



Reclaiming the Initiative

Putting the Public Back into PFI

June 2009



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1. EXECUTIVE SUMMARY	3
2. INTRODUCTION.....	4
An unproven initiative.....	4
A better alternative	5
3. THE CURRENT CRISIS.....	5
The banks run scared.....	5
The cost of borrowing rises.....	6
No money to borrow	7
Treasury profits.....	7
4. OUT OF CRISIS, OPPORTUNITY	7
Public money, public buildings.....	8
Flawed evidence	8
Sharp, leaner public procurement.....	9
5. THE WAY FORWARD.....	9
The right incentives	9
No more excessive private profits	10
Greater transparency.....	10
Greater simplicity.....	10
More flexibility.....	10
Better design	11
6. BUYING IT ALL BACK	11
Soft targets	11
National interest	12
Buying it back	12
7. SUMMARY	13
8. OTHER UNISON PUBLICATIONS.....	14

I. EXECUTIVE SUMMARY

The government's continued support for the private finance initiative (PFI), its flagship building programme, has become irrational, following the collapse in bank lending to PFI projects. Ministers are now putting £2bn of taxpayers' money into what are supposed, by definition, to be privately financed ventures, despite the fact that the government has stakes in some of the banks whose lending policies have caused this crisis and who in turn, have been big lenders to PFI.

This shows up one of the fundamental ironies of the current crisis. PFI's reliance on the private sector is supposed to give public building programmes more rigour and strength, but has in fact exposed them to greater hazards and weaknesses. Public projects have been tainted by private failure.

Despite the government's continued backing of PFI, there have long been doubts over its effectiveness. Proof that PFI is better than other building schemes has always been surprisingly thin on the ground.

The funding crisis, by revealing one of the inherent flaws in PFI, has opened the way for a wider debate about the future of public building schemes. And there is an increasing sense that the tide of opinion is turning against PFI.

However, simply modifying PFI is not the way forward. The problems with the initiative go much deeper than just its reliance on private finance. The time has come for a clean break.

Supporters of PFI claim that public procurement before PFI was slow and wasteful. But these criticisms are flawed. The public sector is now ready to take control of building programmes and run them efficiently.

This report proposes: the design and build contract, without the finance and operate of PFI schemes. This gets rid of the need for private financing of public projects and ends the privatisation and fragmentation of support services.

Moving towards design and build contracts will have a wide range of other advantages: No more excessive private profits ; Greater transparency ; Greater simplicity ; More flexibility and Better design.

UNISON proposes a three pronged policy to replace PFI with a publicly run and funded set of building programmes. The key elements of this reform are:

- Halt all planned new PFI projects, and replace them with publicly funded design and build schemes.
- Remove soft services - such as cleaning and catering - from existing PFI deals.
- Gradually bring existing PFI contracts into public ownership

PFI has been a long and wasteful experiment, and it is time to bring it to a close. We should look forward, instead, to a more efficient, more flexible and ultimately more valuable way of building schools and hospitals, that we as a public need.

2. INTRODUCTION

The government's continued support for the private finance initiative (PFI), its flagship building programme, has become irrational, as everyone except the government itself has admitted. Following the collapse in bank lending to PFI projects, ministers are now putting £2bn of taxpayers' money into what are supposed, by definition, to be privately financed ventures. And this despite the fact that the government has stakes in some of the banks whose lending policies have caused this crisis and who in turn, have been big lenders to PFI.

This strange turn of events is exposing PFI to greater scrutiny than ever before. Although the current crisis is purely financial, and nothing to do with the actual mechanism of PFI, it does highlight the danger of relying heavily on the private sector for key building programmes. The time is right to abandon a policy that has never delivered the benefits promised, and to renew interest in the kind of building schemes that allow the public sector to keep control of taxpayers' money and deliver new schools, hospitals and roads more flexibly and efficiently. Nor need reform end there. All further PFI schemes should be halted as a first step on the road to a fully accountable and publicly controlled set of building schemes. The next logical step is to reform existing schemes, first by removing all soft services (such as cleaning and catering in hospitals) from contracts and ultimately, by bringing all PFI contracts under public ownership and control.

An unproven initiative

Despite the government's continued backing of PFI, there have long been doubts over its effectiveness. Private finance is inherently more expensive than government borrowing, and the profits made by companies involved in PFI have often been unacceptably high. PFI projects are also hugely complex and slow, and tie the managers running hospitals and schools into inflexible, 30-year contracts.

Proof that PFI is better than other building schemes has always been surprisingly thin on the ground. Claims made on its behalf either lack evidence to support them, or fail to make a proper comparison between the initiative and conventional public procurement.

The government sometimes claims that PFI has allowed a level of investment in infrastructure that would otherwise have been impossible, but that argument is flawed. PFI is not, after all, a free lunch: the government still pays for the infrastructure just as it would have done using its own finance. The only difference is that it gets private companies to meet the upfront capital cost of the infrastructure (through expensive private borrowing), and then pays them back over 30 years - with interest. Rather than a way of increasing investment, it is simply an expensive way to make the short-term borrowing figures look better by keeping these projects off the government's balance sheet.

PFI has also failed to fully shift the risk of project failure on to the private sector, even though risk transfer is one of the founding principles of PFI. Some contractors may have suffered because they were forced to take a hit when buildings cost more than expected. But, as the Metronet Tube PPP fiasco showed, if a project runs into serious trouble, the public sector has to bail it out. When Metronet went bust just four years into its £17bn, 30-year contract to modernise two thirds of the London Underground it was Transport for London that picked up the £410m bill. Schools, hospitals and transport projects are simply too important, too vital to the public interest, to be allowed to fail.

A better alternative

This report explains the origins of the current funding crisis, but also sets out an alternative vision in which public sector managers would use the risk analysis and management skills they have learned in the reformation of government procurement during the last decade. The government would fund and control public building programmes, using simpler, more flexible design and build contracts.

This would lead to both a greater honesty in public accounting and a better use of taxpayer money. Private construction skills could still be used - but in a way that suited the public sector, not the private sector. Research has demonstrated that the claimed benefits of PFI can be obtained using conventional procurement, as long as the government is smart enough. A return to conventional procurement would also mean that major public works were carried out solely to benefit the public. The drying up of private finance is the perfect opportunity to make a clean break with PFI and forge a new, open, flexible and - above all - efficient way of building public amenities.

By shining a spotlight on the problems with PFI, the current crisis also highlights the waste and inefficiency in the huge number of PFI contracts already signed. As well as deciding not to sign any new PFI contracts, the government should bring all existing PFI contracts into public ownership. Though it would initially be expensive, in the long run the savings would be huge, and the public sector would regain an enormous amount of control over public services.

3. THE CURRENT CRISIS

The crisis currently facing PFI is all about finance. Under PFI, the upfront cost of a project - that is, the amount needed to cover construction costs - is normally paid by the private sector consortium appointed to the deal. The lead contractor, or another member of the consortium, puts in its own money, traditionally around 10% of the total needed. The remaining 90% is debt borrowed from banks or other sources. This upfront investment is then repaid by the public sector over the life of the contract (typically 30 years) as part of an annual payment known as a 'unitary charge', which also pays the consortium for maintaining the building. So far, the government has committed taxpayers to more than £217bn of repayments between now and 2033-34 on at least £64bn of PFI projects. That figure, which includes services, is expected to peak at £10.8bn in 2017-18.

The first cracks in this funding model started to appear in late 2007 after the bond markets, traditionally the source of much PFI funding, collapsed. PFI consortia had often raised the debt they needed for their projects by issuing bonds, but to convince investors that they were a safe investment, the consortia needed to have them guaranteed (or 'wrapped') by insurers known as monolines.

However, those monolines - including big US names such as Ambac - had, like much of the financial world, been exposed to dodgy US sub prime mortgages. Their credit ratings were downgraded and they stopped being able to guarantee PFI bond issues. This was a huge concern for the PFI industry, which was left solely reliant on banks lending money to projects - and that is far more difficult to get.

The banks run scared

Throughout 2008, bank lending became scarcer and scarcer - and more and more expensive. It was not that anything had changed in the banks' fundamental view of PFI. If anything, it had

become more attractive, its safe, government-guaranteed returns a sharp contrast to plummeting profits in the housing and commercial property markets.

The problem was - and is now - the same as that affecting everyone hoping to borrow money from banks, from small firms through to would-be house buyers: banks simply are not lending. Financial institutions no longer trust each other, and so banks find it difficult to borrow the money they need to lend in the first place. And even when they do have cash to lend, they are reluctant to lend it for long periods, because finance has become so volatile.

That poses a particular problem for PFI, because it relies on long-term lending for anything up to 30 years. In good times, long-term lending is a safe bet. In bad times, it becomes far more difficult. Banks don't know whether they are going to be able to borrow money, or how much they are going to have to pay for doing so; they also don't know when they are likely to need to hold back money, for example to make up losses in other parts of their business or to build up reserves.

This shows up one of the fundamental ironies of the current crisis. PFI's reliance on the private sector is supposed to give public building programmes more rigour and strength, but has in fact exposed them to greater hazards and weaknesses. Public projects have been tainted by private failure.

The cost of borrowing rises

The first problem that the credit crunch has created for PFI is that it has made finance much more expensive. The cost of borrowing for PFI consortia - which is, ultimately, passed on to the public agency responsible for the deal - is made up of two parts: the underlying rate of interest, and the margin the bank charges for lending. Admittedly, public sector bodies have benefited from the fact that underlying rates of interest have dropped sharply since the credit crunch. But bank margins have risen even more dramatically.

Bank margins are measured as a percentage above the standard rate at which banks borrow from and lend to each other, known as Libor (an abbreviation of London Inter-Bank Offered Rate). Before the credit crunch, a typical PFI deal would see banks charging a margin of around 0.25% above Libor. Now, the cost of borrowing is harder to determine, because the market has become more volatile as well as more expensive, but estimates put the average margin at more than 3 - 4% over Libor - a massive increase which means the banks are now charging the public exorbitant rates for lending on projects which remain relatively risk free and whose risk profile has not changed in any way to warrant higher costs.

The effect on individual deals is also difficult to estimate, but it could be bad news for government departments and local councils. On a typical deal, the combined (interest plus margin) cost of borrowing might have risen from the 6% projected before the credit crunch to an actual 6.5% today. Though that may not sound much, paying an extra 0.5% on, for example, a Building Schools for the Future deal worth £150m would see the local council paying an extra £750,000 a year.

At the extreme end of the scale, a leaked letter from Lancashire county council to ministers showed the council feared that the second part of its Building Schools for the Future deal could cost it twice as much as the first part, bank finance having become so expensive¹. At a time when public sector budgets are stretched to the limit, servicing PFI deals will lead to cutbacks elsewhere - or the deals will simply become unaffordable.

No money to borrow

The other, and ultimately more serious, problem created by the credit crunch is that there simply is not enough bank lending to go around. Over £13bn of PFI projects are in planning; of those, some £6bn-worth have already appointed a consortium as preferred partner, and are looking to secure funding in the next year. (Although consortia may have general agreements with banks during a bidding process, the process of actually tying down funding begins only once a preferred partner has been appointed.)

No definite figure exists for how much bank lending is available, but senior figures in the PFI lending world have estimated it may be as little as £2bn this year². That would leave a shortfall of at least £4bn this year, with further shortfalls to come if bank lending does not resume its normal operations - and there is no definite sign that it will.

Treasury profits

The government does not want to allow vital infrastructure programmes to seize up, and in early March announced that it would lend money - in theory on a temporary basis - to key PFI projects. An initial £1bn-2bn will be lent, at market rates, this year. The idea is that the Treasury will put the money in to get the deal signed, and then sell on the loan to a private provider once (it hopes) normal market conditions resume - replacing the government funding with traditional bank lending.

By the end of May the Treasury Infrastructure Finance Unit had loaned the first £140m to finance the Manchester waste project.

Even more extraordinary though, is the Treasury's decision to charge the same, currently inflated, market rates for the loan as the banks. Instead of passing on the cheaper rates available for government borrowing the Treasury will benefit from the historically high cost of capital, whilst public bodies will be forced to pay higher rates for PFI at a time of tight, financial restrictions.

Furthermore, the Treasury has reverted to its previous policy of making PFI 'the only show in town', as the Budget has slashed capital expenditure from £44bn this year, to £22bn a year in 2013-14.

4. OUT OF CRISIS, OPPORTUNITY

The funding crisis, by revealing one of the inherent flaws in PFI, has opened the way for a wider debate about the future of public building schemes. And there is an increasing sense that the tide of opinion is turning against PFI. Both the Conservatives and the Liberal Democrats have called for a return to more conventional public procurement. "The government should go back to more traditional public financing structures, rather than use taxpayers' money to prop up the public-private model," the Liberal Democrat Treasury spokesman, Vince Cable, said in March.

Influential think tanks such as the Work Foundation have urged ministers to launch a public works building programme. "Where access to private finance is holding projects back, it should be replaced with public finance," it said in a November 2008 report. John Tizard, director at Birmingham University's Centre for Public Service Partnerships, has said the government should consider funding projects using its own money, for example by issuing bonds or using credit guaranteed finance schemes. Other groups, such as architects, are backing a return to conventional procurement. Richard Rogers, former architecture czar said,

“PFI has now descended into farce, it has produced very poor results in terms of design, cost control and manageability, and now it can’t even finance itself.”³

Even those within the PFI industry have begun to acknowledge that it does, at the very least, face major changes. Deloitte partner Nick Prior, one of the industry's most senior figures, responded to the government's £2bn bail out by saying that if it was seen to work, "then there will be pressure - and a strong case - for the government to continue to play this role into the future". Claiming that private sector financial disciplines had been "enshrined" in public procurement thanks to PFI, he said a more central government role "could be a natural evolution of the PFI industry".

However, simply modifying PFI is not the way forward. The problems with the initiative go much deeper than just its reliance on private finance. The time has come for a clean break.

Public money, public buildings

If not PFI, then what? The answer is smart and efficient public procurement. Supporters of PFI claim that public procurement before PFI was slow and wasteful. But these criticisms are flawed in two ways: they blame public procurement for faults that were nothing to do with the procurement method, and they fail to take into account radical changes in public procurement during the last decade.

Two projects often cited as evidence of the shortcomings of conventional procurement are the Jubilee Line extension and the new Guy's Hospital, both of which were years late and millions - or in the case of the Jubilee line, billions - of pounds over budget. However, as Professor Allyson Pollock has pointed out, the problems experienced by these projects did not stem from the fact that they were publicly procured⁴. In the case of the Jubilee Line, the major cause of delays was, according to ministers, the geological conditions in south London that have always made it difficult to construct tube lines there - not the procurement method. The Guy's Hospital project, meanwhile, was delayed largely because it had in fact been originally planned as a public private partnership scheme. The cost increases at Guy's were at least in part down to the collapse of the partnership, rather than its eventual completion using conventional procurement.

Flawed evidence

The other argument against publicly funded and managed projects is that overall they are less successful than PFI projects. But again, the evidence for this claim is far from clear. For example, a National Audit Office report in 2003 claimed that 70% of public projects were delivered late and 73% suffered cost overruns⁵. That claim was based on another study, by the Agile Construction Initiative in 1999 - but again, the study does not reveal the data on which its claim was based.

The one report comparing PFI with public procurement that did set out its evidence, a 2002 report by PFI consultants Mott MacDonald, has also been shown to be flawed. Professor Pollock's research demonstrates that it compared only a tiny number of schemes: 11 PFI projects out of a total of more than 500 signed by that time⁶. Its sample was biased against public procurement, because the selected public projects contained a disproportionately large number of extremely complex schemes, which are particularly vulnerable to cost and time overruns. The selected PFI projects, in contrast, were for the most part standard deals, and excluded high profile failures such as complex PFI IT schemes.

Furthermore, the report measured time and cost overruns on public deals from an early point in procurement known as the outline business case stage. Overruns on PFI deals were measured only from the time when a full business case was agreed. That meant the period between outline and full business case - always a source of huge delays and massive cost inflation, especially in PFI deals - was excluded for PFI, making it look better, and included for conventional procurement, making it look worse.

Sharp, leaner public procurement

The other point omitted in the caricature of "old-style public procurement" is the huge improvement in public purchasing in recent years. In order to deliver the government's programme of marketisation of public services, procurement had to be made more efficient, through numerous reforms and investment in training. Efficiency - in the shape of the Gershon agenda - has further placed public bodies under huge pressure to do more with less.

An NAO report in 2005 found that the management of public building programmes - both PFI and conventional procurement - had improved hugely in the preceding five years⁷. Although PFI might have helped the NAO said, "It is, however, very likely that one other significant factor that has led to improved performance is the move towards implementation of the principles of good construction practice."

A report on public private partnerships by the New Zealand Treasury concluded: "Most of the advantages of private sector construction and management can also be obtained from conventional procurement methods, under which the project is financed by the government, and construction and operation are contracted out separately."⁸

5. THE WAY FORWARD

The public sector is now ready to take control of building programmes and run them efficiently. PFI does not give the public sector enough control to make sure that money is being spent well.

At the heart of this proposal is a very simple idea: the design and build contract. Rather than being asked to design, build, finance and operate a public building, contractors should be asked simply to carry out the first two stages. This gets rid of the need for private financing of public projects. Private finance is expensive, complicated to arrange, and, as recent events have shown, unreliable, nor has it brought most of its claimed benefits. Public projects should be publicly funded.

The right incentives

Putting in place the right incentives for contractors will be a vital part of making sure design and build contracts operate properly. Design and build contracts will have to be structured so that the private contractor bears the risk of the project running late or over budget before hand over. That will certainly be within the power of public sector managers, thanks to the sophisticated risk analysis techniques developed over the last decade. Good risk allocation is not in any way reliant on PFI features such as private finance or long-term maintenance contracts.

Design and build contracts will also get rid of the 30-year maintenance contracts that are a central part of PFI. Such contracts are inflexible and allow private operators room for excessive profits. They do, however, have the advantage of forcing the public sector to maintain buildings properly, but this can be achieved in other ways. For example, a public agency procuring a new building could be required by law to assess the likely 30-year cost of maintaining that building - and then ring fence funding to meet that cost. If the agency's estimates were regarded by the Treasury as unrealistic, the agency could then be required to benchmark the work.

Moving towards design and build contracts will have a wide range of other advantages:

No more excessive private profits

PFI schemes have allowed private investors to make huge profits from building public amenities. Scottish economists Jim and Margaret Cuthbert found that the equity investors in the Hairmyres hospital in East Kilbride, construction firm Kier and financiers Innisfree, stood to make £145m from an initial investment of £8.4m⁹.

Similarly, PFI contractors have made massive returns through refinancing, simply by borrowing money more cheaply once construction is completed. In one notorious case, at the Norfolk and Norwich Hospital, the private sector made £151m by refinancing, of which it shared just £34m with the public sector. The deal was described by the Commons' public accounts committee as "the unacceptable face of capitalism". Following changes in regulation, refinancing profits are capped. But the point remains that entering into complex deals with the private sector will always allow it room to find ways of making higher than expected profits.

Design and build contracts would also have the advantage of being open to far more building firms than PFI, where the huge scale of the projects and the drawn out and complex tendering process means that only the largest firms can afford to bid. More firms will increase competition and drive down prices.

Greater transparency

PFI has often been used by the government to keep the capital cost of buildings off its balance sheet, and thus make the public finances look better than they really are. That advantage had been thought to be coming to an end, as new accounting rules were expected to force PFI deals on to the Government's balance sheet. However, the Treasury has found a way round the new rules that will allow PFI deals to remain off balance sheet and continue to skew public debt figures. A return to public procurement would, at a stroke, do away with this dubious accounting.

Greater simplicity

One of the great disadvantages of PFI is its enormous complexity that makes the tender process very difficult to manage, and leads to huge bills for armies of advisors. PFI companies have exploited the complex processes to push up profits. Public procurement, in contrast, is relatively simple, because it strips the process back to designing and building a public amenity.

More flexibility

PFI deals are inflexible because they commit the public sector to using a building in a particular way for up to 30 years, with little room for variation. This can be seen in the case of schools such as Balmoral High School in Belfast, built in 2002. Demographic changes meant that by

2007 it was clear the school was no longer needed, but because it was built under PFI, the council is committed to paying for £9.2m in maintenance for the life of the contract. On a smaller scale, making day-to-day changes in PFI buildings can be extremely difficult and expensive. A recent NAO report found that £180m a year is paid out to PFI contractors for contractual amendments. It reported major variations in charges for what was often routine maintenance work, which had failed to be specified in the original contract.¹⁰ While one school had to pay £320 to fit a new electric socket, elsewhere the charge was £30.81. Publicly constructed and run buildings face no such problems.

Better design

PFI has had a detrimental effect on design standards. PFI buildings have proven time and again that, even if they are eye-catching and innovative in pure design terms, they don't work on a practical level. PFI schools and hospitals have often suffered from chronic overheating, failing to provide basic necessities such as cupboards and storage areas, insufficient staffing areas and leaking roofs. PFI's extra costs, poor quality, inflexibility and excess profits are further documented in UNISON's report, 'The rise of the "public services industry"'.¹¹

In a return to conventional public procurement, design could be strengthened in a number of ways. For example, architects could be closely involved in helping the public sector design buildings before procurement started, allowing contractors to bid against a range of sample designs or within certain guidelines.

6. BUYING IT ALL BACK

As well as halting further waves of PFI schemes, services should be brought back in house and where possible, the £64bn of existing assets should also be brought back into public ownership.

Soft targets

The first step is to remove 'soft services', such as cleaning and catering. Reform of these services is already taking place in the devolved administrations in Wales and Scotland. In Wales, the health ministry has recently announced that cleaners and caterers at the Neath Port Talbot PFI hospital, who had been transferred to the private sector at the start of the deal in 2002, would return to the public sector.

This is part of a wider policy of ending private sector involvement in the Welsh NHS, where possible, when contracts come up for renewal. As the Welsh health minister, Edwina Hart, put it, "The [Welsh] Assembly government is committed to maintaining an NHS that is publicly funded and managed." In Scotland, meanwhile, the SNP government has made clear its opposition to private sector involvement in the NHS. "NHS Scotland is, and in my view always should be, a service that is publicly owned and delivered," the Scottish health secretary, Nicola Sturgeon, told a conference last year.

Removing soft services from PFI contracts would also be in line with an increasing body of evidence that they do not represent good value for money. In 2006, the Treasury toughened the criteria for including soft services, though it did not ban them outright. Then, in 2007, an NAO report found there was no evidence that including services within PFI contracts was better value than keeping them in public hands¹². PFI operators are not under any strong pressure to change the services if school or hospital managers want that to happen. And the operators lose money if they increase spending on such services.

The report also found evidence that contractors were pricing services very low when they won the initial contracts, in the hope that when the services were renegotiated 5-7 years into the contract, they would be able to force an increase in the prices. When they were successful, there was evidence that public sector managers were cutting back in other areas to meet the increased soft services costs.

National interest

Taking back soft services in-house is only part of the answer, however. It still leaves the vast bulk of the £64bn-worth of existing PFI deals untouched. There are compelling arguments why PFI contracts should be brought back into public ownership. However, PFI deals have such strong guarantees written in to them that any savings from buying them back can be wiped out. The contracts are structured so that if they are terminated by the public authority, then the PFI companies have to be compensated for any loss of earnings for the life of the contract (as has already happened at Balmoral High School in Belfast.)

But there have also been a couple of successful buy-outs. Two Scottish transport PFI projects have been bought back by the public sector in the last five years: Inverness Airport and the Skye toll bridge. Both Scottish projects had proved highly profitable, in part because they involved demand risk where the PFI operator was partly paid through a service charge or toll. At the time of the buy out, the operator on the Skye Bridge stood to make £38m over the life of the contract (according to BBC reports). However, it accepted £27m to hand the contract back to the public sector, possibly because of the appeal of an immediate profit and because of the rising unpopularity of the tolls paid on the bridge.

Buying it back

To buy back all contracts, the public sector would have to broadly match the total cost that they represent. A standard PFI contract guarantees the operator a set level of payment over the life of the contract, which covers payments for maintenance and other services as well as gradually repaying the capital cost and providing profits to the company. In evidence to the public accounts committee in 2007, senior Treasury officials admitted that the cost the government is committed to paying on PFI projects amounts to £168bn. (By 2009 this figure had risen to £217bn¹³)

But because of the guarantees built in to PFI deals there could be no saving to the public purse of buying them back. This is what happened when Brighton council had to close its Comart School (built under PFI) because it was no longer viable; it was forced to pay out the entire value of the rest of the contract - some £5m.

However, it could be argued that a government operating with a coordinated programme of buying out PFI contracts could achieve its aims for a real figure of considerably less than the full cost, assuming the private sector would take a lower return for the certainty of an immediate payout. If the experience of the Skye Bridge contract holds, a ratio of 71% could be applied.

But other costs would arise because the public sector would then have to budget for taking on the maintenance and servicing of the buildings (effectively paying for them twice). This could wipe out any saving made from doing a deal with the PFI consortia.

The public is therefore locked in to the mad arithmetic of PFI. The private companies win if they carry on and win if they are bought out. What remains is to gradually bring PFI back in-house, starting with the relatively small number of demand-based deals, such as toll roads and then looking at each contract in turn, to see what deal can be struck.

7. SUMMARY

PFI has never been a successful policy, but has escaped the critical attention it deserves, through the superficial appeal of the notion of a partnership between public and private sectors, that fits so well with the political consensus that the private sector can deliver public services most efficiently.

The credit crisis has changed all that. As one of PFI's foundations, bank credit, begins to look increasingly shaky, a light is thrown on the wastefulness and inefficiency of the whole initiative and the tide of opinion is turning against it.

UNISON proposes a three pronged policy to replace PFI with a publicly run and funded set of building programmes. The key elements of this reform are:

- halt all planned new PFI projects, and replace them with design and build schemes. As long as good risk allocation is used to make sure contractors bear the brunt of failure it will ensure projects are built on time and to budget. At the same time, it will remove the excessive profits created by private financing, the very high costs and the inflexibility of 30-year maintenance contracts;
- remove soft services - such as cleaning and catering - from existing PFI deals. Allowing the private sector to provide these services undermines quality, lowers staff wages and conditions and is extremely inflexible. Devolved governments, in particular the Welsh Assembly, have begun to take these contracts back in-house; England should follow their lead;
- finally, existing PFI contracts should be gradually brought into public ownership bringing these vital buildings and services into public hands.

The smart use of conventional procurement, in the hands of a more savvy public sector, would be one step in the transformation of public services, ensuring they were run by the public sector for the benefit of the public, rather than for private profit. PFI has been a long and wasteful experiment, and it is time to bring it to a close. We should look forward, instead, to a more efficient, more flexible and ultimately more 'value for money' way of building roads, schools and hospitals, that we as a public need.

Notes

¹ 'County fears over BSF schools cash', Lancashire Telegraph, March 11 2009

² 'Taking the private out of PFI', Guardian Public, March edition, p24

³ Building Design Online 6 March 2009,

<http://www.bdonline.co.uk/story.asp?sectioncode=426&storycode=3135425>

⁴ 'The private finance initiative: a policy built on sand', research report for UNISON, October 2005

⁵ 'PFI Construction Performance', NAO, 2003.

⁶ ibid

⁷ 'Improving public services through better construction', NAO, March 2005

⁸ 'Financing Infrastructure Projects: Public Private Partnerships (PPPs)', Dieter Katz, March 2006

⁹ 'Lifting the lid on PFI', December 2007, available at:

http://www.cuthbertl.pwp.blueyonder.co.uk/new_page_5.htm

¹⁰ 'Making changes in operational PFI projects', NAO, January 2008

¹¹ 'The rise of the "public services industry"' a report for UNISON by Paul Gosling

<http://www.unison.org.uk/acrobat/PP8917.pdf>

¹² 'Benchmarking and market testing the ongoing services component of PFI projects', NAO June 2007

¹³ HM Treasury, PFI Signed PFI Projects, Total Unitary charges 2006-7 – 2036-7

8. OTHER UNISON PUBLICATIONS

Making the Connections, Contract Cleaning and Infection Control, 1 May 2009

This report -makes the link between outbreaks of Healthcare Acquired Infections (HCAIs) such as MRSA and C Difficile. It points to evidence both in the UK and abroad that improved hospital cleaning plays a key part in controlling outbreaks of HCAIs **Stock no: 2735**

Putting you first: A million voices for change, March 2009

UNISON's agenda for a strong economy and a fair society **Stock no: 2753**

The rise of the 'public services industry', 1 February 2009

A UNISON report highlighting the economic reality of the marketisation of public services, which increases the government's financial exposure and the risk of personal catastrophe for vulnerable service users **Available from UNISON web**

Taking stock: the future of our public library service, 19 December 2008

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