Private Finance Initiative and Public Private Partnerships:

What future for public services?

Includes extracts from

Public Services or Corporate Welfare:
Rethinking the Nation State in the Global Economy
Dexter Whitfield
(Pluto Press, 2001)

Additional key resources

Global Auction of Public Assets: Public sector alternatives to the infrastructure market & Public Private Partnerships, Spokesman Books, 2010
http://www.european-services-strategy.org.uk/publications/books-and-articles-by-dexter-whitfield/global-auction-of-public-assets/

PPP Wealth Machine: UK and Global Trends in Trading Project Ownership
http://www.european-services-strategy.org.uk/ppp-database/ppp-equity-database/ppp-equity-report-final-full.pdf

The Private Finance Initiative: Nationalise the Special Purpose Vehicles and end profiteering from public assets – A proposal by **People vs Barts PFI**
http://www.european-services-strategy.org.uk/news/2015/the-private-finance-initiative-nationalise-the/nationalise-the-spvs-people-vs-barts-pfi-version-1.pdf

The financial commodification of public infrastructure: The growth of offshore PFI/PPP secondary market infrastructure funds (2016)
http://www.european-services-strategy.org.uk/publications/essu-research-reports/the-financial-commodification-of-public-infras/financial-commodification-public-infrastructure.pdf

PFI/PPP Buyouts, Bailouts, Terminations and Major Problem Contracts,
ESSU Research Report No. 9, Dexter Whitfield (2017)
http://www.european-services-strategy.org.uk/publications/essu-research-reports/pfippp-buyouts-bailouts-terminations-and-major/pfi-ppp-buyouts-bailouts-and-terminations.pdf

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Contents

Section 1: **Introduction**

This briefing paper focuses on the political, economic and social case against the Private Finance Initiative (PFI) and Public Private Partnerships (PPPs).

New schools and hospitals are badly needed after more than two decades of decline and under-investment. It is understandable that parents, teachers, patients, doctors and nurses see the attraction of a new building irrespective of how it is funded. But the issue is not solely about today or tomorrow or the impact of individual projects, but the longer-term consequences of the private ownership of Britain's infrastructure and public services.

The briefing paper draws heavily on Public Services or Corporate Welfare: Rethinking the Nation State in the Global Economy (Pluto Press, London, 2001).

The difference between PFI and PPP

PFI and PPP projects are very similar. PFI is a particular method of financing private investment, which requires the private sector design, build, finance and operate facilities. PPP is a generic term used to describe partnerships, which involve more flexible methods of financing and operating facilities and/or services although the end result in terms of privatisation is usually the same.

Partnerships are not new. High rise flats mushroomed across Britain in the 1950s and 60s as construction companies made deals with local authorities, committed to getting rid of the slums, and encouraged by the Conservative government special housing subsidies for high rise prefabricated housing. In the 'modern' version, contractors and financiers are guaranteed repayment of their costs and also get to own and manage facilities, generate income from third party use, a 25-35 year repairs and maintenance contract, and the ability to negotiate which other support services they would like to provide. Local government has a history of collaboration with other organisations and joint ventures with the private sector. However, even outsourcing contracts are now rebranded as partnerships.

There are, broadly speaking, three types of partnership. Firstly, those between public organisations and agencies who work together on a project or tackle a common problem for which they have some level of responsibility. Secondly, between a public body and private firm or voluntary body to provide a specific service. Thirdly, a consortium of public, private and/or voluntary organisations to carry out regeneration and development.

PFI/PPP and strategic partnerships

Strategic service provider partnerships are likely to be the next wave of privatisation. They usually encompass ICT and related services resulting in the outsourcing of large numbers of so-called 'back-office' staff to a private contractor. They should not be confused with a Local Strategic Partnership (LSP), which is a citywide or sub-regional body to promote and co-ordinate regeneration.

Firstly, it is wrong to distinguish PFI from other elements of commercial involvement in public services. Strategic partnerships are also financed from public sector revenue budgets although usually less than 10% of the cost is related to capital investment.

Secondly, Service Delivery Partnerships frequently claim a distinction between 'back-office' support and frontline services, which is bogus.

Thirdly, Service Delivery Partnerships are usually for a shorter period of 10-15 years rather than 25-35 years. This work will only return in-house with difficulty, as the authority may well have lost the capacity to bid and provide services when the contract is concluded.

Finally, land, assets and the longer-term ownership of Britain's infrastructure is ultimately more important than the immediate funding mechanisms. PFI/PPP are also driving privatisation of the development process, integrating business into partnerships to run public services.

The government's approach to privatisation

The Treasury paper on Public Private Partnerships: The Government's Approach (2000) contains a section on privatisation in Part 2 (page 25). It concludes that *"overall, privatisation had beneficial effects, with productivity improved and the economy better able to respond to change, but the record varied significantly industry by industry."*

"At its best privatisation, when combined with competitive markets, led to the creation of world class companies, reduced costs and prices and improved services to the consumer."

The paper goes on to admit that the record in other services was more mixed, public assets were sold for less than their full value, prices have been higher than they should have been and whilst services have not achieved the required standard, many shareholders and managers have profited. "Many of these deficiencies can be traced back to the way privatisation was implemented." In other words, the government has no principled objection to marketisation and privatisation.

The link between PFI/PPP and the WTO General Agreement on Trade in Services (GATS) negotiations

The World Trade Organisation (WTO) is currently in the process negotiating an extension of the GATS agreement, which will extend marketisation, and privatisation of public services globally. The scale of PFI/PPP and other marketisation and privatisation policies in Britain means that the government is, in effect, implementing the GATS proposals in advance of a global agreement (see Section 9 for further details).

Vested interests

There is increasing evidence of a network of business and political interests, financing and promoting the rapid expansion of PFI and PPPs. Section 11 identifies the companies, which are financially committed to PFI/PPP projects and investors in Partnerships UK PLC (previously the Treasury Taskforce for PFI privatised in March 2001). Some of the same companies have financed the Institute for Public Policy Research (IPPR) Commission on PPP and are corporate funders of the New Local Government Network (NLGN), a lobby group of elected members, officers, academics and private contractors. Both organisations are right of centre advocates of PFI/PPP and privatisation, are financed by private contractors, and jointly published a report, which supported the government's position that it was neutral on who delivered services.

Important industrial and community action

There have been a number of important campaigns against PFI/PPP projects. Examples are the Dudley hospitals strike, similar action at University College Hospital, London and industrial action at Baglan hospital in Wales. The Haringey schools campaign failed to stop the PFI project, although the trade union did get a 25 year TUPE agreement with Jarvis and created an organisational base which played a key role preventing the outsourcing of LEA support services. The Pimlico school campaign stopped the rebuilding of a school and a luxury housing scheme. The school is being refurbished instead.

Section 2: **The Origins of PFI/PPPs**

Infrastructure investment in Britain declined dramatically after the 1973 oil crisis and International Monetary Fund intervention three years later. Both Labour and Conservative governments imposed substantive cuts in public sector capital spending programmes. Net public sector investment under the Labour government, £28.8bn (5.8 per cent of GDP) in 1974/75, more than halved by the end of the decade and plummeted to a mere 0.4 per cent of GDP in both 1988/89 and 1998/99. The decline in public sector investment in the last two decades occurred at the same time as the government had unprecedented privatisation receipts and North Sea Oil revenues.

By the mid 1980s a spate of studies by the Confederation of British Industry, the Federation of Civil Engineering Contractors, and the now defunct National Economic Development Council, had exposed the deteriorating state of the infrastructure and assessed the potential impact of further cuts in capital spending. The major contractors and construction industry bodies demanded increased government capital expenditure and relaxation of the External Financing Limits on nationalised industries and PSBR controls. There was little reference to the use of private finance.

The Conservative government doubled the road building programme to £12bn and proposed that additional road schemes could be built and operated by the private sector in 'corridors of opportunity'. The Treasury's Ryrie rules, which required a matching reduction in public funding in response to private funding of infrastructure projects, were relaxed in 1989. Some British companies were involved in some commercially unsuccessful private infrastructure projects overseas, but the Thatcher government insisted that privately financed schemes should not be subsidised. A number of private sector transport schemes including the rail link to the Channel Tunnel, a second Severn Bridge, a rail link to Heathrow and the Docklands Light Railway extension were developed at this time.

By 1990, with much of the basic transport and utility infrastructure either in private ownership or planned for privatisation, contractors were lukewarm over the prospect of private roads. They turned to other sectors such as hospitals, prisons and urban development where they believed they could obtain higher returns and access 'surplus' land and property for development.

The Private Finance Initiative was launched in November 1992, a financial mechanism to obtain private finance which could satisfy the political need to increase investment in the infrastructure without affecting public borrowing, guarantee large contracts for construction companies and create new investment opportunities for finance capital. Most politicians had a short-term perspective, but capital was looking longer term. The 'crisis' in the flow of PFI projects between 1995-97 was partly caused by demands for state financial guarantees and partly because PFI consortia were flexing their muscles to ensure contracts reflected their interests. In one sense, PFI was a natural progression given the Conservative's privatisation and economic policies in the 1980s. The privatisation 'machine' was never going to stop, at least not of its own accord. PFI is privatisation by stealth, privatising those parts, which could not, at least politically, be sold-off as complete services. It is the route to the ultimate marketisation and privatisation of health, education and social services.

"Taxpayers no longer need to own hospital buildings" claimed the Treasury (Private Finance Panel, 1996 p7).

Section 3: **The basics of PFI/PPP**

This section summarises the basic elements of PFI/PPP projects. Many of the issues are examined in more detail later in the text. There are various types of PFI/PPP but the most common in Britain requires the private sector to Design, Build, Finance and Operate (DBFO) facilities, usually for 25 - 35 years (7-15 years for equipment). The private sector finances construction and is repaid by the state, in regular payments, for the use of the buildings and services provided under a facilities management contract. Payments are classified as revenue, not capital, and thus do not count against public borrowing and does not commence until the building is completed. It therefore has enormous short-term political appeal.

Design, Build, Finance and Operate

The private sector will design, build, finance and operate facilities for the length of the contract after which the building may be transferred to the public sector (but see below). There is increasing pressure for two other types of PFI/PPP schemes - Design, Build and Finance (DBF) schemes (which exclude operational services) and Design, Build and Operate (DBO) schemes (which rely on public rather than private funding).

Hard and soft facilities management

Facilities management in PFI/PPP is usually divided into hard and soft services. The 'hard' services are those such as repairs and maintenance which are directly connected to the asset, its availability and therefore to the payment mechanism. These services are always an integral part of the PFI/PPP project and will be carried out by the private contractor. 'Soft' services are support services such as cleaning, grounds maintenance, reception and catering that are not directly connected to the availability of the asset. There is scope for these services to be retained by public sector in-house services. For example, the Stoke on Trent schools and Blackburn Hospital PFI projects both excluded certain support staff on the grounds that they were good quality services, proved by benchmarking, and were likely to keep on improving. The private sector wants to widen the scope of services covered by PFI/PPP contracts. Services should be excluded before the OJEC Notice is issued rather than being part of a variant bid for which the private sector will submit proposals.

The exclusion of some services does not alter the long-term fundamental objections to PFI/PPP, nor does it reduce the privatisation of Britain's infrastructure. The promotion of Design, Build, and Finance (DBF) schemes is not a real alternative because the private sector will still operate building repair and maintenance services although they would deliver fewer support services.

Risk transfer

Building and operating a public building entails a number of risks, such as the risk of construction cost overruns, higher than expected maintenance costs, changes in legislation affecting how the building is used, increases or decreases in demand for the services provided and so on. The public sector has traditionally accommodated these risks. Under PFI/PPP risks have to be specified, quantified and apportioned to the client or contractor with the majority transferred to the private sector (see Section 5).

Value for money

The Treasury insists that PFI/PPP must provide 'value for money', which means that the estimated cost over the life of the contract (calculated at Net Present Value by assessing future costs at today's prices) should be lower than the notional cost of traditional procurement using a Public Sector Comparator.

Buying a service, not an asset

Private finance is presented as an alternative form of procurement by converting the payment of debt incurred in obtaining assets into revenue payments as a payment for services. Although the government is keen to stress the 'buying a service' approach, frequently only the capital value of PFI/PPP projects is cited rather than the much larger combined capital and operating costs. For example, one London Borough of Haringey secondary schools project is a £87m capital project but the total PFI payment is £233m over 25 years. Similarly, the South Buckinghamshire NHS Trust's £45m new hospital will in fact require a total payment of £244.7m to United Healthcare over 30 years.

Whole life asset performance

PFI/PPP projects are supposedly costed and priced on the basis of the suitability and sustainability of the initial design and construction, the long-term maintenance, management and operation of the building together with continuous improvement of services over the length of the contract.

Performance-related reward

The minimum payment to a PFI/PPP contractor must not exceed 80% of the total payment, in other words, part of the unitary charge is a performance related payment, depending on the contractor achieving standards set out in the output specification and targets established for continuous improvement.

Private finance, off balance sheet

When public bodies borrow to finance investment, the money borrowed is counted as adding to the public sector borrowing requirement and appears in the government's accounts and financial statistics. If the private sector borrows the same amount of money to finance the same investment it does not appear in the public accounts even though the public body enters a long-term contractual commitment to repay the private sector from its revenue budget. This is called off-balance sheet financing. Off-balance sheet financing is 'justified' if sufficient risk is transferred to the private sector.

Bankability

PFI/PPP must show evidence of 'bankability', which is PFI jargon for commercial interest, the certainty of an income stream and a willingness to consider all opportunities for generation of revenues from the sale of assets or third party use of facilities and services.

Output specification

The specification states the required outputs and performance standards leaving the private sector to design and operate services.

PFI/PPP projects are run by a consortia of companies, which usually set up a 'special purpose vehicle' company to run the project

Consortia usually consist of a construction company, financial institutions such as banks, a facilities management company (and subcontractors), architects (and a Registered Social Landlord in housing projects).

Advisers and consultants

Each organisation involved in PFI projects - the public body, members of the PFI consortia, tenants or user organisations - have their own legal, financial and other advisers which is an additional cost for PFI projects (see below).

Long-term contracts

Contracts are usually between 25 - 35 years for facilities or 7-12 years for IT, vehicles and equipment.

Consortia make proposals

The negotiated EU procurement process allows PFI consortia to make their own proposals for what may be included or excluded from the contract. In addition, authorities often change the scope of the contract by adding or subtracting responsibilities, developing additional sites, or withdrawing them because of policy changes or the non-availability of land.

Section 4: **The claimed rationale for PFI/PPP**

How the government justifies PFI/PPPs

The government admits that private sector borrowing is more costly but claims that PFI/PPPs more than compensate by providing better value for money because:

* The private sector is more innovative in design, construction, maintenance and operation over the life of the contract.

* It creates greater efficiencies and synergies between design and operation. It is claimed that PFI/PPPs result in better services, better value for money and efficiency savings.

* It invests in the quality of the asset to improve long-term maintenance and operating costs.

* The discipline of the market place ensure that the private sector manages risk better (Treasury, 2000).

It is also claimed that the government is using private capital as an addition to public investment "to close the all-too-clear gap that exists between the quality of our public sector buildings and facilities and those of the private sector" (Milburn, 1999). These claims are challenged below.

PFI/PPP projects do not bring any extra investment because irrespective of how hospitals, schools and other facilities are funded, they have to be paid for by taxpayers. It is a myth that PFI/PPP is additional investment, for example, 85% of the funds for major NHS capital projects since 1997 have come from the private sector via PFI/PPP schemes (but is ultimately paid by the public sector).

The ideological support for PFI/PPP

Leaving aside the economic and political arguments, the promotion of PFI and PPP has gone beyond the immediate 'its the *only* show in town' and whilst tight Treasury control of public spending forces the public sector into using private finance, a new ideology has emerged to justify this policy. PFI/PPP is now claimed to be 'the *best* show in town'!

It is important to understand the ideology underpinning PFI/PPP. There are six core elements.

1. 'Public services can and should be delivered by the private sector'

The growth in marketisation and privatisation will enable private companies to increase their control and influence in policy development and the decision making process. They will also be in an increasingly stronger position, both financially and politically, to launch their own privatised services which could cause a spiral of decline in public service provision as private services replace public provision for the middle classes and public provision is 'targeted' at the less affluent working class and the poor. An example of this is council housing. The best quality housing has been sold off through the right to buy, new council house building has stopped and public resources are channelled into housing associations. Council housing now primarily caters for the young and elderly, hence Labour's privatisation programme to terminate the tenure (see Section 10).

2. 'Private management is always more efficient'

There is little evidence to support this claim. There is good and bad management in both the public and private sectors. The belief in the superiority of private sector management serves another purpose for the advocates of PFI/PPP, because it supports the case for competition, provides a basis for criticising public sector performance and justifies central government intervention in the affairs of local government. For example, the DfEE is forcing some local authorities to outsource LEA functions and bring in private sector management. The irony is that many of these managers once worked for local authorities.

Labour's Manifesto (2001) calls for a 'spirit of enterprise', but this is a commercial model in the context of PFI/PPP. A 'spirit of enterprise' is meaningless to public sector workers when the government will not make a clear commitment to public service management. 'Neutrality' and 'what works is what matters' are fundamentally incompatible with modernising from within (see chapter 9 for an outline of a new public service management).

3. 'It makes sense to separate purchasers and providers'

The government is wedded to the idea that it is beneficial to separate strategic policy making from the provision or delivery of services. This is the old mantra of splitting public policy down the middle - separating purchaser-provider or client-contractor. For example, the NHS can remain comprehensive and universal, free at the point of use, but health care can be delivered by a diversity of providers. Advocates of this position also claim that the dividing line between public and private domains is arbitrary, and that "the public sector working in isolation could not achieve the type of outcomes that citizens want" (The Guardian, 21 March 2001). This position ignores the economic reality that the more that the private sector does provide, the more it wants to provide. Increased control of public provision provides the economic power to expand private services, which then undermine the principal of a comprehensive and universal service. A diversity of providers will not necessarily lead to improved public services.

The IPPR claim that the Blair government has "failed to build a new account of the relationship between social ends, public spending, public service and private enterprise" (The Guardian, 21 March 2001). The IPPR claims that public services need to "buy-in from parents, patients, carers and neighbours if they are to deliver real social benefit" (The Guardian, 21 March 2001). They also suggest that users should have a stronger role in commissioning which "could mean communities themselves delivering or co-owning public services". This is called reinventing the wheel.

4. 'Fair and open competition between rival providers'

The advocates of PFI/PPP believe that competition is the most effective way of obtaining public services and they believe that competition between rival providers maximises innovation and efficiency. This view ignores the fact that competition is virtually always primarily on financial grounds resulting in cuts in services and jobs and it has high transaction costs consuming resources which could be used to improve services. It is a myth that the benefits of competition are always greater than the transaction costs (see The National Cost and Benefits of CCT, Centre for Public Services, 1995).

There is no evidence that competition automatically leads to innovation and efficiency. These will always be secondary to the private sector's need to make a profit and to protect the interests of shareholders. Furthermore, competition between public and private sectors is not on a level playing field because of their different values and operating systems. The negotiated procurement process for PFI/PPP also means that private interests, protected by the cloak of 'commercial confidentiality', are prioritised over social need and public interest (see chapters 6 and 8, Public Services or Corporate Welfare).

Competition and marketisation also provide opportunities for business to advocate privatisation, promote policies, which reinforce vested interests, become more proactive in making project proposals and become more powerful in the procurement process.

5. 'Focus on outputs, not inputs'

The switch to focus on outputs and outcomes (not inputs), means that the risks of delivering outputs are transferred to the private sector, for example, "the government no longer needs to build roads because it can purchase miles of maintained highway" (ibid). 'Outcomes, not ownership' is the new mantra, thus freeing public services from "the straight jacket of monopoly control" (Milburn).

6. 'It does not matter who provides the service'

This is at the root of Labour's 'Third Way' and is only sustainable if one believes that public services can and should be privately delivered, that private sector management is superior to that in the public sector, that government should only purchase services, that a separation between strategic policy and provision is beneficial, that competition is the best way of achieving efficiency, that the ways services are delivered is irrelevant and all that matters is the quality of the final product.

The right wing backlash claim

A further ideological dimension is the claim that Labour must wholeheartedly embrace PFI/PPP in order to 'save' the public sector.

The IPPR has claimed that it is essential to enforce diversity (privatisation) across the public sector because in five years time, if state financed and delivered public services have not improved and are then considered to be failing, there would be a right wing backlash, which could mean the end of universal public services. They would be lost forever. The IPPR also argue that PPPs may form a new coalition of support for adequate public spending between non-public providers and public sector commissioner (Guardian 21 March 2001). Surely this is little more than one political party using the policies of another to shield their own privatisation programme?

The 'saving the public sector' thesis is built on a number of assumptions:

- That public services can be partially privatise, that there is a halfway point in privatisation, and that this new 'mixed economy' or 'diversity of providers' is feasible and sustainable.
- That private sector management and provision of public services is claimed not to constitute privatisation because assets will be returned to the public sector.

- That private finance, ownership and operation of the welfare state infrastructure will not lead to service and financial failures. There is no evidence that a mixture of public-private provision will produce any additional improvement in five years time.

- Finally, it ignores the *current* backlash against privatisation, for example, public support to re-nationalise Railtrack, and government acceptance that competition and private hospital cleaning has led to dirty hospitals.

The proposition that 'partial' privatisation is a feasible strategy to block 'full' privatisation in five years time is untenable. It ignores the fact that business constantly wants a larger share of public service 'markets' and some form of halfway position will be used to drive ever-wider marketisation and privatisation across the public sector.

New approach to privatisation

A new twist to PFI/PPP is being promoted by the IPPR and others such as the Office of Health Economics. They argue that that since many PFI projects offer only marginal value for money gains without innovation in design and service configuration, public funding should replace private capital. Projects should become Design, Build and Operate (DBO).

Taking the dogma out of PFI/PPP

The focus on the practical, efficiency and value for money of PFI/PPP projects is a trap. The advocates of PFI/PPP need to narrow the debate as much as possible to exclude discussion about principles, ideology and political beliefs. They want to confine the debate to the 'business' of how services are provided, in effect depoliticising public services. This side steps crucial issues about democratic accountability, the limitations of government by contract, social need and service quality.

Equally significantly, they want to limit debate to the here and now to avoid disclosure about the longer-term consequences of PFI/PPP. This would raise fundamental questions about what happens to public services when they are increasingly provided by transnational companies and the private sector gains monopoly control. They will cease to be public services except in name only. We are encouraged to think that this is 'progress' towards an enabling model of the state but the reality is starkly different. Marketisation and privatisation could result in a corporate state model by 2020 (see chapter 7 of Public Services or Corporate Welfare).

Labour moves the goal posts

The case for PFI/PPP has shifted from a financial justification to one where the value for money argument is paramount, coupled with the belief that the private sector is superior to the public sector in terms of management, expertise, efficiency and quality. Both the National Audit Office report (NAO, 1999) and the Andersen report for the Treasury Taskforce (Arthur Andersen, 2000) stress the importance of a claimed average 17% efficiency savings. Although the Treasury continues its fiscal stringency to ensure that PFI is the prime way to finance capital schemes, the government considers PFI/PPP projects are an essential part of the modernising public services agenda.

Section 5: **What labour did for PFI/PPPs**

Whilst Labour spending plans increased public sector capital expenditure from £3.3bn in 1998/99 to £8.7bn in 2001/02 (at 1997/98 prices), this is still only one per cent of GDP and totally inadequate to meet the huge infrastructure backlog (for example, NHS £2.6bn and council housing £10bn repairs). The extent of the privatisation of Britain's infrastructure is highlighted in Table 1 showing that a large part of the transport, energy and utilities and communications infrastructure is owned and operated by the private sector and was largely privatised by 1997 when Labour came into power. This left the social and welfare state, defence and criminal justice system infrastructure in the public sector, which have subsequently become prime targets for privatisation. The Labour government has systematically driven PFI/PPP into the remaining parts of the public sector.

Table 1: Infrastructure privatisation in Britain

Privatisation Completed			**Privatisation Agenda 2000+**		
Transport	Energy and Utilities	Communications	Social Infrastructure of welfare state	Defence and security	Criminal Justice system
Railways Airports Ports Bus services Rapid transit Roads	Electricity Oil and gas Water & sewage Waste management Coal mining	British Telecom Cable & Wireless TV transmitters	Hospitals Schools Council housing Residential Homes Libraries Govt. offices Sports & recreation IT systems Regeneration Econ. Development	Equipment IT systems Barracks Training Fire	Prisons Police stations & HQ Magistrates & Crown Courts IT & communication systems Fleet management Detention centres

The new Labour government acted quickly in 1997, setting up and implementing the Bates Review, which recommended streamlining the PFI/PPP process. They also rushed through legislation to clarify the powers of NHS Trusts and local authorities to enter into PFI agreements and guarantee financial payments over the life of the contract, irrespective of public expenditure. In other words, PFI contract payments are ringfenced. They also established new processing and prioritising procedures for PFI/PPP projects in all government departments together with project teams and removed the requirement that all public sector capital projects be tested for private finance potential. This ensured that only 'bankable' projects were prioritised. PFI was heavily promoted in local government, which had lagged well behind other sectors. The Labour government appears to have a better understanding of the needs of business than the right wing ideologies of the previous administration!

Net public infrastructure investment is planned to increase to £19 billion per annum by 2003/04, representing 1.8 per cent of GDP. However, a further £21 billion of PFI deals are expected to be signed in the same period. By late 2000, nearly 350 PFI projects had been signed with a capital value of £25 billion. A further 227 projects were at an advanced stage. The welfare state infrastructure accounted for 19 per cent of the value of projects.

However, this is a misleading indicator of the scale of PFI projects because it excludes projects, which have been centrally, approved but not signed and those, which have been advertised following a local decision to proceed.

Table 2 – Sector Analysis of PFI projects in Britain				
	Value of signed projects (£m)	**Value of projects with preferred partner (£m)**	**Value of projects with shortlist (£m)**	**Total**
Welfare State	4,654	1,466	925	7,045
Transport and environment	11,628	757	647	13,032
Criminal Justice	1,410	481	101	1,992
Defence	4,747	509	5,813	11,069
Other	2,653	741	40	3,434
Total	**25,092**	**3,954**	**7,526**	**36,572**

Source: *The PFI Report*, October 2000

Extending PFI/PPP to community services

National level
Major infrastructure projects
Transport
Criminal justice system

↓

City level
Medium sized infrastructure projects
Hospitals
Schools

↓

Community level
Local services
Primary care – surgeries and health centres
Regeneration projects
Local services – strategic service delivery partnerships
Council housing estates

Section 6: **25 reasons to oppose PFI/PPP**

This section provides evidence and detailed arguments which represent the case against PFI/PPP organised under 25 headings.

1. Reconfiguring services - PFI/PPP affects all staff and services

The government emphasises that PFI/PPPs are contracts for services, not buildings, which makes the distinction between support services (such as building maintenance, cleaning, catering, transport and other related services and core services such as teaching and medical treatment) divisive and unsustainable in the longer term. Capital expenditure forms on average just 22% of the total cost of PFI projects (Andersen/LSE, 2000).

State withdrawal from ownership and management of the infrastructure has profound implications for core services. PFI/PPP consortia will eventually include private companies bidding to manage schools and local education authorities or private healthcare companies.

PFI/PPPs create artificial divisions between core and support services, for example, dividing health and education teams both between white collar and manual services and between core services and supplementary activities. Partnership consortia have an economic interest in the performance of the core service within their building. For example, a PFI/PPP consortia has a direct interest in a school's educational performance, in maintaining pupil numbers and ensuring its popularity is translated into maximising income generation from community and business use of the facilities. Conflict and tension will exist between partnership and non-partnership schools over the quality of teachers, which schools are allocated resources for new or special projects and the distribution of any future budget cuts between schools and services. Consortia will, therefore, want to ensure that they have the best teachers and minimum disruption to the running of 'the business'.

Once the private sector controls the operational management of facilities they will be in a powerful position to influence service delivery policies. It makes nonsense of the team approach, integrated services and joined-up government to which almost everyone has been striving for years.

The current division between core and non-core services is unlikely to be sustainable. The concept of the public sector continuing to provide core staff and buying space in an increasing number of privately managed and operated is not credible. PFI/PPP consortia are also likely to want to expand the range of services provided. They are likely to make LEAs and Governing Bodies 'offers' regarding support services and additional teaching which will widen in scope (Whitfield, 1999). Facilities management contracts are re-tendered every five to seven years to give consortia a degree of 'financial flexibility', an opportunity to impose substantial changes in the labour process and provide a 'PFI/PPP valve' to relieve financial pressure.

The case for PFI has, in part, been justified on a division between core (teaching, clinical services) and non-core services such as facilities management. This was always fraudulent because a division cannot be made in practice. The government is currently negotiating with private health companies who want complete control of the 26 new NHS fast track diagnosis and surgery centres employing doctors, nurses and all clinical and non-clinical services. This finally exposes the lie that PFI is limited to the provision of buildings and related services. PFI is privatisation by stealth, privatising those parts, which could not, at least politically, be sold off as complete services. It is the route to the ultimate marketisation and privatisation of health, education and social services.

Private sector takeover of 'failing' services and/or authorities results in commercial values being embedded in the public sector, leading to a spiral of decline and privatisation. A two-tier public/private system will develop with the public sector increasingly marginalised and residualised. Despite the development of super-hospitals, twelve of the fourteen first wave PFI/PPP projects had an average 32 per cent reduction in staffed acute beds in the 1996-97 period.

Evidence of moves to include core services:

- The Welsh Assembly blocked a bid by the Conwy and Denbighshire Health Trust in March 2001 to include 23 renal nurses and ward clerks in a PFI project for a new renal and diabetic unit at Glan Clwyd District General hospital. The Trust and the North Wales Health Authority had approved the full business case. Staff would have transferred to Fresenius Medical Care had the move not been blocked.

- The government is holding discussions with the private sector over the possible private management and operation of the new NHS fast track centres.

- The Department of Health has established a joint venture company, NHS Local Improvement Finance Trust (NHS LIFT) with Partnerships UK PLC (see Section 11) to finance primary care facilities. The DoH will invest £175m in the company over the next four years with matching equity from Partnerships UK. It will own and lease local health facilities, premises for GPs, dentists and chemists and will initially concentrate in inner city areas. It will extend the principle of PFI/PPP to community facilities. "NHS LIFT is a catalyst for change with the aim of stimulating long term interest amongst a wide range of investors" (DoH website).

- The outsourcing of LEAs, City Academies and the takeover of 'failing' schools by private contractors is likely to lead to private companies employing all school staff, including teachers.

2. PFI/PPPs are often more expensive than publicly financed projects

The government can borrow at lower rates of interest than the private sector. A sample of PFI schemes (excluding NHS projects) concluded that the current weighted average cost of private sector capital on PFI projects is 1-3 percentage points higher than public sector borrowing (Andersen/LSE, 2000).

- PFI increases the cost of hospital building. Total project costs (construction and financing costs in a sample of hospital projects were between 18-60 per cent higher than the construction costs alone (for example, North Durham 60.6% higher, Norfolk 49.1%, Bromley 35.8% and Greenwich 30.8%.

- PFI/PPP availability costs (in effect the repayment of financing and construction costs) were between 11.2 - 18.5 per cent of the construction costs in contrast to 3.0-3.5 per cent annual interest on publicly financed projects.

The government claims that the private sector "can compensate for the higher cost of borrowing" by being more innovative in the design, construction, maintenance and operation over the life of a contract by avoiding "costly over-specification in design"; create greater efficiencies and synergies between design and operation; invest in the quality of the asset to reduce maintenance costs; and to "manage risk better" (Treasury, 2000).

3. Escalating project costs

Escalating costs are a common feature of PFI/PPPs, for example, Birmingham City Councils schools project rose from £20m for eight schools to £65m (rising to £70m in 2000) for ten schools prior to selecting a preferred bidder (ADLO, 1999). The first 14 NHS projects had an average 69 per cent cost increase between the Outline Business Case and early 1999.

- The cost of the new Worcester Royal Infirmary increased 118%, rising from £49m in 1996 to £108m in 1999 (Pollock et al, 2000). This was partly due to an increase in beds from 380 to 452 but £29.9m were probably attributable to 'financing costs'.

4. Whose value for money?

The Andersen/LSE study claimed that the average saving for PFI, measured against the public sector comparator, was 17% based on projects operational by late 1999. However, this was not a technical sample because it was made up of PFI projects submitted by civil servants and excluded all NHS PFI projects.

Other evidence suggests that the value for money claims are much smaller:

* The first PFI school project, Colfax School in Dorset, was only about 2% less than the public sector comparator.

* The Dartford and Gravesham Hospital is expected to cost a mere 2.8% less than the public sector comparator (NAO, 1999), the Carlisle hospital indicated a 1% saving (Gaffney et al, 1999) and the North Durham hospital Full Business Case indicated a nil saving as the PFI and public sector comparator costs were the same (Gaffney and Pollock, 1999).

5. PFI projects commit future governments to a stream of payments

PFI contracts commit public bodies to revenue payments for 25-35 years.

By 1999, future commitments for PFI projects totalled £83.8bn up to 2026 (Budget Red Book, 1999). However, they only represent signed PFI/PPP deals and are only relevant if there is an immediate cessation of all prospective deals. Signed deals are a tiny fraction of projects under development and, assuming no policy changes and no change in the speed of approvals, a new stream of projects will develop annually between now and 2026. The financial commitment is more likely to be £415bn, arrived at by assuming that the rate of project approvals in the 1997-99 period continues until 2026.

The cumulative impact of PFI/PPP revenue payments will mean future governments may have to raise taxes, impose charges for services which are currently free, reduce borrowing to finance remaining public services or cut spending in non-PFI/PPP services. "The future cash outflows under PFI/PPP contracts are analogous to future debt service requirements under the national debt, and, potentially, more onerous since they commit the public sector to procuring a specified service over a long period of time when it may well have changed its views on how or whether to provide certain core services of the welfare state" (Financial Times, 17 July 1997).

The true cost of individual PFI/PPPs will not be known for 25-35 years when the first contracts terminate. Then all social welfare costs and benefits can be fully assessed. Government and business interests appear very concerned about the intergenerational burden of social policy commitments yet sign up to PFI/PPP projects with little regard for the longer-term public cost of PFI/PPPs.

There is no indication that PFI/PPPs are a temporary fix, indeed, quite the opposite as they are now embedded in third way ideology and government programmes. Those who use the logic of capitalism to claim that the state should not own facilities but simply finance and provide services are being economical with their analysis. The concept of the private sector owning and managing the infrastructure but stopping short of providing core services is untenable. PFI/PPPs are merely a half way position between public ownership and the total privatisation of health, education and social services. The concept of *joint venture* is not applicable because there is no pooling of resources - the public body withdraws from property and facilities management merely paying usage and service fees as a lessee to repay the private sector's construction and operating costs.

This leaves a smaller proportion of budgets to deal with other non-PFI/PPP services thus limiting an authority's ability to respond to changing social needs and urgent priorities.

6. Affordability gap - cuts in other services

- Increased revenue payments committed to PFI projects frequently mean cuts in other services
- Dartford example where three hospitals were closed to provide for the PFI hospital and after the new hospital opened the NHS Trust plans to close a community hospital
- Impact on corporate spending priorities
- The OBC for the Wakefield street lighting project showed a £729,000 increase in the annual street lighting budget (£18.2m over 25 years), a 35.3% increase on current expenditure.

7. PFI is subsidised by government

Local government PFI/PPPs receive revenue support subsidy in the same way as if they were publicly financed projects - £800m per annum is allocated up to 2001/02. The NHS effectively subsidises PFI/PPP schemes through three mechanisms - capital charges (paying the same for a reduced asset base), the capital support scheme and diverting block capital funding to PFI/PPP schemes. Ten of the first wave NHS projects receive an annual subsidy of £7.3m because of 'affordability' problems (Gaffney and Pollock, 1999). Accountants Chantrey Vellacott have estimated that the private sector's higher cost of borrowing costs the public sector an extra £50m for every net £1bn of PFI contracts (Chantrey Vellacott, 1999). They also noted that an extra £10bn public sector three-year capital spending 1999-2002 would still leave the public finances well within the Maastricht convergence criteria.

The Scottish Executive is providing £13.8m per annum for the first seven years, increasing to £16.1m for the remainder of the Glasgow schools 29-year PFI contract, representing a third of the unitary payment for the use of the schools.

The Dorset Police Authority (Western Division) PFI project was approved by the Home Office in May 1998 with a PFI credit of £12.4m. Five months later it had increased to £24.2m.

8. High transaction costs

Because each party has a battery of legal, financial, management and other advisers and consultants, fees are substantially greater than those incurred in market testing. Any disputes during a 25-year contract are likely to bring in another flurry of invoices from advisers.

> * The adviser's costs of the first fifteen NHS PFI hospitals were £45.2m, which consisted of £20.4m fees for lawyers, £14.6m for financial advisers and £10.2m for management consultants and other advisers. Adviser's fees represented between 2.4% and 8.7% of the capital cost of the projects (Hansard, Written Answer, 28 February, 2000).
>
> * The Home Office alone spent £5.3m on legal and accountancy fees between May 1997 and March 2001 for PFI schemes in the Prison Service and various IT projects (Hansard, Written Answer, 23 March 2001).
>
> * The cost of public sector staff time in developing PFI projects and the cost of the procurement process is rarely taken into account. This means the actual transaction costs are substantially higher.

9. Public sector comparator flawed

The purpose of the Public Sector Comparator (PSC) is to provide a benchmark to assess the potential value for money offered by a PFI project. It is open to manipulation because PFI project teams want to 'prove' value for money and can do so by exaggerating innovation and benefits of a PFI option (and also ignoring the problems experienced by current PFI schemes) whilst assuming limited scope for innovation and efficiency improvements in the public sector. They also frequently underestimate the full cost of the PFI option. Costings are included without evidence to support them. Not surprisingly, the PSC regularly shows PFI projects to provide value for money. The public sector comparator has been described as 'an invention', 'artificial' and 'biased' (Sussex, 2001).

However, it should be emphasised that until the Treasury change the regulations to permit a full and comprehensive social, economic and environmental audit of public and private options, the PSC will remain a partial and ineffective method of assessment.

The difference between the public sector and PFI costs may be marginal and could be reversed with a small alteration to the financial estimates.

* The PSC often assumes a worst-case scenario for the public sector cost calculations, for example, in estimating possible construction cost overruns and delays.

* The savings assumptions in the OBC spreadsheet may be inflated. For example, the Outline Business Case for the Wakefield street lighting project included 'PFI savings" in four parts of the costings - the capital costs at 15% (or £2.4m over 5 years), ongoing capital costs of 15% (or £2.5m over 20 years), operating costs at 15% (or £3.8m over 25 years) and energy costs at 7.5% (or £1.45m over 25 years). The total PFI savings built into the PFI model were £10.15m, yet the difference between the PFI and PSC costs on a net present value basis was only £680,000. Minor adjustments to the costings would fail to prove value for money.

* The PSC may include cost estimates for risks, which are not actually transferred in a PFI contract. For example, the PSC for the Cumberland Infirmary PFI project in Carlisle included nearly £5m to pay for the risk of clinical savings targets not being met and £2.5m included for medical litigation. Neither risks were transferred but the net present cost of the public sector option was inflated by £7.2m (The Only Game in Town, UNISON, 1999).

* The PSC may also inflate the cost of risks transferred to the private sector.

* Failure to show savings required under Best value in the public sector comparator.

* Inflating the financial benefits of risk transfer.

* Under-estimating the cost of PFI advisers whilst assuming services will be subjected to frequent marketing testing in the PSC model at inflated costs.

* Under-estimating PFI monitoring costs and/or showing higher costs under the PSC model.

* Assuming ambitious supplementary income streams from advertising or third party use for PFI project, whilst not taking account of similar potential income under a public sector option.

10. Privatising the development process: selling land and assets

Gaining control of surplus land and buildings (such as school playing fields, vacant land, empty hospital buildings and so on) for property development is a key part of PFI/PPP projects for the private sector. They often provide an important source of finance and profit, and ensure that surplus public assets are sold for private development.

Land and property deals are a fundamental part of PFI/PPP projects enabling consortia to develop ‘surplus’ land and building for commercial and residential use, but it may take several years for the value of these assets to be realised. Ownership of key development sites adjacent to new highways, airports and ports (particularly in developing countries) will increase the influence of transnationals in economic policy and direct foreign investment.

Some PFI/PPP hospital developments have changed from a mix of refurbishment and new build on existing sites to large new complexes on out of town greenfield sites. Their physical form and financial commitments can distort health care planning. Patients and staff are forced to bear the additional travel costs and government has to finance road improvement, traffic and transport changes.

PFI/PPPs are not simply the replacement of public by private finance, but they ensure the privatisation of the development process, operational management, the disposal of surplus land and property, and in some cases, additional development generated by the initial investment. In fact, business is a vehicle for the longer-term privatisation of the core services of the welfare state. Supplying and managing the infrastructure on behalf of the state avoids having to create a private sector market in which individuals pay private insurance and fees. PFI/PPPs are a means of finance capital extracting higher returns from public services than they normally would by providing private capital in place of government borrowing and ‘contract capital’ ie transnational service companies and consultants securing long term contracts. They redefine ‘public service’ because they can remain publicly financed but privately delivered in privately managed buildings.

11. Transforming the funding of capital expenditure

Local authority PFI schemes receive the same subsidy as public sector capital schemes via the Revenue Support Grant, controlled by central government PFI credits for approved projects. PFI credits were increased from £250m in 1997/98 to £800m in 1999/00.

Since the 1990, health service reforms, capital spending has been financed internally by NHS trusts having to make an annual surplus of income over expenditure equal to 6 per cent of the value of their assets (buildings and equipment) and to make a charge for depreciation through capital charges.

Capital spending is heavily dependent on NHS trusts including capital charges in prices charged to purchasers, receipts from property and land sales, and NHS trust efficiency savings.

Before PFI/PPPs, public bodies planned and designed infrastructure projects, raised finance, supervised construction and then operated the facilities. The private sector were usually involved in the design and construction phases. However, financial and construction markets require PFI/PPPs to compete with other investment opportunities, and as the state becomes increasingly reliant (captive) on PFI/PPP projects, markets are likely to force up the cost of borrowing, construction and related costs. Furthermore, market forces will extend throughout the entire infrastructure procurement process. At the next economic crisis, public sector capital spending will again be cut and reliance on PFI/PPPs will be further embedded.

12. Changing nature of risk

The public sector has always borne the risk of facilities requiring adaptation, as service needs change, of reletting or changing the use of buildings. There are many different types of risk such as construction risk (completing new buildings on time), design risk (the way buildings are used may change), and technological risk (information and communications technology will effect how services are delivered and buildings used). The management of risk has become a profitable industry by packaging or commodifying different types of risk and creating new insurance markets. Partnership projects require the transfer of risk from the public to the private sector (at a cost of course) although the Hatfield rail crash highlighted the reality that the state always bears ultimate responsibility and that risk will never be fully transferred.

The accommodation or transfer of risk has become a central feature both for those who wish to maintain collective risk through universal public provision, and for the marketisers, who want to transfer certain risk, at a suitable cost, from the public to the private sector.

The public sector has always borne the risk that public investment in new schools and hospitals will be adequate for the required level of future demand. Training adequate numbers of teachers and medical staff is another risk undertaken by the state. There are different types of risk such as design and construction risk (overrunning construction costs, adequate space and facilities), operational risk (escalating repair and maintenance costs), financial risk (failure to achieve rent, user fee or toll income targets, fluctuations in foreign exchange and interests rates); technological risk (equipment becomes redundant faster than expected), and residual value risk (value of the building at the end of the contract).

Risk transfer involves identifying the different types of risk, allocating legal responsibility and pricing each element so that it can be recharged to the public sector. Risk is highest in the early years of a infrastructure project but decreases over time so that the later years provide continuous cash flows with declining risk. This is in sharp contrast to most industrial investment where product obsolescence and competition from other firms increases as a product ages.

But, ‘risk’ has been commodified (made into a commercial product) so that it can be identified, priced and responsibility can be legally attributed. Long-term deals are currently being signed on a static concept of risk transfer. However, the nature of risk will change as the private sector gains increasing control of the infrastructure, delivery of support services and will be able to strongly influence (if not control) the supply chains of users, the growth of private services in ‘public’ facilities and third party use of spare capacity. Risk is identified, quantified, attributed and priced. In other words it is monetised.

13. Lack of democratic accountability

The accountability of partnerships is a major issue. Companies and private non-profit organisations are generally accountable only to shareholders and directors respectively. Partnership often involves a dilution and merging of public, private and voluntary interests. Whilst a public body will have to maintain a commitment to matters of public interest, a partnership reflects negotiation and accommodation of different and competing interests. Some partnerships focus on the private and voluntary participants supporting the local authority or health authority to achieve its objectives. Partnership by desire is being replaced by partnership by necessity; “an ideology of partnership which seeks to direct important sectors of a capitalist economy collectively - in the public interest - but through privatised means” (Sternberg, 1993, p239). The concept of partnership implies that the state and capital are jointly concerned with the public interest and that either side can ensure that the other delivers its contribution.

Partnerships are sealed by contracts with companies, not committees. Most partnerships are cloaked in secrecy with limited democratic accountability. The state and private contractors collude to protect intellectual property rights using ‘commercial confidentiality’ to minimise disclosure, participation, assessment of deals and public accountability. In this context, partnership is little more than negotiated privatisation.

At the same time as the state is shedding its responsibility to individuals (and to public sector workers) it is also intensifying its commitment to financial and service capital with long term multi-million pound PFI contracts.

Democratic accountability is weakened by:

- The process of developing PFI projects, particularly in the procurement process.
- The disclosure of information with use of 'commercial confidentiality' used to limit the release of information and to constrain any representatives consulted.
- The accountability of advisers is limited.
- Partnership boards usually have a few hand picked elected members and officers, together with private sector representatives (and sometimes independent representatives) which frequently operate as a cabinet committee and bound by commercial confidentiality.
- Negotiations between a preferred bidder and the authority are secretive behind closed doors
- Reliance on a contract to implement responsibilities, which are open to challenge and high legal costs of disputes. The experience of compulsory competitive tendering in local government, market testing in the civil service and the NHS and the large central government ICT PFI contracts show that a contract is no guarantor of service delivery, let alone democratic accountability.
- Accountability of the project once it is operational is minimal

14. Service failures

The performance of the major computing PFI/PPPs has been less than successful. The catalogue of failures and cost overruns is summarised in Table 3. This provides evidence of project delays, cost overruns, service failures and a failure to transfer risk. In addition, 14 local authority housing benefit and revenue contracts outsourced to private contractors have caused havoc for service users, elected members and managers in 1999-2001. Five contracts have been terminated.

The Treasury has commissioned a report from the Office of Government Commerce to identify the savings and efficiency of contracting out (outsourcing). But there is a large body of detailed evidence of the impact of outsourcing and privatisation over the last 20 years.

See chapter 6 of Public Services or Corporate Welfare and the following:

1. The Gender Impact of CCT in Local Government, Equal Opportunities Commission, 1995.
2. The National Costs and Savings of CCT, Centre for Public Services, 1995.
3. Public Services Action No. 1 - 56, 1983-1996, Centre for Public Services.
4. Reinventing Government in Britain, The Performance of Next Steps Agencies: Implications for the USA, Centre for Public Services, 1997.

Table 3 – Partnership and private finance failures

Department/contract	Contractor	Problems/costs
National Insurance	Andersen Consulting (now Accenture)	Delays and renegotiation of the contract. £53m extra cost to taxpayers – Andersen paid £4.1m financial penalties. 172,000 potential cases of underpayment of pensions which required over £43m in compensation payments. The Pensions Minister, Jeff Rooker, described the National Insurance computing system as "…rubbish". Inland Revenue announced in late 2000 that it was cutting IT development work "… to increase success rate of future programmes."
Inland Revenue	EDA	Since 1994 the cost of the Inland Revenue's strategic partnership contract soared from £1,033m to £2,426m, a 135% increase in just six years. The increased costs were due to new work and projects (£533m), capital expenditure (£409m) and post contract verification adjustment (£203m) which represented additional workload in Inland Revenue arising between the invitation to tender and the transfer of staff and commencement of contract.
Passport Office	Siemens	£120m contract for digital scanning, waiting times tripled. £12m extra costs incurred by agency – Siemens had to pay £2.45m. Processing times reached 50 days in July 1999. Operating in only 2 out of 6 offices by 1999 start date. Cost of passport increased from £21 to £28.
Immigration and Nationality	Siemens	£100m computing contract. Large backlog: 76,000 asylum cases and 100,000 nationality cases. Contractor penalised £4.5m. In 2001 the Home Offices decided to abandon final phase – Casework Application IT document imaging system and will recruit 600 new staff to deal with backlog.
		Abandoned in March 1996. £3.7m written off. Office projected cost 71% above forecast.
	EDS	Long delays and project overtaken by new technology
Northern Ireland Vehicle Licensing Agency		£623m including £300m overspend, 6 years late.
	ICL	
Benefits Agency/Post payment card		Delivered 4 years late, cost £20m including £3m overspend
	Lockheed Martin	Claimed £17m savings but errors in cost estimates – now £5m. Supposed to be revenue neutral but budget increased by £4m per annum.
National Air Traffic Services New Control Centre	EDS	
Metropolitan Police	Pentland	
Dartford & Gravesham NHS Trust Hospital		
Sources: Select Committee on Public Accounts, Improving Delivery of Government IT Projects, First Report, 2000. *Computer Weekly* (various)		

15. Public sector lose control over assets and services

The treatment of PFI/PPP assets has been 'clarified' and should revert to public ownership at the end of the contract where it is in the public interest and when there is no alternative use for the asset (HM Treasury, 1999). However, this is likely to be only an academic matter because in 25-35 years time public sector capital spending may have almost vanished and public bodies may not have the capacity or political commitment to assume operational and managerial responsibility for facilities. In these circumstances, another PFI/PPP seems almost inevitable and facilities will be sold at residual value to the private sector.

16. Private sector dictating social and public needs

The replacement of detailed outline/output specifications will inevitably mean that private interests and profit-making squeeze out public need in the design and planning of public facilities. Public and community facilities will become business centres as the private sector seeks to maximise income generation and facilities compete for custom. It is galling for those who have long argued for community and multi-use of public facilities that it is suddenly 'public' policy but on business terms, controlled and operated by the private sector.

For example, Glasgow council decided to refurbish 26 secondary schools and build two new schools under a £1.2billion PFI project . However, the 3Ed consortium led by construction companies the Miller Group and Amey PLC, and funded by Halifax PLC, persuaded the council to change the scheme to 12 new schools and refurbishment of the remainder.

17. Two tier workforce transforming the labour process

The government and PFI/PPP consortia claim that the higher cost of privately financed projects will be more than offset by the private sector's "better utilisation of assets" and increased operational savings. Facilities management contracts are intended to integrate services, which have often been separately tendered. Increased productivity and financial savings from support services are a core requirement for the viability of most PFI/PPPs.

Another example of the pressure on wages was highlighted by the House of Commons Public Accounts Committee inquiry into the use of PFI/PPP in the prison service following the National Audit Office report into the Bridgend and Fazakerley PFI/PPP prisons. Richard Tilt, Director General of the Prison Service reported that "running costs in the private sector were 8%-15% lower although the public sector was slowly closing the that gap. He went on to point out that a security officer in a Securicor prison costs £14,000 a year for a 44 hour week, whilst an HMP Prison Officer costs £20,000 a year for a 38 hour week" (PAC, Evidence Session, 22 January 1998). On this basis, a private prison with 500 staff would be £75m cheaper over a 25-year period. The Prison Service submission showed the difference in staffing costs was greater than the total saving, thus proving that construction costs were actually higher than the public sector. Wage cuts do not, of course, represent efficiency gains but transfers between managers, shareholders and taxpayers depending on the form of privatisation and the type of service.

Most major cities and towns have a number of private finance/partnership projects in different parts of the public sector (for example, schools, hospitals, roads, regeneration, police and central government agencies) at different stages of development. The Private Finance Initiative is estimated to result in 150,000 transfers and 30,000 job losses between 1998-2007 (Association of Direct Labour Organisations, 1999). The cumulative effect of these projects will be more substantial than the comparative loss of CCT or market testing contracts by the same public bodies.

These projects will have a wider impact on employment in each city. Local economy research studies have shown that a multiplier of between 1.15 and 1.24 is applicable to contracting situations and takes into account both jobs loss and the impact of reductions in terms and conditions (Centre for Public Services, 1995). For every 4-5 jobs lost in local government, a further job is lost in the local economy.

The ‘commodification of labour’ is a technical term but increasingly effects public sector jobs. The government is keen to strengthen certain employment regulations so long as they increase the flexibility of labour and make the process of transfer from one employer to another easier, thus potentially reducing opposition to partnerships and privatisation. Public and private sector workers (jobs) are packaged to make transfer easier. The government has emphasised the importance of having a skilled and committed workforce but this has unfortunately been undermined by other policies, which promote the transfer of staff between employers.

18. Impact on in-house services

Although the government has stated that in-house services may be involved in PFI/PPPs on grounds of efficiency, the greater the degree of in-house involvement, the less risk is transferred to the private sector. This means other risks will have to be transferred. Since PFI/PPPs are not limited to new building, contractors can take over services in other buildings on the same or other sites and the subsequent loss of work is likely to lead to the closure or sale of in-house services or Direct Service Organisations (DSOs). PFI/PPP consortia will be well placed to asset strip public sector in-house support service organisations across a city in the process of building their own facilities management operation. The PFI/PPP also means that new/improved facilities are privately operated leaving the older ones under public control. Thus a process of marginalisation is set in motion with ever increasing disparity between the two sectors.

As DSOs and technical service departments come under increasing pressure from PFI/PPP projects and the transfer of other services, it is only a matter of time before they are acquired by PFI/PPP consortia. The loss of further contracts would threaten the DSOs viability and help the contractor consolidate its market position. Some projects will primarily affect white-collar staff, some projects will affect mainly building repair and maintenance work, and others will affect the full range of support services. The combined impact of these projects on jobs, pay and conditions could be substantive.

19. Best Value

In theory, PFI/PPP projects should be subjected to Best Value appraisal and consultation. In practice, Best Value service reviews are running in parallel with the procurement process. In other words, reviews are being used as part of the procurement process to prepare output specifications. Consultation with users is limited to agreeing the service standards to be incorporated into the Invitation To Negotiate, questioning the basis of the PFI/PPP project is not part of the agenda. The combination of a rigged Public Sector Comparator and a severely limited and distorted Best Value service review (in which the option appraisal has already been predetermined) are used to claim ‘value for money’.

A good practice approach to Best Value and PFI/PPP should include the following:

- If PFI/PPP proposals are included in service review option appraisals they should be fully assessed alongside public sector and other options.
- The service review must be able to justify a decision to use a PFI/PPP approach and must be subjected to District Audit and Best Value Inspectorate assessment.

- The entire PFI/PPP planning, procurement and operation phases must be subjected to Best Value consultation with users and community organisations, employees and trade unions and the wider community. This should be accompanied by full information disclosure.
- Best Value service reviews should not be run in parallel with PFI/PPP procurement.
- PFI/PPP contracts should include detailed proposals for the achievement of continuous improvement over the contract period including regular service reviews and monitoring of performance.

20. Refinancing PFI/PPP projects

PFI consortia are refinancing deals to substantially increase profits. For example, Group 4 and construction group Carillion almost doubled their returns from the Fazakerley (now Altcourse) prison contract. Profits increased by £14.1 million (75 per cent since 1995) of which £10.7 million came from refinancing (extending the bank loan period at reduced interest rate and early repayment of other debt), and £3.4 million from completing the prison ahead of schedule and lower construction costs. The Prison Service received £1 million for additional termination liabilities.

In early 2000, Morrison Construction packaged five PFI projects in a joint venture with Edison Capital, a financial services subsidiary of the US electricity company Edison International. It is the first example of bundling PFI projects and a step towards the creation of a secondary market.

Refinancing and a secondary market of PFI/PPP projects are likely to have an increasing impact on the scope and content of PFI/PPPs generally. The PFI/PPP lobby consistently under-estimates, or deliberately ignores, the power that international financial capital and market forces will ultimately have in determining the provision of public services. Yet marketisation means precisely that, with market forces having a powerful influence in the division of labour, risk allocation and the provision of core services.

Partnerships will accelerate marketisation and privatisation, creating an owner-operator industry which finances, builds, manages and operates the urban, transport and welfare state infrastructure. The construction company-led PFI/PPP consortia of the 2000s could be replaced by consortia dominated by financial institutions and private education, health and social service firms, which could merge with facilities management firms to provide a 'holistic' service. The more profitable PFI/PPPs will attract takeovers from other partnership consortia - the previous Conservative government were keen to encourage a secondary market in consortia. Those that struggle financially will also be subject to sale as parent companies seek to minimise losses. Public bodies will eventually have several PFI/PPPs operated by different consortia and contract rationalisation will inevitably take place. Ultimately, they enable the private sector to achieve economies of scale by merging projects across sectors. For example, a city which has three hospital projects, a portfolio of PFI/PPP school projects, several local housing companies, leisure, road and government agency projects will lead to rationalisation and job losses.

Secondary trading in projects will reinforce the power of capital over the rentier state and will have profound implications for services and democratic accountability.

Schools and hospitals will be traded like other commodities. Further and higher education mergers could lead to the vertical integration of secondary schools and the creation of one-stop-shop education. This would not only provide a feeder system, but also a satellite system of local or community 'educational centres' which could provide facilities for lifelong learning.

Colleges and universities will be organisational ‘hybrids’, part public, part commercial companies, which could readily participate in consortia.

21. New form of contractor organisation

PFI/PPP has accelerated construction industry expansion into facilities management, extending the scope of the industry from design, construction, building maintenance to a wide range of support services.

Competitive tendering and market testing resulted in two forms of contract organisation, the private firm and the in-house contracting organisation with its own trading account. PFI/PPPs require the formation of a ‘special purpose vehicle’ or operating company, a separate company in which the construction contractor, financial institutions and facilities management contractor have equity stake. This company manages and operates the facility including selling spare capacity and vacant space to third parties. The combining of finance, construction and support service companies into a new owner-operator industry has been warmly welcomed by the Confederation of British Industry.

22. Loss of public interest

There has been an erosion, or redefinition, of the ‘public interest’. In a climate of ‘partnership’ with a general political consensus about the role of private capital in the economy, policies and projects are approved with fewer fundamental questions being asked. Projects are ‘assumed’ to be in the public interest, or if private gain is transparent, it is approved because the public sector is getting something it needs. ‘Planning gain’ has been reduced merely to access to capital with no additional public benefit other than that which would otherwise have been provided by the public sector.

23. Long procurement and negotiation process

PFI/PPP imposes a new and more complex procurement process in the public sector. PFI/PPP procurement is part tendering (to select a preferred bidder) and part contract negotiation, in which public bodies and PFI/PPP consortia and their advisers haggle behind closed doors. It requires public bodies to develop comprehensive project appraisal and evaluation methodologies and the ability to monitor large performance contracts to ensure contract payments are performance related, and that risk is fairly attributed between client and contractor. However, neither the public sector comparator (merely an investment appraisal), the Treasury’s Project Review Group criteria nor the National Audit Office best practice guidance refer to employment, equalities or environmental matters.

PFI/PPPs extend marketisation of services far deeper and wider than competitive tendering ever could. It virtually eliminates in-house competition (on grounds that there is no transfer of risk if services remain in-house) and smaller companies (because of large long term contracts and equity capital in the consortia). Transaction costs are high (up to four times those of competitive tendering), but from the multinationals perspective, they form a useful barrier to market entry. They are ultimately funded by the public sector because they are absorbed into tendering prices and ‘the cost of doing business’.

24. Shifting the balance between capital and the state

PFI/PPPs represent capital and the state forging a new relationship based on negotiated deals, long term service contracts, shared risk and guaranteed payments irrespective of the state of public finances. CCT and market testing were almost entirely labour only contracts but PFI/PPPs require the private sector to provide a capital asset, maintenance and a wide range of support services. Capital is further embedded in the planning and delivery of public services and extends the enabling model of government.

The commodification of service provision results in social needs becoming subordinate to financial flows, stemming from usage or activity levels, user charges and income generation. The distinctiveness of the public sector is eroded to ease transferability between public and private sectors and the former is reshaped into a residual role. It is changing the state's role in the provision of services, redefining 'public' service and 'public' employee and reducing its role from provision to underwriting, renting, procuring and regulating at an alarming rate.

The government claims that PFI/PPP are 'services' contracts, normally for local decision-making, but the Treasury ultimately controls approvals through the Projects Review Group. This is another example of the centralisation of decision making, which will be more extensive over the next decade if PFI/PPPs continue at their current rate.

25. A new age of corruption

A new age of corruption and sleaze seems inevitable with a plethora of partnerships, joint ventures and non-accountable quasi-public organisations responsible for large sums of public and private money, despite the efforts of government to develop new codes of conduct. The key stages of the PFI/PPP process are negotiated between client and preferred consortia and advisers, which takes place behind closed doors under a blanket of 'commercial confidentiality'

Section 7: **Alternatives to PFI/PPP**

There are alternatives to PFI/PPPs. The government could abandon the policy immediately, although the signed projects would have to continue, and could substantially increase public sector capital spending.

'If PFI spending was replaced by conventional forms of public funding, the selling of an extra £3-4 billion of gilts annually in current circumstances would seem to pose no problems' (Robinson et al, 2000). Abolition of PFI/PPP would not affect the Treasury's current fiscal rules - the golden rule that on average over the economic cycle the government will borrow only to invest and not to fund revenue expenditure and the sustainable investment rule that public sector net debt as a proportion of GDP will be held at a stable and prudent level. Nor would abolition affect the Maastricht convergence criteria, established for countries wishing to join the European Monetary Union, which limit government borrowing (to 3 per cent of GDP) and government debt (to 60 per cent of GDP).

Firstly, the government could adopt the General Government Financial Deficit for public sector current and capital expenditure accounting, replacing the Public Sector Net Borrowing (PSNB which replaced the PSBR). Public bodies could then borrow for capital investment from the European Investment Bank (EIB) and the European Investment Fund (EIF) at low rates of interest. Following the Amsterdam Treaty in 1997, both the EIB and EIF directly fund schemes under the Special Action Programme for investment in health, education, housing, regeneration and environmental projects. Since their funds are not guaranteed by governments, they do not count against public borrowing except in Britain and the Netherlands. The PSNB is in surplus and rather than paying off national debt, the government should be investing in the infrastructure.

So there is a clear financial alternative. Given the mounting evidence of the negative effects of PFI/PPP on public service planning and provision, and the flimsy evidence for value for money, this leaves the case for PFI/PPP firmly on the political and ideological terrain. We are back to the Third Way.

Public finances are healthy, therefore the government could increase public investment still further and still be within the Maastricht criteria Public sector net cash requirement (PSNCR) (formerly PSBR).

Some PFI schemes have been abandoned

To date some 16 PFI projects (as of November 2000) have been abandoned, mainly because they failed to provide value for money or on grounds of affordability. The schemes include four NHS hospital projects at Sheppey, Maidstone, Portsmouth and Southampton being negotiated with the Rotch Property Group. Other schemes were:

Transport
A21/A27 Weald and Downland Trunk Roads
Street Lighting, South Lanarkshire Council (affordability)

Education
Carlisle College (VfM grounds)
Hinchley Wood School (affordability)
Stockton and Billingham College (VfM grounds)
Portsmouth University (VfM grounds)

Health
Greater Glasgow Community and Mental Health Services NHS Trust
Downpatrick Hospital (NI)
Fosse NHS Trust, Loughborough General Hospital (publicly funded)
Orkney Health Board
Mayday NHS Trust Energy project

Other
Cheshire CC Information services

Publicly funded NHS projects
Causeway Hospital, Northern Ireland
Glasgow Royal
Guys and St Thomas's
Royal Berkshire
Rochdale
Central Sheffield women's hospital (previously a PFI project)
Royal Hull
Gloucestershire Royal
Western Hospital, Edinburgh
Wythenshawe Hospital, Manchester (part public/part PFI)

Section 8: **Exporting PFI/PPP**

Privately financed infrastructure and sustainable development: mortgaging the future

Following a short period of nationalisation and expropriation in the 1965-75 decade, infrastructure investment in developing countries was regarded with uncertainty. The 1980s debt crisis led to capital budgets absorbing a disproportionate share of spending cuts, particularly in Latin America. Spending cuts led to poorly maintained infrastructure, which was unable to keep pace with growth and urbanisation as a result of migration into cities. This led to fiscal conflict between social and infrastructure provision. Developing countries now seek foreign investment to improve their infrastructure and international competitiveness because of continued budgetary constraints and the substantial resources needed to finance projects.

Privately financed infrastructure has grown rapidly in developing countries whilst Britain is setting a precedent in Western Europe with the Private Finance Initiative applied throughout the public sector. Full privatisation is claimed to provide the answer in some countries but "reservations with the potential strategic, long term effects of the concept have in turn led to the evolution of another approach to infrastructure funding," hence the development of the design, build, operate and transfer approach. This is part of a wider agenda to shift the role of government from owner and producer to facilitator and regulator, to promote private sector participation in physical and social infrastructure including basic services to the poor and creating an enabling environment and incentives to make markets work better (Asian Development Bank, 1999).
Utilities and transport are already privatised in Britain, hence PFI/PPPs include a wide range of government services including defence and security support activities, transport, government offices, hospitals, schools and other welfare state infrastructure facilities. Projects are generally smaller than those in developing countries and have reduced risk because the private sector is less reliant on user charges for transport tolls or increasing state subsidised utility prices.

The World Bank believes the public sector is less efficient in managing new infrastructure activities so "the time has come for private actors to provide what were once assumed to be purely public services" (Ferreira & Kamran, 1995 pvi). Infrastructure investment is considered essential to underpin the productivity of labour and capital, facilitating growth, safeguarding existing infrastructure investment, attracting production and foreign investment in the context of continuing regionalisation and globalisation. Developing countries rely on foreign investment because of the shortage of domestic savings and have to minimise actual and perceived risks, give appropriate guarantees and show commitment to 'approved' macroeconomic and public sector reform.

Privately financed infrastructure and partnership projects have traditionally been promoted and implemented on a sectoral basis such as transport, utilities and communications by the World Bank, development banks and governments. PFI/PPP are usually justified by the lack of public finance, gaining access to private sector technical know-how and project management skills. However, this is a very narrow perspective for three reasons.

Firstly, it focuses on the pros and cons of a particular section of infrastructure and tends to understate the related development opportunities created for PFI/PPP consortia.

Secondly, it does not take account of the extension of PFI/PPPs to the welfare state infrastructure (schools, hospitals and housing) and defence and security (IT and military support).

Thirdly, partnership is now promoted as the way forward for regeneration and urban development. What is at stake is not simply the supply and distribution of power and water or the provision of toll roads, but ownership and control of development opportunities and new markets created by the provision and operation of the infrastructure by private capital.

The 1998 APEC Public-Business/Private Sector Dialogue on Infrastructure and Sustainable Development highlighted the limitations of an utility/transport perspective in creating partnerships for sustainable cities and the rural economy (APEC, 1998). In other words, the real agenda is about maximising capital accumulation in cities in the industrialised north and the mega cities created by rapid urbanisation in developing countries. Individual infrastructure projects are being replaced by private sector finance and management of the economic and urban development process in zones or territories, forging a new alliance between state and capital. It is a new developmental paradigm and raises key questions of who will own and control cities/regions in the future. It is rooted in capital accumulation, marketisation of the state, private land and property ownership and corporate governance in the developmental, regeneration and urbanisation processes. Paliatives of eradicating poverty, social inclusion and social capital only serve to obscure the shift in global forces.

The political and business interests which demanded drastic spending cuts over the last two decades are the same interests who are demanding infrastructure privatisation today. They are intent on making infrastructure investment commercially viable by incorporating user charges, demanding World Bank and government guarantees and increasing channels for pension fund and savings investment. In developing countries this process goes hand in hand with the development of domestic capital markets to increase the volume and improve the terms of domestic savings for financing infrastructure (World Bank, 1994a p4). Private control of key parts of the infrastructure enables capital to influence regional planning, industrial and commercial development and promote a business agenda. However, there is a key contradiction because the same interests demanding public disinvestment and privatisation also rely on a comprehensive infrastructure for business and for the state to be responsible for crises and externalities. They also rely on the state to manage the transition between public, public/private and private infrastructure ownership.

A fuller analysis of the international privatisation of infrastructure with tables is available in Chapter 2 of Public Services of Corporate Welfare: Rethinking the Nation State in the Global Economy.

Section 9: **Impact of the WTO General Agreement on Trade in Services**

PFI/PPP projects have a number of implications for the application of the GATS agenda, in Britain, should agreement be forthcoming on the basis of current proposals.

- The treatment of PFI/PPP projects as services rather than capital contracts increases the likelihood of GATS regulations applying to public services in Britain.
- PFI/PPP increase private sector ownership of the infrastructure and therefore more extensive delivery of services. This will include further development of wholly private services to compete with publicly financed services. Thus an increasing range of services will be covered by the GATS regulations because they will be supplied on a commercial basis and in competition with private services.
- The combination of the GATS regulations and the planned impact of 25 years of PFI/PPP projects means that the clauses inserted into contracts that assets will transfer to the public sector at the end of the contract are worthless. PFI/PPP assets will almost certainly remain in the private sector, refinanced or redeveloped.
- The combination of new GATS regulations and the expansion of PFI/PPP mean that there will soon be no separation between core and support services.
- The private sector interests pressing for more PFI/PPP contracts in Britain and internationally are the same as those who are deeply involved in demanding the WTO implement widespread liberalisation of global trade in services under the GATS framework.

Forced to use foreign firms

The marketisation of public services will inevitably lead to increasing provision by multinational companies, which will occur irrespective of GATS. The World Trade Organisation GATS negotiations proceed to an agreement then Britain will be part of a global marketplace in 'public services'. The WTO is also currently negotiating changes in government procurement regulations. If agreed, these will replace or supplement the existing EU regulations.

Irreversible if GATS gets go ahead

The fear of a right wing backlash pales into insignificance when contrasted with the possibility that a rapid expansion of privatisation and marketisation over the next five years will be impossible to reverse. The GATS regulations impose severe restrictions on the ability of nation states and communities to reverse marketisation.

Section 10: **Public goods, private delivery**

Global and national public goods

Global, regional and national public goods are becoming more important in determining collective and individual welfare and reducing inequality. Increasing instability of market economies, the threat of financial crises, 'the return of depression economics' (Krugman, 1999), and the threat of environmental catastrophe, all place increased reliance on public goods and their interconnectedness at local, national and international levels.

Globalisation increases the demand for public goods as a result of increased trade in goods and services. There are also growing demands for international market controls to minimise fraud and corruption, to minimise negative externalities such as environmental pollution and to maximise beneficial externalities such as public health and education, and for global equity.

The increasing private provision of public goods by the commodification of services and public risk, the separation of the physical infrastructure from service provision, the private financing of public goods, creating markets for private suppliers and marketising non-core use of facilities will ultimately change the form and provision of public goods. The World Bank considers that "...although the state still has a central role in ensuring the provision of basic services - education, health, infrastructure - it is not obvious that the state must be the only provider, or a provider at all. The state's choices about provision, financing, and regulation of these services must build on the relative strengths of markets, civil society, and state agencies." (World Bank, 1997 p27).

This process could change the 'publicness' of public goods - for example, private provision will lead to an increased business role in determining the level, quality, availability of and access to services, the terms on which they are promoted, the division into commercial and non-commercial services, and the emergence of competing privately financed services for wealthy and middle class users resulting in further exclusion and widening inequality. These changes are mainly in local and national public goods but are likely to extend to the private provision of global public goods.

Many public goods, services and activities could, in theory, be privately provided but not without social costs, subsidies, increased inequality, stringent controls and the likelihood of increased collusion and corruption. Nations choose, in varying degrees, to identify services as public goods for public interest, security, political, social and economic reasons, and not least because of the limitations, and in some cases, the failure of market forces and private provision to meet social and public need.

Section 11: **Corporate welfare complex**

The Introduction noted that there is a growing network of big business interests, which promote PFI/PPP. The IPPR Commission on Public Private Partnerships was funded by the following companies:

KPMG (adviser to consortia and public bodies in many PFI/PPP projects)
BT (BT Syntegra involved in several local authority strategic partnerships) and BT is the contractor in the £1.5billion Police communications project, in one of the largest PFI projects.
Serco Institute (Serco Group PLC)
Nomura (Japanese Investment Bank and owner of Hyder Business Services which won strategic partnership contracts in Middlesbrough, Lincolnshire and Bedfordshire)
Norwich Union Mill Group (Norwich Union PLC)
Group 4

Partnership UK PLC

Previously the Treasury Taskforce on PFI, Partnerships UK PLC was privatised by Labour in March 2001 via a 51% sale of shares. The Treasury and the Scottish Executive will retain a minority holding of 44.6% and 4.4% respectively. Investors include private contractors **Serco, Jarvis** and **Group 4,** which are also lead members of many PFI projects. Other investors include **Halifax PLC, Abbey National, Bank of Scotland, Barclays, British Land, AXA Investment Managers, Royal Bank of Scotland** and **Prudential**.

The same financial institutions have also been funding large-scale transfers of council housing as well as PFI/PPP projects.

New Local Government Network

Corporate funders include **Serco, Jarvis, BT, KPMG,**

Carillion, Nord Anglia Education PLC, Amey, Sodexho, Capita, Arthur Andersen and a number of other contractors, consultants together with the Confederation of British Industry.

The partnership family

The chart below shows the overlapping interests of companies which are at the core of the PFI/PPP industry.

The financial links of the PFI/PPP family

	Funding IPPR PPP Commission	**Investor in Partnerships UK PLC**	**Corporate funder of NLGN**	**Involved in PFI/PPP contracts or adviser**
BT	l		l	l
KPMG	l		l	l
Serco	l	l	l	l
Jarvis		l	l	l
Norwich Union	l			l
Capita			l	l
Group 4		l		l

Note: Companies may have funded other IPPR activities, this table only covers PPP Commission funding.

The state has always oiled the wheels of business but does so now with renewed verve and commitment, reinforced by partnerships and private finance, privatisation and deregulation. But debating 'big business' and 'corrupt politicians' will not get us very far. Rather than demonstrating how the state has been captured by business interests, or how political parties bow to the business agenda, only a fuller understanding of the scope and depth of the state-business relationship will provide the basis for meaningful opposition and change.

The sixties and seventies saw the emergence of a military industrial complex consisting of defence contractors, transnational corporations, financial institutions, consultants, business associations and politicians. A comparable three-part 'corporate welfare complex' is fast emerging in Britain. It consists of a contract services system with a shared client/contractor ideology, value system and vested interests in which the state outsources an increasing range of services and functions; an owner-operator infrastructure industry; and a system of regulatory and financial concessions to business.

At present the corporate welfare complex consists of sub-complexes, for example, in health and social care, in education, in development and regeneration and in the criminal justice system. Although some firms and organisations operate in more than one sector, the speed of change ultimately depends on private sector penetration, the regulatory framework and public policy. Eventually, the complexes will merge.

The corporate welfare complex operates through different tiers of governance ranging from local authorities to global institutions such as the World Trade Organisation and the World Bank. It creates a shadow regime and a culture of dependency on the state by business although without the repression and insecurity of the social welfare benefits system.

Increasing global competitiveness, regionalisation, 'third way' politics and the increasing power of multinationals are requiring states to reprioritise meeting the needs of business. Firms are in a stronger position to extract subsidies to locate plants and the new emphasis on workfare provides business with yet more subsidies and tax concessions for training and employment schemes. Local government and other agencies also provide inward investment subsidies and meet the social costs of investment or closure. Business and trade organisations have built a web of national and international organisations to lobby for, and to protect, subsidies and to press for more deregulation. So how does the three-part corporate welfare complex operate in practice?

The contract services system

Outsourcing, strategic partnerships and private finance projects have a significant role in the corporate welfare complex. The private delivery of public services is growing apace, fuelled by Labour's third way policies and underpinned by the modernisation and making-markets ideology. Britain is the leading European, if not industrialised, country in marketising and privatising public services *in advance* of the conclusion of the World Trade Organisation's General Agreement on Trade in Services negotiations. The markets, and hence the stakes, are enormous. For example, the annual education market in Britain and the US is estimated to be worth $760bn or $2,000bn globally. The global health market is even larger at $3,000bn .

The past decade has seen several important changes in the structure and organisation of multinational companies. Service companies now promote facilities management rather than individual services, construction companies have diversified into building support services, management consultants have expanded the range of professional services, whilst major manufacturing companies combine production, financial and service subsidiaries.

Inspections and performance assessments, management of 'failing schools', job placement and training schemes provide points of market entry for firms. Information and communications companies have gained a significant market share of public sector computer contracts and are likely to extend the managed services concept deep into the welfare state.

Contractors develop a dependency on government contracts, leading them to search for, and gain access to, insider information and intelligence in order to pursue corporate objectives, influence the procurement process and set the terms for government policy making. They poach key public sector staff. Contractors become major employers in localities, which, in turn, is used to lever further concessions, financial contributions are made to candidates as political payoffs, and a system of common values and interests makes the state-politician-corporate triangle increasingly difficult to penetrate. Contract collusion and corruption are almost inevitable.

The owner-operator infrastructure industry

The emergence of an owner-operator industry with global infrastructure firms combining design, construction and operational services will lead to takeovers and mergers of infrastructure consortia and a secondary market in public private partnership finance.

Infrastructure subsidiaries may eventually mirror the privatised utilities. “It is just that schools and hospitals start off as individual assets. They are not businesses in the way water and electricity are. But in five or ten years’ time these assets will emerge as major utility businesses providing schools and hospitals and roads to the public sector” (Financial Times, 17 July 1997).

Global firms of management consultants and managed services multinationals could eventually employ doctors and healthcare specialists, teachers and educationalists, as they extend infrastructure provision to core service delivery. The vast new potential infrastructure market enables companies to operate public and private systems side by side, ultimately leading to the growth of individual, privately funded and privatised systems.

New alliances between transnational service companies and financial capital

The acquisition of health, education and other service suppliers by financial services companies such as insurance firms will gather pace. US and European managed care and insurance companies have expanded into Latin America as countries have privatised health care and pensions, attracted by social security systems which combine health care and retirement benefits for workers in large private and public enterprises “Access to capital in public sector social security funds has become an important incentive for investment by multinational corporations” and the growing upper middle class of Latin America constitutes a potential new market for managed care (Stocker, Waitzkin and Iriart, 1999). The planned revision of the WTO’s General Agreement on Trade in Services is likely to speed up the marketisation and privatisation of public sector provision.

References in the above text can be found in:

Whitfield, Dexter (2001) Public Services or Corporate Welfare: Rethinking the Nation State in the Global Economy (London: Pluto Press).

European Services Strategy Unit (previously the Centre for Public Services)
www.european-services-strategy.org.uk