI Report 1 Sept 11
www.publications.parliament.uk/pa/cm201012/cmselect/cmpubacc/1201/1201.pdf

This has serious long term implications for budgets. The Treasury Committee Report, in Conclusions and Recommendations, paragraph 26, says:

"Continuing to use an inefficient funding system such as PFI is likely in many cases to increase the overall burden on taxpayers…If, rather than using PFI, the lower financing costs of government are utilised, we have seen evidence that investment can be increased significantly for the same long term funding costs."

And it points out in paragraph 18 that:
"Organisations which have the option of other funding routes have increasingly opted against using PFI and have even brought PFIs back in-house. TfL's (Transport for London) cost of borrowing is higher than government's and yet it still considers this better value for money than PFI."

The Public Accounts Committee also warned that transparency on the full costs of PFI has been obscured by "departments and investors hiding behind commercial confidentiality". The Committee said UK Freedom of Information laws should be extended to private companies providing public services. The Scottish Government shamefully backed down from plans to do this here. Another example of rhetoric not matching up to action.

The 'only game in town' point was emphasised in the June 2011 SFT report 'Review of Operational PFI/PPP/NPD Projects'[5]. This said that there may well be value for money savings in buying some of these out, but it did not calculate them *"as termination would bring assets back into the public sector for accounting purposes and the capital budget required for this is not currently affordable*". The government should investigate where savings can be made and buy out these contracts.

Energy

UNISON Scotland has consistently argued the need for a balanced energy policy in Scotland, including a range of sources. The absence of such a policy, and the pursuit of a competitive market at all costs have led us to a position where we now face an imminent energy gap with no plan to replace current power generating capacity and insufficient renewable sources as viable alternatives. In the present energy crisis we also face rising fuel costs and increasing fuel poverty. The high levels of fuel poverty in Scotland are unacceptable and require action as part of a Scottish energy strategy.

The problem is compounded by the regressive nature of the competitive domestic energy market. The poorest customers are forced into more expensive prepayment arrangements, while richer customers paying by direct debits are rewarded with discounts on their energy costs. Network access charges discriminate against Scottish generators who have to pay more to get power to the main users in the large English conurbations. As renewable forms of generation like wind and wave power are in fact located outwith urban areas, the network access charges and proposed transmission loss charges clearly run counter to the aim of increasing renewables. We support the idea of a "postage stamp" principle for network access and hope that this will be the outcome of the Project Transmit consultation being undertaken by **Ofgem.** UNISON Scotland believes that the current regulatory regime with its primary emphasis on

[5] www.scottishfuturestrust.org.uk/docs/354/Review%20of%20Operational%20PPP%20Projects%20June%202011.pdf

competition is damaging to the possibility of a balanced energy policy for Scotland and the UK, and should be reviewed.
We believe that only a planned, balanced energy policy can provide security of supply and meet our targets for addressing climate change. With concerted action in this direction from both Scottish and UK Governments, we can deliver the future we want in Scotland in terms of the production, distribution and more efficient use of energy; meet objectives of increasing renewable energy generation and reducing emissions; secure energy supplies at an affordable price; and maximise economic benefits from the energy industries. We condemn the UK Coalition Government's appalling failure to back the planned Carbon Capture and Storage (CCS) project at Longannet – a decision that is disastrous for Scottish energy strategy.

In order to ensure that ordinary workers do not pay the price of shifting to a low carbon economy we must invest in the creation of green energy jobs in manufacturing, engineering and construction. This should be accompanied by relevant training and reskilling programmes.

Low Carbon Scotland

Low Carbon Scotland: The Report on Proposals and Policies (RPP) is not merely aspirational, the targets in the Climate Change (Scotland) Act 2009 are legally binding. Not only that, they won unanimous support in the Scottish Parliament. It is essential, if Scotland is to meet these targets, that the measures in the RPP are fully funded. Unfortunately, the Spending Review 2011 and Draft Budget 2012-13 fail to do that. While it does acknowledge (p23) that it will cost far less to take action now on global warming than to respond to its effects (the message of the Stern Review), we do not believe that the Scottish Government is promising sufficient action or investment now. In the case of transport priorities, it is going in the wrong direction altogether.

Public transport spending is being cut and there is totally insufficient investment in cycling and walking (both of which improve physical and mental health). UNISON Scotland is a member of Stop Climate Chaos Scotland (SCCS) and supports the SCCS written evidence on the Spending Review and Draft Budget to this and other Committees. The SCCS submission quantifies the shortfall against the RPP requirements. SCCS makes the point that the focus on road-building also undermines the Scottish Government's aim, in its Public Engagement Strategy, of getting people to reduce their own carbon footprints. It is unreasonable to focus public funds in carbon-intensive areas while asking people across Scotland to do the opposite and make changes in their own lives to help reduce emissions.

Stewart Stevenson said in June that 'every minister must be a climate change minister'. The people on the planet now, and future generations are too important for us to get this wrong. Scotland's politicians have proudly expressed their commitment to world leading action. It is time now to deliver on the policies that will ensure the targets are met.

Conclusion

UNISON welcomes the opportunity to submit evidence to the Infrastructure and Capital Investment Committee. Far from ending PPP schemes the Scottish Government has merely changed the model. There is inadequate funding to support its transport and climate change ambitions. The Parliament and its committees must ensure that the Government's actions and in particular funding for its schemes match up to its public claims.

For further information, please contact:

Mike J Kirby, Scottish Secretary
UNISON Scotland,
UNISON House,
14, West Campbell Street,
Glasgow
G2 6RX
Tel: 0845 3550845
Fax: 0141-331 1203
Email: m.kirby@unison.co.uk
Kay Sillars: k.sillars@unison.co.uk