European Services Strategy Unit Research Report No. 9

PFI/PPP Buyouts, Bailouts, Terminations and Major Problem Contracts in UK

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European Services Strategy Unit
(Continuing the work of the Centre for Public Services)

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40+ YEARS Rigorous Research Public Policy Analysis Alternative Strategies

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The **European Services Strategy Unit** is committed to social justice, by the provision of good quality public services by democratically accountable public bodies. The Unit continues the work of the Centre for Public Services, which began in 1973. Research and strategic advice for public bodies, trade unions and community organisations includes analysis of regional/city economies and public sector provision, jobs and employment strategies, impact assessment and the effects of marketisation, privatisation, public private partnerships and transformation.

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Abbreviations

AR	Annual Report	IMF	International Monetary Fund
BAA	British Airports Authority	Inc.	Incorporated
CIHL	Consolidated Investment Holdings Ltd	JLIF	John Laing Infrastructure Fund
Co.	Company	Ltd	Limited
CQC	Care Quality Commission	LP	Limited Partnership
DBFO	Design, Build, Finance and Operate	LLP	Limited Liability Partnership
DLR	Docklands Light Railway	MBC	Metropolitan Borough Council
ESA	European System of Accounts	MoD	Ministry of Defence
ESSU	European Services Strategy Unit	NAO	National Audit Office
EU	European Union	NATS	National Air Traffic Services
EIB	European Investment Bank	NHS	National Health Service
FCO	Foreign and Commonwealth Office	NPD	Non-Profit Distributing
GAAP	Generally Accepted Accounting Principles	OECD	Organisation for Economic Co-operation & Development
G20	Group of twenty major economies	PAC	Public Accounts Committee
GCP	Gravis Capital Partners	PFI	Private Finance Initiative
GSL	Global Solutions Limited	PF2	Private Finance 2
HBOS	Halifax Bank of Scotland	PLC	Public Listed Company
HICL	HICL Infrastructure Company Limited	PPP	Public Private Partnership
HMRC	HM Revenue and Customs	RNS	Regulatory News Service
HQ	Headquarters	SPV	Special Purpose Vehicle (usually a Company)
HRA	Housing Revenue Account		
HSBC	Hongkong and Shanghai Banking Corporation	SPC	Special Purpose Company
		TfL	Transport for London
ICT	Information and Communications Technology	UK	United Kingdom
		US	United States
IFRS	International Financial Reporting Standards	VAT	Value Added Tax

Key findings

Global context

The UK has been a global leader in the implementation of over 800 PFI/PPP projects since the early 1990's. Hence the overall performance of the UK's PFI/PPP projects with regard to buyouts, bailouts, terminations and major problem contracts is of global interest.

The scale of PFI/PPP buyouts, bailouts, terminations and major problem contracts

- 74 projects - 11 Buyouts, 20 terminations and 43 with major problems.
- 57 in England, 12 in Scotland, 4 in Wales and 1 in Northern Ireland.
- 28% of PFI/PPP contracts by capital value have been to subject to buyout, termination or major problems.
- Health (14), transport (10), housing (9), ICT (9) and education (8) projects accounted for 70% of the buyouts, terminations and major problem contracts.

The public cost of buyouts, terminations and major problem contracts to date is £3,755m; however, public costs have yet to be determined for many major problem contracts, so this total is expected to rise significantly.

Bailouts

The Department of Health was forced to provide a **£1.5bn bailout fund** to NHS Trusts with significant PFI projects because *"…the trusts' plans are not viable without some level of central support"* (NAO, 2012). More trusts have since accessed this fund, particularly those engaged in mergers. On this basis, the £1.5bn allocation will be spent by 2027, well before many NHS PFI projects conclude. NHS trusts are likely to require a **further £1.5bn** in additional support for PFI projects over the next 20 years.

Abandoned projects

Sixteen PFI/PPP projects were cancelled at a cost of **£114.3m.** The cost would be significantly higher if information was publicly available for other cancelled projects.

High public cost

The public cost of buyouts, bailouts, terminations and major problem contracts is **£27,902m**, when combined with the additional cost of private finance, interest rate swaps and higher PFI transaction costs**.**

This sum could have built **1,520 new secondary schools for 1,975,000 pupils, 64% of 11-17 year old pupils in England** (1,300 pupil schools, National School Delivery Cost Benchmarking, 2015 and Department of Education and National Statistics, National Tables, 2016).

UK buyout/terminated ratio higher than developed countries

The combined UK total of buyout and terminated contracts is **6.8%.** In other words, **the UK's ratio, an industrialised country, is higher than the 5.4% average of World Bank projects in developing countries** for cancelled (terminated) contracts as a percentage of the cost of investment.

Furthermore, the UK combined buyout, termination and major problem contract ratio, excluding projects being bailed out, rises to **17.7%** as a percentage of investment.

The causes of buyouts, terminations and major problem contracts

PFI/PPP projects are a product of neoliberalism, in particular the Design, Build, Finance and Operate (DBFO) model, which combines state and capital interests that increase the commodification and financialisation of public infrastructure, expands markets and ultimately widens the potential for privatisation of buildings, transport and utility networks and public services.

A large and complex contract is at the centre of every PFI/PPP, but no matter how comprehensive they are, virtually all contracts are incomplete in practice, because they cannot predict future events, changing levels of demand, revised public policy priorities, or technological and operational changes in service delivery.

Fundamental flaws

In addition to incomplete and complex contracts, there are fundamental flaws in the PFI/PPP model that have contributed to buyouts, bailouts, terminations and major problems.

- Risk transfer is costly and exaggerated
- Affordability – high costs squeeze provision of core services
- Value for Money is contested and rarely established
- State subsidies/guarantees and corporate welfare required
- Lower cost of public investment option ignored
- Construction performance
- Private finance means public debt
- High transaction costs
- Growth of secondary market trading and offshore infrastructure funds
- Privatising the development process with the loss of public sector capability
- High cost of abandoned, buyout, bailout, terminated and major problem contracts
- Erosion of democratic accountability and transparency
- Contracts are poorly monitored and rarely reviewed
- Decline in jobs, terms and conditions
- Loss of flexibility in use of buildings and service provision
- Local economic, social and equality impacts
- Environmental sustainability
- Private investment interests increasingly dominate public infrastructure

Recommendations

Reviews of PFI/PPP contracts

Local authorities and NHS trusts should systematically review their PFI/PPP contracts to assess performance, the original objectives, functioning of the facility, claimed value for money, employment practices and undertake an economic, social and environmental impact assessment. This would provide the evidence for changes in unitary payments, improved monitoring and governance of the project.

Selected buyouts and contract terminations

Public bodies should develop a strategic approach to the buyout of PFI/PPP projects or termination of contracts where they are not meeting performance requirements and/or user/community needs are not being met.

The case for the nationalisation of SPVs

The proposal to nationalise Special Purpose Vehicle (SPV) companies that operate PFI/PPP projects, is gaining support (People v Barts PFI, 2015). It would stop the trade of PFI/PPP equity, the growth of offshore secondary market funds and chart a return to public ownership.

Radical public management

Public ownership alone is inadequate. A new public investment infrastructure model is required together with radical public management to rebuild the capability and capacity of the public sector to plan, design, finance and manage public buildings.

Increased public investment

The PFI/PPP programme should be terminated and replaced by increased public investment, which would significantly reduce the cost of public infrastructure.

Part 1
Context of buyouts, bailouts, terminations and major problems

Global context

The UK has been a global leader in the implementation of over 800 PFI/PPP projects since the early 1990's. Projects cover both 'economic' and 'social' infrastructure and a wide range of sectors, such as transport, utilities, health, education, housing, criminal justice and defence.

UK governments, construction companies, banks and consultants have played a key role in promoting the PFI/PPP model in other countries, which has included making unsubstantiated claims about its so-called 'advantages' and denigrating direct public investment. Hence, the overall performance of the UK's PFI/PPP projects with regard to buyouts, bailouts, terminations and major problem contracts is of global interest. This is examined in Part 5.

The objective of this research paper is to identify and analyse the PFI/PPP contracts that have been subject to buyout, bailout, and termination or have experienced major problems. It seeks to identify the main causes of these problems and flaws in the PFI/PPP model. The analysis is a substantial expansion of Appendix 4: Terminated UK PPP projects in *PPP Wealth Machine: UK and Global trends in trading project ownership* (Whitfield, 2012).

Lack of transparency

There is a major lack of transparency where PFI projects have been subject to a buyout or termination. Both HM Treasury and the Scottish Government eliminate the data of buyout and terminated projects from their annual list of projects. The fact that these projects ever existed is lost to the evidence of PFI/PPP policy.

Furthermore, there is no evidence that a formal government analysis has been carried out to identify the full public cost of these projects or to understand and report on the reasons why a buyout or termination was the adopted policy. The figures in Table 1 would be significantly higher had all this information been publicly available. For example, the public cost of buyouts, terminations and major problem contracts is currently available for only 44 of the 74 contracts. There are also gaps in the data in Tables 11, 12 and 13 reflecting the lack of transparency in the planning, procurement and operation of PFI/PPP contracts.

Summary of projects and public costs

By early 2017 there have been 11 buyouts, 20 terminated projects and 43 contracts that have experienced major problems, a total of 74 projects since the late 1990s:

One third of PFI/PPP contracts by capital value have been to subject to buyout, termination or major problems.

Table 1: **Summary of buyouts, terminations and major problem contracts**

Type of project	No of Projects	Buyout, termination and major problems costs (£m)	Unitary payments up to buyout or termination (£m)	Total cost of projects (£m)	Capital cost (£m)
Buy-out of PFI/PPP projects	11	636.3	5,215.7	7,256.9	6,146.7
Terminated PFI/PPP projects	20	1,677.1	8,427.0	14,114.2	12,047.1
PFI/PPP that experienced major problems	43	(1) 2,139.8	n/a	36,105.7	4,459.1
Total	**74**	**4,453.2**	**13,642.7**	**57,476.8**	**22,652.9**

Source: Tables 10, 11 and 12 in Appendices.

1. Most public costs yet to be determined so this is a fraction of total costs.

Geographic distribution

There is a higher proportionate level of buyouts and major problem contracts in Scotland than in England, Wales and Northern Ireland. The bulk of contracts were in England and Scotland, 77% and 16.2% respectively with 5.4% in Wales and 1.4% in Northern Ireland.

Table 2: **Geography of buyout, terminated and major problem contracts**

Type	England	Scotland	Wales	N. Ireland	Total
Buyouts	6	3	2	0	11
Terminations	17	1	2	0	20
Major problems	34	8	0	1	43
Total	57	12	4	1	74

Source: Summary of Tables in Appendix A, B and C

The rate of buyouts, terminations and major problem contracts was higher in Scotland at 9.7% compared to 7.9% for England (Note: Scotland: based on 88 PFI (March 2015) and 36 NPD contracts (April 2016); England based on 725 PFI contracts (March 2015) excluding contracts in Wales and Northern Ireland, but inclusive of buyout, terminated and expired contracts).

Sector analysis

Five sectors, namely health, transport, housing, ICT and education accounted for 67.6% of buyout, terminated and major problem contracts – see Table 3.

Table 3: **Sector analysis of buyouts, terminations and major problem contracts**

Sector	Buyouts	Terminations	Major problems	
	No	No	No	Total
Education	1	1	6	8
Health	3	2	9	14
Housing	0	0	9	9
Transport	3	6	1	10
Highways	1	0	3	4
Waste management	1	2	2	4
Fire and Rescue	0	3	1	4
Water treatment	0	0	2	2
ICT	0	2	7	9
Criminal Justice	1	1	1	3
Public administration	1	0	0	1
Defence	0	1	1	2
Misc.	0	2	1	3
Total	**11**	**20**	**43**	**74**

Source: Tables 10, 11 and 12 in Appendices.

Buyouts of PFI/PPP contracts occurred between 3.9 and 13.8 years, with an average of 8.8 years, from the date of financial close of the project (see Appendix A). The average length of time for terminated contracts was 6.0 years – see Appendix B. It was difficult to identify the precise time when major problems became evident in many projects; hence it was not possible to provide a comparable figure for projects in Appendix C.

There are many other issues, such as cost overruns, delays and problem contracts that affect service users and staff, but they are not classified as 'major problems' and thus have not been included in the data for this report.

In July 2003 the UK government announced that PFI should not be used for ICT projects, in part due to their performance and inability to adapt to rapid technological change. However, delays and cost increases have been common in other sectors, as this report demonstrates.

Return to public ownership

The 11 buyouts and 20 terminations meant that 31 PFI/PPP projects returned to direct public ownership/provision. A further 21 PFI/PPP finished between March 2012 and March 2015 when HM Treasury began identifying the projects removed from the current list of projects in the annual summary data (see Table 4). The majority of buyout and terminated projects were in UK government departments, local authorities and Transport for London. All but a few finished projects were in UK and Scottish Government departments.

Table 4: **Projects returned to public ownership/provision**

Public body	Buyout	Termination	Finished	Total
Government Department	0	6	15	21
Scottish Government	3	0	3	6
NHS	2	2	1	5
Local authority	3	4	1	8
Transport for London	2	6	0	8
Other	1	2	1	4
Total	**11**	**20**	**21**	52

Source: Appendix A and B and HM Treasury annual summary data 2013, 2014 and 2015 to identify projects completed between March 2012 – March 2015

This research paper is based on PFI/PPP projects in the UK; Non-Profit Distributing (NPD) projects in Scotland (although the SPV equity does not receive dividends and private sector returns are capped in competition, it is a commercial for-profit model); and Local Improvement Finance Trust (LIFT) primary healthcare projects (only operates in England), but does not include LIFT project performance.

Part 2
Theory of contracts and PPPs

Neoliberalism and the state-business partnership: the PFI/PPP model

Neoliberal policies over three decades have created the conditions for new forms of accumulation. They centred on the promotion of free trade, competition & markets; deregulation; the deconstruction of democracy enabling a partnership between state and finance/business, whilst consolidating corporate welfare; reconfiguring the role of the state; and reducing the cost and power of labour.

The 'transformation' of the public sector is a specific objective that led to a four-part strategy to financialise, individualise, marketise and privatise public services and the welfare state (Whitfield, 2012). *"Financialisation has, in effect, enabled banks and financial institutions to significantly influence which schools and hospitals do, or do not, get built and on what terms. It provides new opportunities for capital accumulation in the provision of public goods. Income generation requirements increase the potential viability of outsourcing contracts and fees, charges and tolls impose commercial attributes and values in public services"* (Whitfield, 2016).

PFI/PPP projects are a product of neoliberalism. The Design, Build, Finance and Operate (DBFO) model: has increased the commodification and financialisation of public infrastructure to provide new opportunities for accumulation; created new markets for finance capital, construction and facilities management companies, consultants and lawyers; reduced the role of the state; and ultimately widened the potential for privatisation of buildings, transport and utility networks and public services.

Incomplete and complex contracts

A large and complex contract is at the centre of every PFI/PPP project. A standard draft contract is amended and developed as procurement proceeds up to the point of financial closure. The final contract or project agreement can range from a few hundred to several thousand pages. But no matter how comprehensive they are, virtually all contracts are incomplete in practice (Hart, 2003), because they cannot predict future events and changing economic and social needs. Tirole (1999) identifies three reasons for incomplete contracts:

Firstly, the inability to determine the future. Long-term public infrastructure contracts have to take account of changing levels of demand, revised public policy priorities, and technological and operational changes in service delivery. Nor can they foresee the performance of the private sector consortia (construction, banks and other financial institutions and facility management contractors).

Secondly, the current focus of procurement and performance on achieving 'outcomes' rather than the quality of inputs, processes and outputs gives contractors greater freedom to change working methods, procedures and staffing levels that can result in unpredictable knock-on effects. Furthermore, the cause/effect of outcomes is often difficult to determine and the contract may only be partly responsible for the achievement of an outcome.

Thirdly, even if all eventualities could be identified it would make contracts too complex and costly to describe in clauses.

Finally, it is essential that the terms of a contract can be enforced without frequent recourse to the courts, which is likely to make client/contractor relations and contract management more difficult.

There is another dimension to PFI/PPP contracts and contract management. Their complexity means that most elected members and public officials have only a basic understanding of a contract. Furthermore, they are usually advised by financial and management consultants and lawyers who are generally ideologically committed to the PFI/PPP model.

Cause and effect

It is important to examine the causes that led to buyouts, bailouts, terminations and major problems in PFI/PPP contracts, which are summarised below:

Buyouts require public authorities and the SPV shareholders to voluntarily agree to terminate a PFI/PPP contract. The public sector usually saves money from a buyout whilst the private sector receives a lump sum payment reflecting the current net cost of the remaining unitary payments, liabilities and transaction costs, in addition to the unitary payments it has already received from the public authority. The financial negotiations are complex and the financial saving varied. The prime reasons for buyouts were:

- Community opposition to high cost of tolls and removal of alternative transport
- Demand incorrectly predicted
- Financial savings
- Technological change
- Integrate public provision
- Poor performance

Bailouts are a result of a combination of factors that include:

- Unaffordability of PFI/PPP projects because unitary payments are a significant proportion of revenue budget
- Public spending cuts and austerity policies
- Demand pressures – ageing population
- High cost of hospital mergers

Terminations are usually enforced by a public authority as a result of poor performance due to:

- ICT problems, cost overruns and delays
- Failure to obtain planning permission
- Poor demand forecasts
- Construction flaws
- Technical flaws
- Reduced cost of financing

Major problem contracts are those that have experienced one or more of the following:

- Poor performance
- Construction flaws
- Cost overruns and delays
- Excessive operational charges
- Major legal disputes
- Refusal to renegotiate contract to meet public policy objective

It is clear that common and interrelated causes led to buyout, bailout, termination and major problem contracts.

Fundamental flaws in the PFI/PPP model

The causes and circumstances that lead to buyouts, bailouts, terminations and major problem contracts are not just rooted in incomplete and complex contracts, but in fundamental flaws in the PFI/PPP model. These are summarised below and draw on Whitfield (2001, 2010, 2012 and 2016), European Public Service Union (2014) and Hall (2015)

Risk transfer is costly and exaggerated

Demand and political risk remain with the public sector (the need for facilities and services remains a public obligation). Construction and maintenance risk are usually transferred to the private sector. Historically, private construction companies have submitted bids, sometimes loss leaders, for public infrastructure projects and then relied on variation orders for design changes, additional work and delays to claw back costs and increase profits.

The issue is not whether this risk is transferred, but how it is priced. For example, risk as a percentage of the total construction costs in six hospital PFI projects ranged from 16.5%, 22.2%, 31.3%, 35.3%, 37.2% and 70.6%. Furthermore, only after risk transfer was included, did the net present cost of PFI hospitals become lower than the public sector comparator (Shaoul, 2005). The reason why risk accounted for beetween a third and two thirds of construction costs in four of the six projects is highly questionable. Yet, *"…even after including risk, the margin of difference between public and private is tiny, typically less than 1% of total costs, and not enough to provide a criterion upon which to base such an important financial decision*" (ibid).

Affordability – high costs pressurise provision of core services

The use of the PFI/PPP model is preceded by the creation of 'the only option' by restricting public sector capital spending and heavily promoting claims about the advantages of PFI/PPP.

"PPPs can create an "affordability illusion" (mainly due to the deferral and spreading of public sector payments through time), which tends to be exacerbated when a project is found to be off balance sheet" (Eurostat et al, 2016).

"30 per cent of procuring authorities responded to renewed pressures that their project was unaffordable, in many cases because of increases to the scope or specifications of the project, by increasing the length of the contract. This masked the effect of any changes by reducing the level of the annual payment. However, in doing so, the total cost of the project over the lifetime of the longer contract was increased" (NAO, 2007a).

Value for Money is contested and rarely established

It is a glaring anomaly that over £320bn of UK expenditure on PFI/PPP projects has been based on such limited value for money and impact assessment methodology. Public sector comparators have been systematically calibrated to provide the 'right' answer to allow projects to proceed (Whitfield, 2010). The high returns from the sale of PFI/PPP equity make a mockery of value for money assessments undertaken at the Full Business Case stage. The poor quality of monitoring (see below) and on-going evaluation to ensure the project is still delivering the claimed value for money after five-seven year periods is a major flaw in the model.

State subsidies/guarantees: corporate welfare required

The PFI/PPP model, private finance and a procurement process that excludes a public sector option creates an illusion that the private sector is a wholly independent financier, builder and operator. In practice, PFI/PPP projects are a classic example of the neoliberal state-business partnership model that is dependent on corporate welfare. The 'price of partnership' requires governments to guarantee contract payments; establish PFI/PPP units; provide public subsidies to NHS Hospital Trusts when they cannot meet PFI repayments and/or meet the health needs of their local population; legislate for PFI/PPP contracts and widely promote the model whilst limiting public sector capital expenditure (Whitfield, 2016).

Lower cost of public investment option ignored

"…the effective interest rate of all private finance deals (7%–8%) is double that of all government borrowing (3%–4%)" based on an analysis of the 2012-13 Whole of Government Accounts (NAO, 2015a). The claim that PFI/PPP projects lead to efficiencies over and above public investment has not been established. Their notable 'efficiency'

appears to be the rapid development of a secondary market and offshore infrastructure funds to ramp up profiteering in the sale of PFI/PPP project equity (Whitfield, 2016).

Construction performance

The risk of delays and cost overruns in public sector infrastructure contracts (compared to PFI/PPP projects) has been continuously exaggerated by UK governments. Claims of 73% of cost overruns and 70% construction delays on traditional public sector projects were trawled around the world to promote the PFI/PPP model. Research concluded, *"…the Treasury's claims about the superiority of the PFI is based on time and cost overrun arguments for which there is no evidence"* (Pollock et al, 2007). The PFI/PPP track record on cost overruns and delays **deteriorated** from 22% and 24% of projects respectively to 35% and 31% respectively 2003-2008 (NAO, 2009a). The 11% and 6% differential between PFI and Non-PFI project performance must be considered relative to the significantly higher overall cost of PFI projects and the other flaws. Furthermore, improvements in public sector project management and procurements could achieve significant improvements in performance and reverse the gap.

Table 5: **Cost overruns and delays**

Performance	PFI 2002	PFI 2008	Non-PFI projects 2008
Cost overruns	22%	35%	46%
Construction delayed	24%	31%	37%

Source: NAO, 2003 and 2009a

Private finance means public debt

PFI/PPP projects require public sector bodies to make a stream of guaranteed contract repayments from public sector revenue budgets. This is public debt by another name. Furthermore, the repayments are significantly larger than they would be for direct public investment, due primarily to the higher cost of private finance and construction risk transfer.

High transaction costs

PFI/PPP transaction costs usually focus on the procurement process with public sector costs averaging 3.5% - 3.8% of the capital value of a project (private winning bid costs of 3.8% and failed bidder costs of 5.0%) (Dudkin and Valila, 2005). The cost of financial, legal, technical and other advisers alone averaged 2.5% although an NAO review of improving PFI tendering failed to disclose the full transaction costs (NAO, 2007a). Transaction costs should include the public cost of options appraisal assessment, value for money analysis, outline business case and PFI/PPP team costs that are incurred before a decision is made to commence procurement. Public sector transaction costs are, therefore, estimated to be between 4.5% - 5.0% of the capital costs, about 2.0% higher than public investment (see Part 8).

Growth of secondary market trading and offshore infrastructure funds

The rapid growth of offshore secondary market infrastructure funds is at the centre of a £17.1bn industry, which is buying and selling hospitals, health centres, schools, colleges, and roads like financial commodities. Public infrastructure is being financialised with the emergence of new market forces – a secondary market for the sale of equity in PFI/PPP project companies and the formation of new infrastructure funds that have increased offshoring of PFI/PPP equity and increased opportunities for wealthy and institutional shareholders.

The average annual rate of return on the sale of equity in individual/small bundles was 28% (based on 110 transactions involving 277 PFI/PPP projects between 1998-2016). The three-way profit gain - original SPV shareholders, secondary market fund sales and secondary market fund shareholder dividends – means the total annual rate of return could be between 45%-60% - three to five times the rate of return in PFI/PPP final business cases (Whitfield, 2012 and 2016).

Privatising the development process with the loss of public sector capability

The private sector has a wider role in determining which public infrastructure gets built, where, when, and how social and public priorities are met. Projects proceed only when they are 'bankable' for business interests.

> *"The differences between the capital, leverage, liquidity, and transparency regulations governing shadow banking intermediaries and the stricter regime governing traditional banks effectively creates a two-tier system of regulation.* ***This arrangement can in our view create opportunities for borrowers and lenders to pursue the cheapest, least transparent sources of capital. Furthermore, we believe that it may result in creating incentives to maximise debt leverage, a process that has led, and may lead again, to systemic defaults and downgrades****"* – my emphasis (Global Treasury Intelligence, 2013).

Management consultants, financial advisers and lawyers have a central role in project management, preparation of outline and full business cases, the procurement process, evaluation and due diligence. This is on a significantly wider and larger scale than if the project had been financed through public investment. It has dramatically expanded consultancy and outsourcing markets.

High cost of abandoned, buyout, bailout, terminated and major problem contracts

This report reveals the public cost of buyouts, bailouts, terminations, major problem contracts and abandoned projects to be £7,567m to date. In addition, the additional cost of private finance compared to the cost of public investment, additional transaction costs and interest rate swap liabilities is £20,335m – a total cost £27,902m, which is detailed in Part 8.

Erosion of democratic accountability and transparency

Democratic accountability is very limited for three key reasons. Firstly, the imposition of 'commercial confidentiality' extends from planning, procurement to monitoring contract performance, which severely limits transparency. Secondly, PFI/PPP deals are very complex, so very few officials and elected members have anything more than a basic understanding, let alone of the contractual conditions. Thirdly, the participation of staff, trade unions, service users, community organisations and citizens is at best minimal.

Contracts are poorly monitored and rarely reviewed

The allocation for monitoring is often reduced to a minimum in the Outline and Final Business Case as part of a process of ensuring the cost of a PFI/PPP project is lower than the public sector alternative. In addition, monitoring is often considered an 'easy' spending cut, thus transferring responsibility to already stretched head teachers and senior NHS Trust managers. The increasing practice of relying on 'self-monitoring' by private contractors further reduces the frequency and rigor of monitoring. These developments reduce the scope of monitoring to basic contractual issues such as the availability of facilities and the quality of services and to the exclusion of value for money and economic impact of the project.

Decline in jobs, terms and conditions

EU employment regulations ensure the transfer of staff and terms and conditions when services are transferred from one employer to another. However, this does not prevent private employers from engaging new staff on reduced terms and conditions, thus creating a two-tier workforce with wider use of temporary contracts. Most new PFI prisons in the UK are full service contracts (buildings and custodial and related services) and thus avoid the EU employment regulations. Private prison officers and supervisors total pay and benefits is between 9.9% and 26.6% inferior to the same grades of public sector prison staff. Private prison staff turnover rates are 10%-20% (Income Data Services, 2015).

Loss of flexibility in use of buildings and service provision

Three quotes sum up the loss of public sector flexibility:

> "*Historic private finance initiative (PFI) debt can make it more difficult to change the way estates and buildings are used. Among organisations with PFI commitments, those with the highest capital charges, as a proportion of their income, were the most likely to report weak financial results in 2013-14"* (NAO, 2014).

> *"PPPs in the IT or health sectors can be difficult, as the technological change is simply too rapid in relation to the typical length of a PPP contract"* (IMF, 2015).

Sheffield City Council's decision to terminate its waste contract with Veolia is an example of the lack of flexibility:

> *"The Council has been unable to secure savings in the cost of the Integrated Waste Management Contract ('IWMC') with Veolia to deliver against its budget. The Waste Contract Review Project was therefore commissioned to consider if there is a deliverable alternative to the current contract which would significantly reduce the cost of waste services and allow for a more responsive, flexible and sustainable service in the future"* (Sheffield City Council, 2017)

Local economic, social and equality impacts

PFI/PPP projects are dominated by international construction companies, banks and other financial institutions, facilities management companies (often owned by construction companies) and global chains of management consultants, financial advisers and lawyers that have their own established supply chains. This limits the benefits to be gained in local economies unless they a condition of contract, monitored and enforced. Social benefits are limited by higher charges for community use of facilities. The scale of profiteering in the sale of equity in SPV companies, noted above, is likely to undermine any gains in employment or service delivery equalities.

The World Bank has been a strong advocate and financier of PPPs for over 25 years. The evaluation of the Bank's work on PPPs in developing countries between 2002-2012 revealed a scandalous lack of evidence (Independent Evaluation Group World Bank, 2015):

> *For the World Bank, no systems exits at all that would track performance of PPPs post project closure. To do justice to the broad effects of PPPs, a wider set of outcome indicators should be kept track of throughout the life of a PPP* (ibid).

> *"Despite the Bank Group's central goal of fighting poverty – reaffirmed by the new strategy's dual goal of ending extreme poverty and promoting shared prosperity – little is recorded on the effects of PPPs on the poor"* (ibid).

> *"Project-level evaluations, IFC's [International Finance Corporation] Development Goals, and its Development Outcome Tracking System measure mainly the operational aspects of a PPP that are relevant to cash flow, such as the number of people that obtained access to infrastructure. Therefore, for only about half of projects are data available for one dimension. There is not a single project with data available for all the above-mentioned dimensions"* (ibid).

Environmental sustainability

Investment in public infrastructure has afforded the opportunity to increase the stock of 'green buildings'. However many large projects have resulted in the centralisation of services, thus increasing travel time and costs. The design of buildings has been very variable *"…the quality of the buildings delivered through PFI schemes remained poor in many cases…. and poor buildings actively constraining health and education service delivery"* (Royal Institute of British Architects, 2011).

Private investment interests increasingly dominate public infrastructure

The above issues combine to generate a flow of high cost construction contracts for construction companies; large scale profiteering and offshoring of assets that was never disclosed to be an integral part of the PFI/PPP model; left the public sector with much higher debt/financial contractual obligations compared to public investment and many facilities that could be obsolete by the time they are paid for.

PPP Strategic Partnerships emerged in the late 1990s for corporate services. They are large, long-term, multi-service contracts that have extended to planning, education, police, fire and rescue and property management. There are currently 65 contracts worth £14bn and employing nearly 29,000 staff. These contracts had a 22% failure rate (contract terminations or the return of key services in-house) in 2013, but it increased to 27% in 2016 (Whitfield, 2014 and Presser, 2016).

Part 3
Buyout analysis

The buyout requires public authorities and the SPV shareholders to voluntarily agree to terminate a PFI/PPP contract for the reasons summarised in Part 2. The public sector usually saves money from a buyout whilst the private sector receives a lump sum payment in addition to the unitary payments it has already received from the public authority. The financial negotiations are complex and the financial saving varied - see Table 10 in Appendix A. For example, the Hexham Hospital PFI project had, for example, a financial close on 31 March 2003 with capital cost of £54.1m and total unitary payments of £252.6m.

The Hexham Hospital buyout example

The Hexham Hospital (Northumbria Healthcare NHS Foundation Trust) was notable for the decision by Northumberland County Council to loan the NHS Trust £114.2m to enable it to buy out its PFI contract. The County Council reduced its ability to borrow for local authority capital needs and took a considerable financial risk. Given the continuing financial crisis imposed on local government by successive government austerity measures, this level of bailout support is unlikely to be repeated, at least in the medium term.

The main costs of the buyout are identified in Table 6 and consists of senior debt repayment – the main bank loan that financed the project (£50.0m), the interest rate swap breakage fee (£27.0m), the market value of equity SPV equity (£14.5m) and the SPV corporation tax liability (£18.2). Taking account of a cash balance of £5.5m and smaller items, such as the £1.0m transaction costs, the total termination fee was £107.2m. However, the final termination fee was £114.2m, which included a £1.3m increase in the market value of the SPV equity.

> *"The most significant company balance sheet change in 2014 was the receipt of a £15.8m dividend from Hexham General Hospital SPC Holdings Limited in October 2014. This cash was retained in the company pending a decision on whether to use it for purchasing additional shareholdings in PFI project companies or returning it to investors"* (Consolidated Investment Holdings Limited (Lend Lease) Annual Report, 2014).

Table 6: **Northumbria Healthcare NHS Foundation Trust's estimate of termination fee**

Component	**Estimate (£m)**
Senior debt repayment	50.0
Mezzanine debt repayment	1.8
Interest rate and retail price index swap breakage	27.0
Sub-contract breakage	0.2
Cash balances	(5.5)
Market value of equity	14.5
Transaction costs	1.0
Corporation tax gross-up	18.2
Total	**107.2**

Source: Hellowell 2015: extracted from documents prepared by Deloitte on behalf of Northumbria Healthcare NHS Foundation Trust

The Trust had to identify the cost of terminating the PFI contract compared with continuing with the contract. Termination costs comprised the cost of repaying the loan to Northumberland County Council at a fixed interest rate of 3.98% (£180.46m) and the estimated cash cost of operating expenses from October 2014 to the end of the contract in September 2038 (£36.58m) (Hellowell, 2015). The cost of continuing the PFI contract comprised the remaining unitary charges from October 2014 to April 2033 of £222.5m and estimated operating expenses from April 2033 to September 2038 of £8.8m – see Table 7.

The cost saving for the NHS Trust was 6.2% of the cost of continuing the PFI contract.

Table 7: **Cost comparison of terminating and continuing the PFI contract**

Cost components for each option	Estimate (£m)
Terminating the PFI contract	
Cash cost of local authority loan repayments from October 2014 to September 2038	180.46
Estimated cash cost of operating expenses from October 2014 to September 2038	36.58
Total	217.04
Continuing the PFI contract	
Cash cost of PFI fees October 2014 to April 2033	222.5
Estimated cash cost of operating expenses April 2033 to September 2038	8.8
Total	231.35
Cost saving of termination 2014-2033	**14.3**

Source: Hellowell 2015: extracted from documents prepared by Deloitte on behalf of Northumbria Healthcare NHS Foundation Trust

For a fuller discussion of buyout and termination issues for NHS Trusts see Hellowell (2015).

Impact on public debt

PFI projects that are classified on-balance sheet means that their debt is already included in Public Sector Net Debt and Public Sector Net Borrowing. Those classified off-balance sheet, the capital funding will be reclassified to the public sector leading to an increase in Public Sector Net Debt and Net Borrowing.

PFI projects are classified on- or off-balance sheet since 1 April 2009 according to the International Financial Reporting Standards (IFRS), the European System of Accounts (ESA) and the Generally Accepted Accounting Principles (GAAP). This information is included in the annual HM Treasury listing of current PFI projects. Six of the buyout projects – Hexham Hospital, Lancashire Waste, Tube Lines, West Park Hospital, Dyfed-Powys Police Station and Ruthin County Hall – were on-balance sheet for the IFRS standard. Only two were classified on-balance sheet for the ESA and GAAP standard with the rest being off-balance sheet or their status unknown. Only 23 projects were classified off-balance sheet under IFRS out of 724 current projects in the HM Treasury 2015 listing. Information on 50 projects was not known.

Interest rate swaps

Interest rate swaps are derivative contracts that fix interest rates on loans to reduce the risk of variations in interest rates on loans. They are a form of protection if interest rates rise. But in the current situation, with very low interest rates (the Bank of England interest has been 0.5% for several years), the finance for PFI projects prior to 2009 will have been arranged on higher rates than later projects. The current situation favours the banks, which receive a fee for arranging swaps, payments reflecting the difference between interest rate when the swap was agreed and current interest rates, and the financial penalties imposed for breaking the terms of swaps. For example, the Hexham Hospital buyout included a £27.0m swap breakage fee (Hellowell, 2015).

This situation would change if interest rates increased to the level at which swaps were negotiated, because the banks could no longer gain from the interest rate difference and the breakage fees should also reduce. However, interest rate swaps would remain a financial burden for PFI/PPP projects.

Employment issues in buyouts and terminations

Where applicable, operational and facilities management staff will transfer to the public body under the Transfer of Undertakings Regulations (TUPE). This will likely involve negotiations on terms and conditions and pensions depending on the extent to which employers have maintained parity with public sector terms and conditions for transferred and/or new staff. However, Brexit could potentially lead to a weakening of UK employment transfer regulations.

Council buyout barred

In early 2016, the Highland Council was refused permission by the Scottish Government for additional borrowing powers to buyout two PFI schools contracts that had commenced in 2001 and 2006. Unitary payments for the contracts for 15 schools total £93.7m and £716.8m respectively with a current payment of about £29m per annum. The Council believe they were refused because it would have set a precedent and additional Council borrowing could impact on the Scottish Government's own borrowing proposals (Russell, 2016 and Freeman, 2016).

The Highland schools contracts illustrate the complexity and changing ownership of PFI assets. The equity in the first project (Community Schools (Highland) Limited (a subsidiary of Community Schools Holdings Ltd) was jointly owned by the Royal Bank of Scotland and MJ Gleeson Group plc (construction company), but in November 2004 they each sold their equity to Henderson PFI Secondary Fund I for an undisclosed amount. In June 2012 Henderson sold 100% of the equity to Civic PFI Investments Limited (owned by Grosvenor PFI Holdings Ltd). These two companies and Cardale Infrastructure Investments Ltd and GCP Infrastructure Investments Ltd (Gravis Capital Partners) are registered in Jersey.

Civic PFI Investments obtained a £11.2m loan from GCP Infrastructure Investments in 2012 secured against the cash flows arising from the first Highland school project and the Sheffield Family Court PFI project. The terms of the 17-year loan were to *"…produce a return of 9.31% p.a. annual equivalent, plus an element of inflation protection"* (GCP RNS 1837C, 27 April 2012). The Bank of England interest rate was 0.5% in 2012.

Morrison Construction (Anglian Water) began construction of the schools for the second Highland schools project, Alpha Schools (Highland) Ltd (a subsidiary of Alpha Schools Highland (Holdings) Limited). However, it was taken over by another contractor, Galliford Try plc in 2006 and thus acquired a 50% equity stake in the SPC. Three years later Galliford sold its equity to HICL infrastructure fund (Guernsey) for £16.5m and a profit of £4.4m. The other 50% stake, owned by Northern Infrastructure Investments LLP (3i Group plc (Jersey) and Noble Financial Holdings Limited), until it was also sold to HICL in March 2013 for £21.2m - profit not disclosed (ESSU PPP Equity Database 2012). HICL now has 100% ownership of the second schools project.

The rationale and conditions for buyouts have varied widely and the degree to which significant offshore equity ownership may impact on buyouts has yet to be tested.

Treasury guidance on buyouts

HM Treasury issued a letter to Accounting Officers in government departments in October 2014 and March 2015 *"…of Public Accounts Committee concerns over the inclusion of "termination for convenience" clauses in contracts providing for compensation to be paid to suppliers based on projected supplier profits to contract end where a contract is terminated by the public body, through no fault of the supplier"* (HM Treasury, 2015a).

A PPP Policy Note followed in June 2015 on the voluntary early termination of contracts (HM Treasury, 2015b). It stated: *"Termination of existing PFI contracts may only be approved where changes in circumstances make it likely that a significant improvement in the delivery of public value for money will be achieved."*

Authorities will have to prepare a detailed business case with a full value for money assessment and costs. Significantly, the Policy Note states:

> ***"Contracted compensation will usually be an amount that would leave the contractor in the same position as if the contract had run to full term."***

The guidance deals only with 'voluntary' terminations. However, 80% of the terminations in Table 12 were as a result of fundamental failure or continued poor performance by the private sector.

Part 4
Government bailouts

NHS trusts in financial crisis have received various types of financial support in the last decade. The Department of Health had provided £1.0bn cash injection to 21 trusts between 2006-07 and 2011-12. Only £160m had been repaid. It included a £253m cash injection in 2011-12 to 11 trusts, all but one in London and the southeast (Department of Health, 2012). South London Healthcare Trust received £356m and Barking, Havering and Redbridge £195m. Both trusts are expected to receive more funding under the PFI bailout scheme.

Government bailout PFI hospitals

Following a review of 22 NHS Trusts with large PPP schemes in financial difficulty in 2011/12, the UK Department of Health was forced to provide a **£1.5bn bailout fund** to seven NHS Trusts with significant PFI projects because *"…the trusts' plans are not viable without some level of central support"* (ibid). The funding is spread over the remaining life of the PPP contract, equivalent to £60m per annum over 25 years for the seven NHS trusts (see Table 8).

The then Coalition government admitted: *"In the past, local Trusts have received extra funding on the quiet in order to avoid embarrassment. We have already signalled that we are determined to end these backroom deals by bringing greater transparency and openness to the process"* (Department of Health, 2012).

> ***"Any Trusts that can satisfy the rigorous tests will have access to financial support of up to £1.5 billion in total over a period of 25 years. Some of this funding will be available from 2012/13 from within the Department of Health's budget"*** (Department of Health, 2012).

Fifty-seven NHS trusts had between 5% and 26.9% deficits (as a percentage of total income) in 2015/16. NHS trusts received £2.4bn additional finance from the Department of Health and NHS England in 2015-16, a 32% increase on the previous year. The Department of Health provided trusts 'in difficulty' with £1,996m revenue-based support for day-to-day operating expenses, plus £255m capital support for essential building works. NHS England provided £154m to trusts 'in difficulty' *"…and is provided to support trusts that have undergone mergers and to trusts with private finance initiative (PFI) schemes"* (NAO 2016a).

Table 8: **NHS PFI hospitals included in Government £1.5bn bailout**

NHS Hospitals	**Total cost of contract (£m)**	**Length of contract (years)**	**Operational start date**
Cumberland Hospital, North Cumbria University NHS Trust	619.2	30	2000/01
Whiston Hospital, St Helens & Knowsley Teaching Hospitals NHS Trust	2,596.0	42	2006/07
Peterborough and Stamford Hospitals NHS Foundation Trust	2,004.0	32	2011/12
Romford Hospital, Barking, Havering and Redbridge University Hospitals NHS Trust	2,086.0	34	2006/07
Darent Valley Hospital, Dartford and Gravesham NHS Trust	911.0	33	2000/01
Tunbridge Wells Hospital, Maidstone and Tunbridge Wells NHS Trust	961.4	32	2010/11
Queen Elizabeth Hospital, Lewisham and Greenwich NHS Trust	886.0	31	2000/01

Source: Department of Health, 2012.

The Department of Health's affordability criteria for substantial PPP projects were determined by whether the annual payments to the contractor exceeded 15% of Trust turnover. In the case of Peterborough and Stamford trust, it was originally 15% (since reduced to 12.5%), but rose to 20% following failure of a land deal with a developer, failure to achieve cost reductions included in the business case, control cost increases and unrealistic projections of future trust income. Some equipment replacement costs were excluded from the business case, because their inclusion would have breached the 15% threshold (NAO, 2012b).

Financial support specifically provided to NHS trusts for PFI projects was £61.0m in 2011-12, although the number of trusts involved is not available (Department of Health, 2012). Fourteen trusts received £132.4m in 2012-13 (National Audit Office, 2014), which is clearly twice the number of trusts originally envisaged. Eight trusts received £81.0m in 2014-15. No similar information could be found for the financial years 2013-14 and 2015-16, assuming the other years were an average of the three years where data is available, then the five year total would be £457.4m. On this basis, the £1.5bn allocation will be spent by 2027, well before many NHS PFI projects conclude. However, the seven PFI projects in Table 6 will still be paying PFI unitary payments over the next decade. They will collectively have a further 78 years of PFI unitary payments after 2027.

Furthermore, in 2015-16 the overall deficit of NHS trusts and NHS foundation trusts of £2,447m was 2.8 times the size of the deficit of £859m in 2014-15 (National Audit Office, 2016). Deficits are driving NHS trust mergers. PFI unitary charges for each project are set to increase annually. NHS trusts can also be placed in 'special measures' when there are concerns over the quality of care – 14 trusts in this category in January 2017 http://www.nhs.uk/NHSEngland/specialmeasures/Pages/about-special-measures.aspx - with 'financial special measures' introduced in July 2016 (with eight trusts by October 2016).

PFI bailout funds in mergers

The dissolution of the South London Healthcare Trust resulted in the Princes Royal University Hospital transferring to King's College NHS Foundation Trust and the transfer of Queen Elizabeth Hospital, Greenwich to the new Lewisham and Greenwich NHS Trust with Lewisham Hospital. Five year financial agreements from 2013-14 to 2017-18 included a range of revenue and capital support including revenue support to meet PFI unitary payments (NHS Trust Development Authority, 2012). The PFI bailout payments were:

- Kings College Hospital NHS Foundation Trust – **£55.7m**
- Lewisham and Greenwich NHS Trust **- £73.0m**

The merger of Barts Hospital with Whipps Cross University Hospital NHS Trust and Newham University Hospital NHS Trust on 1 April 2012 received **£20.0m** in PFI support costs as part of larger financial agreement (Kings Fund, 2015).

Sherwood Forest Hospitals Foundation Trust reported a £26.5m deficit in its 2015-16 annual report and accounts and concluded "…to support this deficit and to repay PFI debt and previous capital loan the Trust will require £52.7m of cash support before further costs" of a long-term partnership. The Trust has a 34-year, £2,243m, PFI contract. Merger negotiations with Nottingham University Hospitals NHS Trust were terminated in 2016 when it reportedly refused to take on Sherwood Forest's PFI liabilities (Financial Times, 2016). The abandoned merger cost £10m with £6.1m consultancy fees, £0.5m legal fees, £2.4m backfilling positions of seconded staff and £1.0m for clinical support (BMA, 2016).

There are at least nine mergers currently planned of NHS trusts, which are likely to increase the need for government financial support for PFI projects. For example, the Peterborough and Stamford Hospitals NHS Foundation Trust (planned merger with Hinchingbrooke Health Care NHS Trust) estimates it needs £650m of central financial support over the next 26 years to finance its £1.8bn private finance initiative deal (Illman, 2016).

Role of PFI debts in recent mergers

Financial challenges, or recurrent/predicted deficits, were cited as the case for merger in 15 of the 20 mergers between 2010-2015 (Collins, 2015). The Department of Health, NHS

England and Clinical Commissioning Groups spent nearly £2bn supporting 12 of the 20 mergers (ibid). *"There is a consistent trend of overestimating the benefits of mergers and underestimating the time and costs of implementing them, leading to revised calculations and additional funding soon after – and sometimes before – the mergers have been completed"* (ibid).

The cost of current and future mergers is likely to be at least equivalent to the cost of earlier mergers. The planned savings from mergers are a fraction of the merger costs. For example, one of the largest mergers, the Barts Health NHS Trust demonstrated that

> *"…savings of some £238.8m over the next five years are required. Individually the Trusts have only been able to identify around £208.1m of savings. Any further savings made as individual trusts could threaten both the viability and quality of services. The merger gives the Trusts the immediate opportunity to achieve a further £31.8m as a result of cost reductions opportunities made possible by merger synergies"* (Barts Health NHS Trust FBC, 2011).

This leaves no flexibility for accommodating the inevitable cost increases.

Planned mergers

Several new NHS trust mergers are planned, several of which involve large PFI projects:

- Peterborough and Stamford Hospitals Foundation Trusts Hospital and Hinchingbrooke Health Care NHS Trust (planned for 1 April 2017).
- Central Manchester University Hospitals NHS Foundation Trust, Pennine Acute Hospitals Trust, University of South Manchester NHS Foundation Trust
- Ipswich Hospital NHS Trust and Colchester Hospital University Foundation NHS Trust (currently holding a £75m combined deficit
- Colchester General Hospital, in special measures for two years, was declared "clinically and financially unsustainable" by the hospital board after NHS Improvement and the Care Quality Commission (CQC) inspections in early 2016 and has agreed to merge with the Ipswich Hospital NHS Trust.
- Basildon and Thurrock University Hospitals Foundation Trust will merge with Mid Essex Hospital Services Trust.
- University Hospitals Birmingham (UHB) and Heart of England (HEFT) Foundation Trusts have agreed to work together to create a single organisation, which will include Queen Elizabeth Hospital Birmingham, Heartlands, Good Hope and Solihull hospitals.
- Birmingham Women's NHS Foundation Trust and Birmingham Children's Hospital NHS Foundation Trust have formally agreed to merge the organisations in 2017. The Women's Hospital reported a £4.5m deficit for 2015/16.

Unless there is a rapid and sustainable turnaround in NHS trusts finances, continued government support for PFI projects will be essential together with financial support for PFI projects in planned mergers. A further £1,500m in additional public support for NHS trusts is likely to be required over the next 20 years.

This analysis did not take account of PFI credits for NHS trusts and local authorities, which are intended to be a contribution towards capital investment and is similar to the grant that would be payable if the project had been funded by public investment.

Part 5
Terminations analysis

PFI/PPP contract terminations usually occur as a result of poor performance by contractors. The reasons underpinning the terminated contracts in Table 11, Appendix B, were:

Poor performance	6
ICT problems, cost overruns and delays	3
Failed to obtain planning permission	2
Poor demand forecasting	1
Construction flaws	2
Technical flaws	3
Reduce cost of financing	3
Total	**20**

Cancelled and distressed World Bank PPP projects

The World Bank Group have promoted and financed PPP projects for nearly three decades. The data is based on projects that have been cancelled and projects that are in distress. Cancelled projects are classified as those which the private sector has exited by selling or transferring its economic interest back to the government before fulfilling the contract terms; removing all management and personnel from the concern; or ceasing operation, service provision, or construction for 15% or more of the license or concession period, following the revocation of the license or repudiation of the contract (World Bank, 2016).

Distressed projects are those in which the government or the operator has either requested contract termination or are in international arbitration. The data covers six regions - East Asia and Pacific, Europe and Central Asia, Latin America and the Caribbean, Middle East and North Africa, South Asia and Sub-Saharan Africa (Private Participation in Infrastructure Database, World Bank, accessed 21 December 2016).

An analysis of 12,549 PPP energy, telecoms, transport and water and sewerage classified as greenfield, management and concession contracts (excludes privatisation) between 1991-2015 (first half of 2015) in the Private Participation in Infrastructure Database revealed 768 (6.1%) cancelled and distressed contracts representing US$91.1bn (5.4%) of investment. Water and sewerage contracts had the highest level of cancelled and distressed contracts – 6.6% and 1.4% respectively, accounting for 29.3% of investment.

UK has higher failure rate

The UK data indicates a buyout rate of 2.3% based on the total cost of the buyout projects as a percentage of the total cost of all PFI/PPP projects.

The rate for UK terminated contracts is 4.5% and for contracts with major problems a rate of 9.9% on the same basis.

This gives a combined UK total of buyout and terminated contracts of 6.8% compared to the World Bank ratio of cancelled (terminated) contracts of 5.4% - in other words, the UK's ratio, an industrialised country, is higher than the average for developing countries!

Furthermore, a combined buyout, termination and major problem ratio, excluding the projects being bailed out, rises to 17.7%.

Part 6

Major problem contracts

Buyouts and terminations are clearly identifiable. Major problems are subjective and projects have been included that have experienced one or more of the following: persistent poor performance; significant construction failure; contractor went into administration; cost overruns and delays (impact on public sector); excessive operational charges; major legal disputes; and prevention of public policy implementation (Scotland). 43% of delayed projects also included a price increase (NAO, 2009). See Table 12, Appendix C for details of 43 major problem contracts.

Many additional examples of problem contracts

Many other examples of poor performance have been excluded from the ‘major problems’ category despite them having serious consequences for public authorities, service users and staff. For example, Bradford City Council award two 25-year Building Schools for the Future contracts in 2006 (3 schools) and 2009 (4 schools). The capital costs were £78.0m and £214.5m respectively with unitary costs of £313.4m and £671.9m. The facilities were built by Costain plc, financed by HSBC with facilities management provided by Amey plc.

Both contracts included 5-year ICT contracts. The ICT for the first contract has returned in-house at the end of the contract. The second contract has *“…a range of technical and service performance issues”* resulting in the Council negotiating an early termination of this contract and the service returned in-house. The Council made £1.5m performance reductions from the facilities management contract since 2008 (Bradford City Council, 2015).

Knowsley Council discovered fire safety failings in eight schools built by Balfour Beatty plc in 2008-09. A fire in the Knowsley Park school kitchen in 2015 led to the inspection of all eight schools, which revealed 60 fire dampers or shutters had been wrongly installed and impossible to check and maintain. Many failed maintenance checks. The contractor undertook remedial work and the schools remained open.

Balmoral High School, Belfast, closed in summer 2007 just five years after it was built under a PFI project. It was designed for 500 pupils but pupil numbers declined to 154 in 2007, reported a ‘botched ‘ planning by the Belfast Education and Library Board who are committed to paying £7.4m for the remaining 20 years of the contract (Press Association, 2007). The school was used briefly by a primary school waiting for completion its new school and in 2014 St Gerald’s Educational special school moved in. The Board spent £3.1m adapting the accommodation (Doyle, 2015).

Future potential problems

John Laing Group plc admitted in early December 2016 that the Greater Manchester Waste Disposal Authority was ‘not satisfied’ with the £3.7bn Manchester Waste PFI project. An earlier press report had claimed the project “…heads for scrapheap” (The Times, 13 November, 2016). Laing is a joint partner with Viridor Waste Ltd (Pennon Group plc). Costain expects to complete construction in early 2017, but incurred significant losses since the contract was signed in 2007. Costain’s results for the half-year ending 30 June 2016 stated *“…further costs and provisions totalling £11.4 million in relation to the completion”* and “*remains in discussions with relevant contract counterparties and the Group's insurers regarding the issues that have arisen on this contract”.* The nine Greater Manchester local authorities are seeking substantial savings in the project.

> *“The Greater Manchester Waste Disposal Authority ("GMWDA") has indicated that it is not satisfied with the current status of the VL Co project and it continues to seek significant cost savings and efficiencies. The process by which these issues will be resolved is currently unclear to the project company, which continues to work with*

GMWDA to explore options" (John Laing Group plc, Pre-Close Update, 9 December 2016).
http://otp.investis.com/clients/uk/john_laing_group/rns/regulatory-story.aspx?cid=1041&newsid=826938

Limited information

The information available on many buyouts and terminations in the 1990 and 2000 decades is limited because details of unitary payments and public cost of terminations were not publicly available. The situation is further complicated by HM Treasury PFI statistics, which exclude buyout, terminated and concluded contracts from the annual listing of current projects, although they are briefly stated in the annual summary report. The UK government stopped use of PFI for ICT projects in July 2003.

The transaction costs of buyouts and terminations are often not reported, so it is difficult to determine whether they are included or excluded. Exceptions include the £1.0m transaction cost included in the Hexham Hospital buyout (see Table 4) and the Dyfed-Powys Police buyout of the Ammanford Police Station, Wales PFI project. The Police Commissioner stated it *"…took around two years and cost around £160,000 in professional fees – but we save more than £3m against the PFI deal and that's good news for our communities"* (Dyfed-Powys Police and Crime Commissioner, 2015).

Another PFI/PPP tax avoidance scheme

In 2001, HM Revenue and Customs (HMRC) signed a 20-year PFI/PPP contract, the Strategic Transfer of the Estate to the Private Sector (STEPS) with the Mapeley Group to manage the HMRC estate (see page 38). HMRC sold its freehold properties - two thirds of its estate – to Mapeley for £370m and immediately leased them back from Mapeley who also provided facilities management services. Mappeley immediately transferred the freehold and long-leasehold properties to company in Bermuda to avoid UK taxation of capital gains. Buried on the last page of the latest National Audit Office report on STEPS (NAO, 2017) is the following:

Mapeley's offshore status

Public Accounts Committee recommendation	HMRC's actions
HMRC should take whatever action it can to persuade Mapeley to bring the properties onshore.	HMRC did not progress this recommendation.
HMRC should track the savings Mapeley actually obtains (from being based offshore) and Mapeley should provide full and timely information to enable the Department to do this. The Department should seek to recoup any additional benefits Mapeley obtains.	HMRC did not accept PAC's recommendation.

Overseas PPP failure by the Department for International Development

The UK Department for International Development and Atkins plc –*"one of the world's most respected design, engineering and project management consultancies"* built a new £285m airport on the south Atlantic island of St Helena (a UK Overseas Territory), via a design, build and operate PPP contract. It was part of a plan to boost tourism, reduce economic decline and improve access to the island (NAO, 2016b).

However, tests flights in April 2016 revealed dangerous wind conditions on the airport approach ('wind shear'), which means that it cannot be used for commercial aircraft. The wind conditions were well known. The House of Commons Public Accounts Committee concluded that it "is staggering that the Department commissioned and completed the St Helena airport before ascertaining the effect of prevailing wind conditions on landing commercial aircraft safely at St Helena (HM PAC, 2016). By late 2016 there was no plan or cost for remedial work. The Department is committed to fund and subsidise the airport at a cost of £667m between 2011-2043 (NAO, 2016b).

Part 7
Abandoned PFI/PPP projects

Many PFI projects have been abandoned at the planning stage, which included some large projects such as the Paddington Basin Health Campus (2005), the University Hospitals of Leicester NHS Trust (2007) and the Colchester General Hospital (2006). These projects wrote off £14.9m, £23.m and £7.3m respectively in wasted planning, procurement and consultancy costs. PFI/PPP projects have been defined as 'abandoned' to avoid confusion with the World Bank's use of the term 'cancellation' for terminated PPP contracts.

Another example was the £1bn Armoured Vehicle Training Service project (2005). The Ministry of Defence paid £10.6m to bidders and £5.0m to consultants in the bid evaluation stage. However, it had no record of the expenditure on consultants in the earlier stages of the projects *"…as records were not retained. The Department's own internal cost of resourcing this major procurement over the six years of the project was not recorded, as this was not a requirement"* (National Audit Office, 2008). This reflects an appalling attitude and lax public management that is not unique to the MoD. It fails to treat staff time and resources as an opportunity cost as resources could have been used to develop another public service project or implement service improvements.

Table 9 excludes many PFI projects that were cancelled by the UK government in 2009/10 as part of austerity measures in response to the global financial crisis, for example, several Building Schools for the Future projects were cancelled or put on hold in July 2010.

The sixteen projects in Table 9 are a *sample* of 'abandoned' projects.

Table 9: **Abandoned PFI/PPP projects in the UK**

Year	Department or Authority	Project	Reason for Cancellation	Cancellation cost (£m)
2003	East Kent Hospitals NHS Trust	East Kent Hospital	£250m capital cost, cancelled after 2 years (DoH evidence to PAC 2007)	0.4
2004	Bradford Teaching Hospitals NHS Foundation Trust	Bradford Hospital	£116m project cancelled after 3 years work. (DoH evidence to PAC 2007)	0.7
March 2004	London Borough of Camden	Maiden Lane estate	Tenants vote by large majority to reject PFI (Hodkinson, 2011)	0.3 estimate
September 2004	Ministry of Defence	Airfield Support Services PFI Project	Contract notice Sept. 2001 for £1.5bn project but cancelled 3.5 years later (NAO, 2008)	1.0 estimate
May 2005	Royal Brompton and Harefield NHS Trust, St Mary's NHS Trust, Imperial College and Partnerships UK	Paddington Health Campus, London	Capital costs soared from £300m (OBC, 2000) to £894m and extra 7 years to complete. Cancelled on grounds of affordability, land and strategic issues (NAO, 2006)	14.9
June 2005	Ministry of Defence	Armoured Vehicle Training Service	Contract Notice October 1999, preferred bidder appointed June 2004, but failure to reach agreement (NAO, 2008)	18.5 excludes six years of internal costs & consultants costs prior to 2000
June 2005	Plymouth Hospitals NHS Trust	Derriford PFI Hospital	£300m project but 2 of 3 bidders withdrew. Cancelled on grounds of value for money risk and precedent of 1 bidder (PPP Bulletin, 11/09/09)	1.0 estimate
November 2006	Ministry of Defence	Combined Aerial Target Service (CATS)	3 bidders shortlisted September 2001, QinetiQ, privatised unit of Defence Evaluation & Research Agency in 2003 was one of bidders and launched its bid	5.0 estimate

			in 2003, appointed preferred bidder in March 2006 & awarded £365m contract December 2006. PFI replaced by 'contractor owned and operated service' in 2005-06 (NAO, 2007b, PAC, 2008 & Defence Industry Daily (2008).	
November 2005	Whipps Cross NHS Trust	Whipps Cross Hospital PFI	£350m redevelopment, Balfour Beatty consortia withdrew leaving one bidder (PPP Bulletin 10/09/07)	3.5 estimate
June 2006	Essex Rivers NHS Trust	Colchester General Hospital	£186m capital cost project in procurement after VfM review (DoH evidence to PAC 2007).	7.3 included compensation to Amec plc led consortia
2007	University Hospitals of Leicester NHS Trust	Leicester Hospital	Preferred bidder appointed 2004 but costs rose by £210m to £921m (Building, 20/07/07)	23.4
2007	Scottish Executive	Low Moss Prison, Bishopbriggs, near Glasgow	PFI project cancelled and new public 700-cell prison operated by Scottish Prison Service. (Financial Times, 24/08/2007)	0.2 estimate
2009	Kent County Council	Medway DC Extra Care PFI via LIFT	Agreed to participate in November 2004 but later withdrew because of affordability issues (PPP Bulletin, 2008)	0.2 estimate
2007	Wiltshire Primary Care Trust	£85m LIFT project	Cancelled after three bidders shortlisted on value for money grounds (Wiltshire Council, South Wiltshire Core Strategy, 2009)	0.5 estimate
October 2010	Ministry of Defence	Defence Training Rationalisation project	Metrix Consortium appointed preferred bidder January 2007 for £14bn project, cancelled as bidder unable to deliver affordable proposal (MoD, 2010; PAC, 2010)	32.4
December 2013	Bradford City Council and Calderdale MBC	Bowling Back Lane Energy from Waste Incinerator - capital cost £181m	Govt withdrew £62.1m funding after FCC Environment & Skanska appointed preferred bidders. Councils launched Judicial Review but Govt eventually agreed settlement (Letsrecycle.com, 2014)	Settlement not disclosed 5.0 estimate
Total 16				**114.3**

Part 8
Summary of public costs

This section summarises the public costs of buyouts, bailouts, terminations and major problem PFI/PPP contracts in the UK. The public cost of bailouts is estimated because details are available for only two of the eleven projects. The additional cost of financial support for PFI/PPP projects is based on data of recent payments and the evidence that the £1.5bn support allocated in 2012 will be exhausted by 2027, many years before NHS hospital projects are concluded. The estimate also takes account of the current trend in NHS trust mergers, which usually include financial support for PFI/PPP projects, and the precarious finances of NHS trusts in general.

Table 10: **Total public cost of buyouts, bailouts, terminations and major problem contracts**

Public costs	**Cost (£m)**
Financial bailouts of PFI hospitals (1)	1,500.0
Additional bailout finance likely to be required (estimate)	1,500.0
Buyout costs (estimate)	636.0
Public cost of PFI contract terminations (2)	1,677.1
Public cost of major problem contracts (3)	2,139.8
Public cost of abandoned PFI projects (4)	114.5
Total	**7,567.4**
Further additional costs	
Additional cost of private finance compared to public investment (5)	12,904.0
Additional PFI/PPP transaction costs (6)	1,631.0
Interest rate swap liability in 2013-14 (7)	5,800.0
Total (8)	**20,335.0**

Sources:
(1) Table 11: Includes only the specific costs related to PFI contracts and excludes hospital deficits.
(2) Table 12: The private sector bears significant costs in contract terminations, but they are not fully known.
(3) Table 13: Most of the public costs of major problem contracts are unknown, and in some cases, SPV shareholders and private contractors private companies suffer financial losses.
(4) Table 7
(5) Based on 4% additional cost *"the effective interest rate of all private finance deals (7%–8%) is double that of all government borrowing (3%–4%)"* (NAO, 2015a) and total PFI/PPP debt of £222bn plus £88bn already paid (Owen, 2015); plus £6.6bn NDP projects, Scotland; plus £6bn LIFT projects not included in HMT database. (NPD – Non-Profit Distributing PPP model in Scotland, although the SPV equity does not receive dividends and private sector returns are capped in competition, it is nevertheless a commercial for-profit model.
(6) Based on 2% additional cost compared with public investment and capital cost of £57,688m at 31 March, 2015 in HM Treasury database plus 4 projects in procurement and 22 concluded projects 2013-15; projects in Tables 11 and 12; £2,105.5m capital value NPD completed and in construction projects in Scotland, April 2016; £2,144m of LIFT investment not included in HMT database.
(7) Many SPVs have interest rate swaps to obtain long term financing at fixed rates and protection against higher borrowing costs if interest rates increase. *"We estimate that these swaps are currently around £6 billion out of the money (if the shareholders wanted to buy-out the contract this payment would be required to exit the swaps). We believe the total swap liability may exceed £6 billion because more than 25% of the sampled SPVs which used swaps and other hedging instruments did not disclose the liability in their accounts"* (NAO, 2015a).
(8) Excludes PFI Credits from central government to local authorities and NHS Trusts which are intended to be a contribution towards capital investment and is similar to the grant that would be payable if the project had been funded by public investment.

The public cost of buyouts, bailouts, terminations and major problem contracts, combined with the additional cost of private finance, interest rate swaps and higher PFI transaction costs, is **£27,902m.**

This sum could have could built **1,520 new secondary schools for 1,975,080 pupils, 64% of 11-17 year old pupils in England** (National School Delivery Cost Benchmarking, 2015 and Department of Education and National Statistics, National Tables, 2016).

Part 9
Recommendations

Economic concerns about increased public debt and dubious accounting methods, have been used to conceal the real cost of PFI/PPP projects. However, long-term contractual commitments are a form of public debt, but these large financial liabilities have been lodged in public sector revenue accounts. This means the quality of frontline services and the interests service users and staff are sacrificed in order to repay exorbitant private debt.

The high cost and poor track record is evidenced in the level of buyouts, bailouts, terminations and major problem contracts. There is a growing realisation that long-term private finance contracts are inflexible, inhibit change in response to social and economic needs and restrict innovation in service delivery. The financial commodification of public infrastructure has created a new wealth machine to enable private investors, banks and construction companies to obtain very high returns at the expense of public economic and social needs. The PFI/PPP model is unsustainable and must be terminated.

Reviews of PFI/PPP contracts

Local authorities and NHS trusts should systematically review their PFI/PPP contracts to assess performance, the original objectives, functioning of the facility, claimed value for money, employment practices and undertake an economic, social and environmental impact assessment. This would provide the evidence for changes in unitary payments, improved monitoring and governance of the project.

Selected buyouts and contract terminations

Public bodies should develop a strategic approach to the buyout or termination of contracts when they are not meeting performance requirements and/or user/community needs are not being met. Savings may be obtained, profiteering eliminated and public buildings returned to public sector control.

The case for the nationalisation of SPVs

The proposal to nationalise Special Purpose Vehicle (SPV) companies that operate PFI/PPP projects, is gaining support (People v Barts PFI, 2015). It would stop the trade of PFI/PPP equity, the growth of offshore secondary market funds and chart a return to public ownership. It would reverse the financialisation and marketisation of public infrastructure (Whitfield, 2016).

Radical public management

Public ownership alone is inadequate. A new public investment infrastructure model is required together with radical public management with the capability and capacity to plan, design, finance and manage schools, hospitals and other public buildings through public investment. It will focus on service innovation, integration, improvement and early intervention. The continuous involvement of service users, community and civil society organisations, staff and trade unions will be critically important to ensure public service principles and values replace the discredited and failed neoliberal public management.

Increased public investment

The PFI/PPP programme should be terminated and replaced by increased public investment, which would significantly reduce the cost of public infrastructure.

Appendix A

Table 11: **Buyout of PFI/PPP projects**

Date First date of operation & date of buyout	Project and companies	Buyout public cost (£m)	Projected Saving (£m)	Unitary payments to date of buyout (£m)	Total cost of project based on unitary charges (£m)	Capital cost of project (£m)
01/10/1995 - 21/12/2004 Buyout 9.2 years into operating contract	**Skye Bridge, Scotland** Miller Civil Engineering Ltd, Dyckerhoff, Widmann AG (known as Miller-Dywidag) & BankAmerica International Finance Corporation Closed ferry service when bridge opened in 1995 followed by vociferous community campaign against high toll fees. Tolls frozen at 1999 prices for remainder and abandoned in 2004 and concession terminated with £26.7m payment by Scottish Executive. No savings after taking account of future taxes by operator and user tolls. Voluntary compensation package with Skye Bridge Limited http://www.auditscotland.gov.uk/docs/central/2005/s22_se_consol_resource_accounts.pdf http://archive.scottish.parliament.uk/s3/committees/finance/inquiries/capInvest/adviser_buyouts.pdf http://news.bbc.co.uk/2/hi/uk_news/scotland/4112085.stm	26.7	0.0	n/a	n/a	39.0
23/05/1999 - 2006 Buyout 7.0 years into operating contract	**Inverness Air Terminal Ltd. Scotland** Highland-Inverness Airport Infrastructure Investors (Barclays Bank), Gleeson and Noble Group Scottish Executive funded buy-out by Highland & Islands Airports Ltd. Structure of contract considered disincentive to growth of new services. Airport operator had to pay the PFI company £3.50 for every passenger flying from the airport. Considered PFI was a tax on expansion. http://archive.scottish.parliament.uk/s3/committees/finance/inquiries/capInvest/adviser_buyouts.pdf www.scottish.parliament.uk/s3/committees/finance/inquiries/capInvest/adviser_buyouts.pdf	27.5	n/a	n/a	73.0	9.5
01/09/2001-01/06/2007 Buyout 5.75 years into operating contract	**West Lothian College, Scotland** HBG (Royal BAM Group) Scottish Funding Council, supported by Scottish Executive, bought-out contract – based on assumptions of student growth that did not materialize leaving £11m funding gap over 20 years. Change in funding policy and college faced financial crisis in funding PFI project. http://archive.scottish.parliament.uk/s3/committees/finance/inquiries/capInvest/adviser_buyouts.pdf http://www.scotsman.com/news/pfi-buyout-costs-taxpayers-163-20m-as-scots-college-cuts-its-losses-1-741181 http://www.heraldscotland.com/news/12426190.display/	27.5	n/a	n/a	n/a	17.8
15/05/2000 - 17/03/2008 Buyout 7.8 years into operating contract	**Croydon Tramlink, London** Tramtrack Croydon Limited - Bombardier, Sir Robert McAlpine and Amey plc 99-year concession signed November 1996 and opened May 2000. Failed to meet traffic projections. Financial losses of £18.3m between 2000-03. By 2008 it could cover operating costs but could not service its debt or invest in the system. Disputes with Transport for London (TfL) and decision taken to acquire the company to improve integrated system. TfL also paid compensation payments to company for changes to fares and ticketing policy - £4m paid in 2006/07. https://tfl.gov.uk/info-for/media/press-releases/2008/march/tfl-announces-plans-to-take-over-tramlink-services http://content.tfl.gov.uk/Item05-Tramlink-Performance-and-Planning-Update.pdf	98.0	n/a	n/a	n/a	205.0
31/12/2002 - 07/05/2010 Buyout 8.4 years into operating contract	**London Underground, Tube Lines (Holdings) Ltd** Jubilee, Northern and Piccadilly Lines (JNP) Amey UK plc, Bechtel Corporation and Jarvis plc Transport for London (TfL) acquires Tube Lines on 27 June 2010 by acquiring shares for £310m. Context of failure of Metronet contracts in 2008 – see Table 11. Tube Lines proposed £5.75bn costs for next 7.5-year period but Arbiter proposed £4.4bn costs. TfL acquired £1.3bn of Tube Lines £1.6bn debt to reduce borrowing costs. Amey reported £1.7m profit on sale (Annual Report 2010 p 47) Bechtel Corporation Press Release 07/05/2010 http://www.publications.parliament.uk/pa/cm201012/cmselect/cmtreasy/1146/1146.pdf https://tfl.gov.uk/info-for/media/press-releases/2010/may/transport-for-london-to-acquire-the-shares-of-tube-lines http://www.publications.parliament.uk/pa/cm201012/cmselect/cmtreasy/1146/1146we05.htm http://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN01746#fullreport	310.0	n/a	4,800.0	4,800.0 in first 7.5-year period	5,526.0

01/11/2004 - 01/01/2011	**West Park Hospital, Tees, Esk and Wear Valleys Mental Health NHS Foundation Trust** Norwich Union PPP Fund, now trading as Aviva	18.0	14.0	9.5	53.4	15.7
Buyout 6.2 years into operating contract	NHS Trust carried a review of three PFI projects and opted to terminate the longest running project – West Park Hospital, Darlington. It paid £18.0m in 2011 to buy-out the 30-year contract with Aviva, aided by a surplus in its 2010 accounts. Trust will save £14m over remainder of the contract. http://www.telegraph.co.uk/news/health/news/8296685/Hospital-saves-14m-by-getting-out-of-PFI-deal.html http://www.theguardian.com/healthcare-network/2011/feb/03/pfi-nhs-trust-paid-off-tees-esk-wear					
01/12/2000 - 01/04/2013	**Care Homes, London Borough of Southwark** Anchor Group	n/a	12.0	n/a	n/a	n/a
Buyout 12.3 years into operating contract	25 year PPP contract to rebuild four care home in Southwark. Anchor will continue to provide care services in the homes. http://www.southwark.gov.uk/news/article/1220/southwark_council_and_anchor_strike_early_repayment_deal_for_care_homes http://www.localgovernmentlawyer.co.uk/index.php?option=com_content&view=article&id=13945%3Alondon-council-to-save-p12m-from-buyout-of-25-year-care-homes-pfi-contract&catid=53%3Aprocurement-and-contracts-articles&Itemid=21					
31/03/2003 - 01/01/2014	**Hexham Hospital, Northumbria Healthcare NHS Foundation Trust** Lend Lease Infrastructure Fund and Uberior (Aberdeen Asset Management) 30-year contract	107.2	14.3	67.0	252.6	54.1
Buyout 10.75 years into operating contract	Northumberland County Council loaned the NHS Trust £114.2m (which in turn borrowed from the Treasury's Public Works Loan Board) to buy out the PFI project. Hospital saved £3.5m per annum through buyout. Northumberland CC borrowed the money from the Treasury's Public Loan Board. Details of buyout in Part 3. http://www.thejournal.co.uk/north-east-analysis/analysis-news/hexham-hospital-changes-hands-private-7975734 https://www.northumbria.nhs.uk/news/northumberland-hospital-changes-hands-pfi-pay-out-deal-finalised					
03/09/2001- 01/07/2015	**Dyfed Powis Police, Ammanford Police Station, Wales** Dolef Cyfrynedig (property company)	n/a	3.1	9.2	21.2	5.3
Buyout 13.8 years into operating contract	Station completed in September 2001 and contract terminated July 2015 saving £3.1m over remaining 16 years of contract. Termination cost £160,000 in legal fees. The police station was closed for several years when its front desk services were replaced by a mobile van in a car park. http://www.southwalesguardian.co.uk/news/13376545.UPDATED__Shock_deal_sees_Dyfed_Powys_Police_buy_Ammanford_station/?ref=mr&lp=9 http://www.dyfedpowys-pcc.org.uk/en/commissioner-police-station-deal-saves-3-1m-for-front-line-policing/ http://www.carmarthenshireherald.com/5973/police-buy-police-station/					
17/05/2004 - 15/11/2015	**Ruthin County Hall Offices and Market Hall, Denbighshire Council, Wales** NYOP Ruthin Limited	16.9	12.0	25.2	65.6	12.1
Buyout 11.5 years into operating contract	Completed in May 2004 but terminated 15 years early in November 2015 and will avoid £12m costs over the next 15 years. Finance Report, Cabinet, 27 October 2015. Council sought full control of the building, costly restrictions imposed by the PFI contract on the number of staff based in the building, use of the car park and prescribed (costly) maintenance arrangements. https://moderngov.denbighshire.gov.uk/ieListDocuments.aspx?CId=281&MId=5146&Ver=4&LLL=0 http://www.dailypost.co.uk/news/north-wales-news/denbighshire-council-pays-17m-out-10518026					
01/09/2010 - 01/08/2014	**Lancashire County Council & Blackpool Council Waste Management Contract** Global Renewables UK Limited/AMEC 50% and Catalyst Lend Lease Holdings 50%	4.5	264.0	314.3	1,991.1	262.2
Buyout 3.9 years into operating contract	25 year contract to build two waste processing facilities at Thornton and Farington. Problems at both sites in 2013 with 75% of waste going to landfill. Government withdrew £6m annual PFI credit because of the change. Press Release: New deal secures savings on waste processing, 1 August 2014, http://www.lancashire.gov.uk/news/details.aspx?Id=PR14/0363 http://www.lep.co.uk/news/scrapped-the-controversial-2bn-recycling-scheme-1-7741123 http://www.ciwm-journal.co.uk/lancashire-county-council-waste-shake-up-could-see-250-jobs-lost/					
Total 11		**636.3**	**319.4**	**5,215.7**	**7,256.9**	**6,146.7**

Appendix B

Table 12: **Terminated PFI/PPP projects**

Date First date of operation & date of termination	Terminated PFI/PPP projects	Public Cost of termination (£m)	Projected saving (£m)	Unitary payments up to termination (£m)	Total cost of project based on unitary charges (£m)	Capital cost of project (£m)
31/07/1998 (financial close) - 20/12/2004	**National Physical Laboratory, Teddington, Middlesex** Serco Group and John Laing plc each held 50% equity. Laing sold its equity to Serco for £0.8m in April 2003.	75.0	-37.0 public sector loss	0.0	n/a	89.0
Termination 8.3 years into contract	Terminated in 2004 after long construction delays and failure to meet specification. "Original private sector design of the new buildings was deficient" (NAO). John Laing plc lost £67m, subcontractors £12m, banks lost £18m and Laing's and Serco £4m in dividends. DTI invested £122m (including termination sum, compensation, procurement costs, upfront payments and unitary payments) and left with £85m assets. Private sector failed to meet quality specification for the laboratory. No unitary payments made as never reached operational stage as a PFI project. http://www.nao.org.uk/publications/0506/the_termination_of_the_pfi_con.aspx					
15/05/1996 - 24/05/1999	**Benefits Payment Card PFI, Department of Social Security and Post Office Counters Ltd** Pathway, ICL plc 7-year contract	447.0	n/a	1,112.0	1,000.0	n/a
Termination 3.0 years into contract	Intended to replace paper-based methods of paying social security benefits and to automate the national network of post offices through which most payments are made. Long delays and technical problems and the Benefits Card system was abolished and replaced with direct payments to claimant's banks. ICL continued work on automation of post offices with a conventional public contract. The Department of Social Security wasted £127m on a related system but claimed £251m saving from reduced admin costs and less fraud. Post Office Counters made exceptional charge of £571m in the accounts and ICL wrote off £180m development costs. https://www.nao.org.uk/wp-content/uploads/2000/08/9900857.pdf					
1999-2000	**Energy Centre, Mayday University Hospital NHS Trust, Croydon** Miller Construction	n/a	n/a	n/a	n/a	n/a
Buyout 1.5 years into contract	PFI project for new energy centre did not perform as required and the contract was terminated in 2000. NHS Trust retendered for modifications and new computerized control system installed in 2003, which cost £0.3m. http://www.publications.parliament.uk/pa/cm200506/cmselect/cmpubacc/694/5111614.htm					
01/01/2002 - 2008	**Ministry of Defence, Defence Animal Centre, Melton Mowbray, Leicestershire** Realm Services (DAC) - Parkwood Holdings plc and Barclays Bank	n/a	n/a	26.5	109.0	11.0
Termination 6.0 years into operating contract	Poor performance and delays. Defence Animal Centre (Realm Services (DAC) Ltd *"…has performed badly on estate management and the animal husbandry service"* (NAO, 2008). Early termination of contract - £2.7m loss in 2009 accounts (Parkwood Holdings AR 2009 p2 and 61). https://www.nao.org.uk/wp-content/uploads/2008/10/0708343.pdf http://www.parkwood-holdings.co.uk/Portals/0/Files/Parkwood%20Holdings%20plc%20Report%20and%20Accounts%202009.pdf					
31/12/2002 - 18/07/2007	**London Transport, Metronet BCV** Bakerloo, Central, Victoria and Waterloo & City lines. Balfour Beatty, WS Atkins, Elecricite de France, RWE AG (Thames Water) & Bombardier.	170.0 – 410.0	0.0	£5,040.0m - £5,100.0m	8,700.0 in first 7.5 year period	4,597.0
Termination 4.6 years into operating contract	Metronet had two 30-year PPP contracts for maintenance and renewal of the TUBE Lines and another for the sub-surface lines – see below. Both contracts terminated after 4.3 years. Cost overruns led to seeking to additional payment renegotiation with London Transport and later through the Arbiter who awarded significantly less than requested. Metronet BCV entered administration on 18 July 2007. Under terms of guarantee, London Transport had to purchase Metronet's outstanding debt six months after administration and received a £1.7bn government grant to do so. Transport for London took over work. Loss to public sector for both contracts in first 7.5 –year period was £170m-£410m (NAO, 2009). Shareholders lost £540m in equity, debt and other losses. https://www.nao.org.uk/wp-content/uploads/2009/06/0809512.pdf http://www.publications.parliament.uk/pa/cm201012/cmselect/cmtreasy/1146/1146.pdf http://www.publications.parliament.uk/pa/cm201012/cmselect/cmtreasy/1146/1146we05.htm http://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN01746#fullreport					

04/04/2003 - 18/07/2007 Termination 4.2 years into operating contract	**London Transport, Metronet SSL** Sub Surface Lines - District, Circle, Hammersmith and City, Metropolitan and East London lines. Balfour Beatty, WS Atkins, Elecricite de France, RWE AG (Thames Water) and Bombardier.	See above	0.0	See above	See above	6,180.0
	Terminated after 4.3 years. Cost overruns led to seeking to additional payment renegotiation with London Transport and later through the Arbiter who awarded significantly less than requested. Metronet SSL entered administration on 18 July 2007. Under terms of guarantee, London Transport had to purchase Metronet's outstanding debt six months after administration – received a £1.7bn government grant to do so. Transport for London took over work. Loss to public sector for both contracts was £170m-£410m (NAO, 2009). Shareholders lost £540m in equity, debt and other losses. https://www.nao.org.uk/wp-content/uploads/2009/06/0809512.pdf http://www.publications.parliament.uk/pa/cm200910/cmselect/cmpubacc/390/390.pdf http://www.publications.parliament.uk/pa/cm201012/cmselect/cmtreasy/1146/1146.pdf http://www.publications.parliament.uk/pa/cm201012/cmselect/cmtreasy/1146/1146we05.htm http://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN01746#fullreport					
01/03/1996 - 30/07/1999 Termination 3.4 years into operating contract	**Royal Armouries Museum, Leeds** McAlpine Construction, 3i Group	n/a	1.0 additional public sector grant p.a.	n/a	n/a	43.0 included 28.5 public
	Achieved only a third of 1.3m visitors forecast and plummeted to fewer than 200,000 within 2 years. Consortia refinanced deal twice but cumulative losses soared to £10m in 1999 and the Bank of Scotland refused further lending, forcing renegotiation of contract, ceased to be a PPP. Returned to public sector. http://www.nao.org.uk/publications/0001/royal_armouries_museum_in_leed.aspx					
1999 – 2004 Termination 5.0 years into operating contract	**Edinburgh Royal Infirmary, Scotland** McKeeson HBOS	n/a	n/a	n/a	30.0	n/a
	A PPP project to develop Hospital Information System related to the hospital PFI project. Terminated after 5 years in 2004 with no payments being made to contractor. http://www.european-services-strategy.org.uk/publications/essu-research-reports/essu-research-report-no-3-cost-overruns-delays/essu-research-paper-3.pdf					
13/08/1998 - 01/08/2013 Termination 15.0 years into operating contract	**Transport for London** Seaboard Powerlink Ltd - UK Power Networks Services Ltd (80%) ABB UK (10%) and Balfour Beatty (10%).	160.0	225.0	774.6	1,801.0	134.0
	London Underground Power Supply PFI contract terminated at half-way break clause to make "significant savings" and "avoiding expensive financing costs" (TfL press release 16 August 2012). Termination payments will be made to shareholders. 30-year contract. https://tfl.gov.uk/info-for/media/press-releases/2012/august/tube-power-network-contract-restructure-to-bring-savings-and-greater-operational-flexibility http://www.railwaygazette.com/news/urban/single-view/view/london-underground-pulls-the-plug-on-powerlink-pfi.html					
2001- 2003 Termination 2.0 years into operating contract	**Norfolk County Council** Capita Group plc	n/a	n/a	n/a	50.0	n/a
	PPP project. E-government project including exchequer, payroll, pensions and IT services PFI contract started 2001 terminated six years early in 2003 and staff returned in-house. Serious concerns about ability of Capita to deliver project. Capita sought substantial additional fee for completion of financial management information system. Decision to terminate taken on 26 June 2003 with effect from 31/12/2003 by Leader of the Council. Cabinet Scrutiny Committee 18 March 2002 and 2 September 2003 http://www.european-services-strategy.org.uk/publications/essu-research-reports/essu-research-report-no-3-cost-overruns-delays/essu-research-paper-3.pdf					
01/01/2002 - 01/08/2009 Termination 7.6 years into operating contract	**Cornwall Grouped Schools 1** New Schools Cornwall – Innisfree Ltd, John Mowlem & Co. and WS Atkins	n/a	-10.0 cost of remedial work	50.5	215.4	36.0
	25-year PFI contract signed 2001 to refurbish and maintain 28 schools but stream of complaints from head teachers and governors over 7 years led to Council terminating contract. New Schools went into administration. Council had to step in to carry out £10m essential remedial repairs. Shareholders (Innisfree 100% from March 2004) lost £4.8m on termination of contract in 2008. https://www.nao.org.uk/wp-content/uploads/2012/02/10121792.pdf http://www.partnershipsbulletin.com/features/view/856					

13/08/1998 - 17/08/2010 Termination 12.0 years into operating contract	**Transport for London Oyster Card** TranSys (Electronic Data Systems and Cubic Transportation Systems) Originally known as the Prestige project	1.0	30.0	1,000.6	n/a	161.0
	17-year contract but Transport for London used break clause to cancel following two major technical failures and £1m in lost fares in 2008. New contract agreed in November 2008 to run from 2010-13 for two of the original consortium shareholders to run the system with TfL gaining ownership of Oyster brand. Projected saving of £30.0m https://next.ft.com/content/8979a560-65a3-11dd-a352-0000779fd18c https://tfl.gov.uk/info-for/media/press-releases/2010/august/andpound30m-saved-as-new-oyster-contract-begins					
2002-2005 Termination 3.0 years into operating contract	**Crymlyn Burrows waste treatment plant, Swansea, Wales.** HLC Environmental Projects (HLC, Portugal utilities company), financed by Bank of Scotland	n/a	n/a	n/a	n/a	40.0
	Terminated by Neath Port Talbot Council in 2005 because it was incapable of handling the daily tonnage of contracted waste. Since operated by local authority. Long legal dispute over the right to the assets - bank wanted open market sale but Council gained High Court approval to purchase and operate the assets http://www.letsrecycle.com/do/ecco.py/view_item?listid=37&listcatid=234&listitemid=7881					
2006-31/12/10 Termination 5 years into contract	**FireControl Project,** Department for Communities and Local Government PPP contract for 9 regional emergency call centres. IT system contracted to European Air and Defence Systems (EADS) Original cost of project £120m.	469.0 84.8	n/a	n/a	n/a	130.0
	Failure of computer system led to termination of the project in December 2010 by which time 9 regional centres had been completed. Consultants cost £68.6m or 76% of the cost of the central project team. Turner and Townsend, capital projects managers, were contracted to organize procurement to build the 9 centres to a pre-defined design and high specification. Even if all regional centres are relet (only 5 by end of 2013) *"…the minimum waste from the project will be £469 million*." In addition, the Department had to allocate a further £84.8m to meet the project's original objectives. Government has 20-25 year contracts after which the private sector will own the buildings!! https://www.nao.org.uk/wp-content/uploads/2011/07/10121272.pdf http://www.publications.parliament.uk/pa/cm201012/cmselect/cmpubacc/1397/1397.pdf *"It is inconceivable that we will fully recover the rental costs on these centres",* Sir Bob Kerslake, Head of the Civil Service, May 2013 http://www.yorkshirepost.co.uk/news/exclusive-taxpayer-funding-bribes-on-empty-fire-hq-1-5693923					
01/01/2006 - 25/11/2011 Termination 5.9 years into operating contract	**City Link DLR, London** City Airport Rail Enterprises plc	n/a	250.0	108.5	551.6	147.0
	30-year concession for Canning Town to London City Airport. *"…we have reassessed the effectiveness of the financing arrangements that sit in the companies behind the projects*", said Howard Smith, Chief Operating Officer of TfL London Rail. Transferred to public ownership. TfL expected 'ongoing savings' of up to £250m over the remaining life of the concessions including Woolwich DLR – see below http://www.railwaygazette.com/news/single-view/view/tfl-expects-pound250m-saving-from-buying-docklands-light-railway-pfi-concessionaries.html					
01/04/2009 - 25/11/2011 Termination 2.6 years into operating contract	**Woolwich DLR, London** Woolwich Arsenal Rail Enterprises Ltd	n/a	See above	76.4	585.1	183.0
	30-year concession for extension to Woolwich – see City Link DLR above. Transferred to public ownership. http://www.railwaygazette.com/news/single-view/view/tfl-expects-pound250m-saving-from-buying-docklands-light-railway-pfi-concessionaries.html					
16/11/2000 - 15/08/2012 Termination 11.75 years into operating contract	**London Fire & Rescue Authority** AssetCo	n/a	n/a	145.4	292.0	118.0
	20-year contract for fire vehicles and equipment. Fire Brigade review found serious performance shortfalls. AssetCo London Limited (financial close November 2000), AssetCo Lincoln Limited, AssetCo Engineering Limited and AssetCo Solutions Limited sold for £2 (two pounds) to AB & A Investments Limited after £16.5m loss in six-month period to 31 March 2012. https://www.fbu.org.uk/news/2012/03/09/privatisation-failings-highlighted-official-report-"fast-turning-unmitigated https://davidhencke.wordpress.com/tag/assetco/ http://www.assetco.com/Investor-Relations/Annual-Reports/Preliminary-Results-2012.aspx					

2006 - 15/08/2012 Termination 6.0 years into operating contract	**Lincolnshire Fire Authority** AssetCo 20-year contract signed in 2006 but terminated in 2012 after Auditors qualified AssetCo accounts following financial crisis. http://www.bbc.com/news/uk-england-lincolnshire-17708260 http://www.assetco.com/Investor-Relations/Annual-Reports/Preliminary-Results-2012.aspx	n/a	n/a	n/a	60.0	n/a
07/02/2012 (financial close) - 07/04/2014 Termination 1.7 years into contract	**Norfolk County Council PFI Waste contract** Cory Environmental Management Ltd 50% and Wheelabrator Technologies Inc. 50% Press Release: Council terminates energy from waste contract, 7 April 2014, on the grounds that the SPV had failed to secure satisfactory planning permission for an energy from waste plant near King's Lynn. Strong community opposition to the incinerator plant. Government withdrew £169m waste infrastructure grant (PFI credit) in November 2013 from the 25 year PFI contract. The UK Green Investment Bank had agreed to invest £51m in the plant earlier in 2014. http://www.norfolk.gov.uk/news/NCC145814 Cabinet Report http://www.norfolk.gov.uk/Council_and_Democracy/Councillors_meetings_decisions_and_elections/Committees_agendas_and_recent_decisions/Committee_Archive/index.htm?searched=true&SS_Year=2014&SS_PaperType=Agenda&SS_Committee=Cabinet&Submit=Search#ncc-search-content http://resource.co/government/article/norfolk-county-council-abandons-incinerator-plans House of Commons Public Accounts Committee DEFRA: Oversight of three PFI waste projects, September 2014, HC 106 http://www.publications.parliament.uk/pa/cm201415/cmselect/cmpubacc/106/106.pdf	30.3	n/a	0.0	581.3	155.1
01/03/2004 Leonardo Investments Holdings Ltd (80%) and Vinci (Holdings) Ltd (20%) 2006 – 2016 (operational contract) Termination 12.3 years into contract	**Medway Youth Custody Centre** G4S 30-year contract Ministerial statement on takeover https://www.gov.uk/government/speeches/youth-justice-announcement Report of takeover on 1July 2016 http://www.kentonline.co.uk/medway/news/government-take-over-youth-jail-98358/ BBC Panorama programme exposed evidence of abuse and threatening behavior by custody officers http://www.bbc.com/news/uk-england-36210923 G4S to sell its UK Children's Services business, 26 February 2016 http://www.g4s.com/en/Media%20Centre/News/2016/02/26/G4S%20Sale%20of%20UK%20Childrens%20Services%20business/	n/a	n/a	32.5	138.8	23.0
Total 20		**1,677.1**	**459.0**	**8,427.0**	**14,114.2**	**12,047.1**

Notes: Termination calculated from date of financial close of contract when contract terminated during construction, otherwise termination is period between start of operation and date of contract termination.

Appendix C

Table 13: **Major problems in PFI/PPP projects**

Date Financial close of contract	Project	New public costs (£m)	Total cost of project based on unitary payments (£m)	Capital cost (£m)
03/11/1997	**Cumberland Infirmary, North Cumbria University NHS Trust, Carlisle** Health Management Carlisle Ltd. Amec Construction. Amec sold 50% of SPV equity to Land Securities Trillium (now Semperian) in July 2007; Interserve sold 25% to Dalmore Capital Fund in October 2012; Interserve sold 25% to Interserve Pension Fund January 2013; Semperian sold 50% to Dalmore Capital Fund July 2013. Now Dalmore Capital Fund 75% and Interserve plc 25%	n/a	619.2	66.7
	Comprehensive and widespread fire safety and fire proofing failings are estimated to cost £14.0m to remedy. A Trust statement 3 July 2015 said: "The PFI partner has not given any confidence that all the appropriate actions are being taken and the Trust has had to take action. "The PFI contract has crippled the Trust financially yet the building in which patients are being cared for is sub-standard. We must take action to terminate the PFI contract as we have done elsewhere in the country. This would allow us to take control of the hospital's estates management rather than being caught up in legal negotiations which are preventing us making progress." http://www.ncuh.nhs.uk/news/2015/july/fire-safety-compliance-at-the-cumberland-infirmary-update-.aspx An independent Fire Safety report commissioned by the Trust found: 1. Inappropriate fire proofing materials which did not meet the required 30 and 60 minute protection standard to allow for safe evacuation or to prevent any fire from spreading in the building. 2. Inappropriate 'compartmentalisation' of the building, which would not restrict the movement of smoke and flames in the event of a fire. 3. A defective fire alarm system – the Trust is currently using a 'human detection system' with staff patrolling the hospital 24/7 due to faults with the current electrical system. The Trust trained 133 Fire wardens and 2,936 staff received enhanced evacuation training, 113 ward managers/matrons had role-specific training and 24/7 Floor walkers patrol the hospital during fire alarm testing. http://www.ncuh.nhs.uk/about-us/trust-board/2015/november/enclosure-7-fire-safety-plan.pdf The report highlighted deficiencies in the hospital's original construction, made worse by a poor standard of subsequent work. http://www.cumberlandnews.co.uk/news/14m-to-fix-Cumbria-hospital-fire-safety-failings-a1927d08-e94c-4bf4-b2bd-a109dd5ad6d5-ds Cumbria Fire & Rescue issued a Fire Enforcement Notice in July 2015. I was withdrawn on 21 October 2015 but they continue to monitor the situation. The Trust forecast a £63.2m deficit for 2016-17.			
1995	**National Insurance NIRS 2** Accenture	89.0	134.0	n/a
	9-year PFI contract started 1995 for new national Insurance recording system – NIRS2, renegotiated 1996, extended 2000 re new legislation. 172,000 cases of underpayment of pensions, which required over £43m in compensation payments and delays. Original contract £45.0m plus software increasing total to £76m. The contract was extended to accommodate changes in legislation and reorganisation for £70m - £144m. https://www.nao.org.uk/wp-content/uploads/2001/11/0102355.pdf			
01/12/1998	**LIBRA Information System, Magistrates Courts** Fujitsu and STL	303.0	184.0	n/a
	LIBRA information system now over three times original cost of £146m to £487m (August 2006). ICL (now Fujitsu) only bidder and increased price 25% in preferred bidder stage in 1998 (PPP/PFI contract). ICL financial difficulties so provide only infrastructure and separate software contract with STL. Long delays. https://www.nao.org.uk/wp-content/uploads/2003/01/0203327.pdf https://www.nao.org.uk/wp-content/uploads/2006/05/05061049.pdf The Head of the NAO 'disclaimed' his audit opinion on the HM Courts Service accounts ending 31 March 2011, primarily for lack of information. The collection of outstanding fines and penalties increased 27% to £1.9bn in 2011. https://www.nao.org.uk/wp-content/uploads/2011/12/HMCS_Trust_statement_2011.pdf			

06/05/1999	**Dalmuir Sewerage Treatment Works, Clydebank, Scotland** Barr Construction, Taylor Woodrow, SAUR, Halcrow	30.0	245.2	32.2

Contract signed March 1999. In 2008 the Scottish Water board was told that the PFI plants were a "reputational risk". Dalmuir had significant pollution breaches, inadequate works, bad smells, weak penalty regime. Dalmuir plant was said to suffer from *"the combination of an inherent compliance problem due to the inadequacy of the works from a size and process perspective, an operator which is losing £1 million per annum and a weak contractual penalty regime"* (Edwards). In order to try and combat Dalmuir's problems, Scottish Water has been granted an extra £30 million by the Water Industry Commissioner for Scotland.

"Scottish Water said it wanted "to exploit any opportunities" to restructure or buy out PFI contracts between 2010 and 2014. But this was knocked back by the government regulator, the Water Industry Commission for Scotland, as unaffordable in the current financial climate" (Edwards, 2011).

http://www.robedwards.com/2011/03/exposed-the-pfi-sewage-scandal.html

http://www.scottishwater.co.uk/assets/about%20us/files/second%20draft%20business%20plan/seconddraftbusinessplanappendicesmarch09.pdf

29/03/1999	**Almond Valley Seafield & Esk Waste project, Scotland** Saur UK Ltd	10.0	778.8	105.0

31-year contract. In 2006 Statutory Code of Practice on Sewage Nuisance, Assessment and Control of Odour required PFI company and Scottish Water to produce improvement plan. PFI company liable for £6.0m and Scottish Water £10.0 of works. A failed pump led to 170,000 tonnes of raw sewage being discharged into the Firth of Forth in April 2007.

http://www.robedwards.com/2011/03/exposed-the-pfi-sewage-scandal.html

http://www.scottishwater.co.uk/assets/about%20us/files/second%20draft%20business%20plan/seconddraftbusinessplanappendicesmarch09.pdf

http://www.theguardian.com/guardian/2007/apr/23/frontpagenews.pollution

01/12/2001	**Crown Prosecution Service** LogicaCMG	168.0	240.0	n/a

PPP/PFI 10-year contract signed 2001 for a case management system, but estimated outturn cost was £408m (70% increase) due to "improved service levels' and extended to more staff. House of Commons Written Answer, 20 July 2006, Col. 583W, Solicitor-General to Christopher Huhne, MP

http://www.european-services-strategy.org.uk/publications/essu-research-reports/essu-research-report-no-3-cost-overruns-delays/essu-research-paper-3.pdf

01/02/1998	**Lord Chancellors Department and Court Service – ARAMIS** Liberata 9 year contract for a resource accounting and management information system	50.0	130.0	39.5

Contract extended to 13 years. Contract extension not included in contract figures. PPP/PFI project - £50m cost increase (up 38%) and long delays

https://www.nao.org.uk/wp-content/uploads/2003/01/0203327.pdf

https://www.nao.org.uk/wp-content/uploads/2010/07/1011187.pdf

https://www.justice.gov.uk/downloads/publications/corporate-reports/MoJ/2010/moj-resource-accounts-2010.pdf

01/03/2001	**Northern Ireland New Vehicle Testing Facilities** Contractor not disclosed, 15-year PFI contract.	1.8	54.0	16.5

Preferred bid of £18.8m April 1998 for 15 year contract, renegotiations, new IT subcontractor, contract cost increases and eventually signed March 2001. History of poor performance. An 18 minute test time not achieved, two centres had to be closed at any one time, waiting times for tests increased from 20 calendar days to 55 calendar days in 2004-05. £1.8m additional cost for overtime working in 2002/03 and 2004/05.

http://www.niauditoffice.gov.uk/the_pfi_contract_for_ni_new_vehicle_testing_facilities.pdf

http://www.niauditoffice.gov.uk/future_impact_of_borrowing.pdf

26/07/2001	**National Air Traffic Services (NATS) PPP and privatisation** Airline Group	758.0	n/a	n/a

Consortium of 7 UK-based airlines given operational control and 46% stake. *"The maximisation of sale proceeds seems to have taken precedence over the financial robustness of NATS"* (House of Commons Public Accounts Committee, 2003). NATS debt increased from £333m to £733m as the Government took £758m out of the company. Refinancing and restructuring required after downturn in traffic following 11 September 2001. UK government subscribed £5m of share capital and £60m loans and BAA plc joined the PPP on the same terms. Government stake reduced to 48.8%. Privatisation receipt less public sector costs of £33.6m in 2001 and 2003 and £65.0m investment in 2003.

https://www.nao.org.uk/wp-content/uploads/2004/01/0304157.pdf

http://www.publications.parliament.uk/pa/cm200203/cmselect/cmpubacc/80/80.pdf

Shaoul, J. (2003) A Financial Analysis of the National Air Traffic Services PPP, Public Money & Management, July.

07/03/2002 - 20/07/2008	**Brighton & Hove Council, Comart Media and Arts School** Jarvis plc	4.5	92.4	24.8

Council reported quality of work on four schools ‘unacceptable’ and long delays in completing construction. Comart school had a series of major difficulties. “A council scrutiny committee report published in May criticised the local authority's gamble to include Comart in the PFI contract, saying senior officials knew there was a 50 per cent chance it would be forced to close.”

https://www.tes.com/article.aspx?storycode=2153580

The Council agreed to remove facilities management services from the PFI contract in March 2010.
http://present.brighton-hove.gov.uk/Published/C00000149/M00002696/AI00013337/$Item46RemovalofSoftServicesfromtheSchoolsPFIContractPart1.docA.ps.pdf

01/05/2001	**Dudley Group of Hospitals, West Midlands** Sir Robert McAlpine	23.2	1,906.6	137.0

Summit Healthcare (Sir Robert McAlpine, Interserve FM and Bank of Scotland) to redevelop and expand Acute Hospital. Additional refurbishment work required led to McAlpine suffering £100m losses. Firm sued NHS Trust for damages and received £23.2m in 2007.

https://www.nao.org.uk/wp-content/uploads/2012/02/10121792.pdf (page 18)

01/12/2002	**East Lothian Schools, Scotland** Ballast UK (Ballast Nedam)	n/a	268.7	46.1

Ballast UK went into administration in November 2003 whilst refurbishing 6 schools and community centre. Parent company withdrew funding. Unpaid sub-contractors went into liquidation. Long delay until replacement contractor agreed to takeover project. Ballast had 50% of project equity in the school project.

PricewaterhouseCoopers (2003) The Value of PFI: Hanging in the balance (sheet),
http://infrastructureaustralia.gov.au/policy-publications/publications/files/The_Value_of_PFI.pdf

28/03/2003	**Tyne and Wear Fire Stations** Jarvis plc	n/a	115.5	29.1

Projects delayed when construction costs exceeded bid price. Company and PFI investors bore cost of £120m funding gap. Work stopped on all Jarvis's 14 PFI construction projects, because it was unable to pay subcontractors leading to long delays.

https://www.nao.org.uk/wp-content/uploads/2012/02/10121792.pdf

http://www.ft.com/intl/cms/s/0/063c3dc2-4a20-11d9-b065-00000e2511c8.html?ft_site=falcon&desktop=true#axzz3yXx3K3WA

http://www.anphoblacht.com/contents/12360

08/10/2002	**Whittington Hospital, London** The Whittington Hospital NHS Trust, 29 year contract Jarvis plc See above	n/a	166.0	38.4

Project severely delayed and a 6 month shut down of site at beginning of 2005. Stream of delays, numerous management team changes as Jarvis managers left the stricken company and escalating costs – Schofield Lothian brought in as project managers by SPV shareholders in January 2006.

http://www.schofieldlothian.com/case_study/whittington-hospital-pfi-project/

http://www.building.co.uk/further-setback-at-hospital-delayed-by-jarvis-troubles/3061030.article

Capital cost increased from £26.5m in FBC to £38.4m – a 44.9% increase.
The Whittington Hospital Redevelopment: Full Business Case, 2002
http://www.whittington.nhs.uk/document.ashx?id=539

27/03/2001	**Wirral Grouped Schools PFI Scheme, Merseyside** Wirral MBC - Jarvis plc, 30 year contract - See above	n/a	319.6	68.2

Report to Education and Cultural Services Select Committee, 20 April 2004

“In addition to the impact on schools described in this report, the difficulties and delay on the project have created considerable additional demands on the PFI team and support consultants and have led to delays in other non-PFI capital and premises works with schools.”

http://democracy.wirral.gov.uk/Data/Education%20and%20Cultural%20Services%20Select%20Committee/20040420/Agenda/ecs040420rep6_12608.pdf

Update: 16 September 2004
http://democracy.wirral.gov.uk/ceListDocuments.aspx?CommitteeId=460&MeetingId=1355&RD=Minutes#36

19/20/2003	**Lancaster University student accommodation** Jarvis plc - See above	n/a	339.0	124.0

Construction and management of 3,405 student rooms in 38 year contract

http://www.partnershipsbulletin.com/news/view/1171

Jarvis plc sold its equity in the project in 2004 to the Alma Mater Fund, jointly managed by the private equity firm 3i and Barclays Private Equity. Contract increased to 4,347 student rooms, £180m capital cost and 48 years: http://www.upp-ltd.com/portfolio/?s=lancaster-university

	http://www.ft.com/cms/s/0/9eb31fe8-4a12-11d9-b065-00000e2511c8.html?ft_site=falcon&desktop=true#axzz4UP6WoU4e			
2000	**Department for Transport** Siemens	n/a	230.0	n/a
	10 year PPP/PFI contract started 2000 for vehicle testing. MOT Computerisation contract renegotiated in April and July 2005 – increased support by contractor and greater control over performance by Vehicle and Operator Services Agency. Repeated delays and system crash in 2006. ZDNET.Co.Uk 27 April 2006 and ZDNET.Co.Uk 28 April 2006.			
01/15/2000	**Foreign and Commonwealth Office (FCO)** Global Crossing - acquired by Level 3 Communications Inc. in October 2011.	60.3	319.8	73.9
	Provision of an FCO global telecommunications network, PFI contract. Costs increased by £60.3m and contract extended by 2 years. At the time the contract was awarded, Global Crossing's parent company was facing bankruptcy. The House of Commons Foreign Affairs Committee demanded to know why this was not disclosed and whether private firms had undertaken due diligence and if so whether there were grounds to take legal proceedings. The FCO had to prepare *"…a detailed contingency plan to ensure no loss of FTN services in the UK or overseas should Global Crossing itself cease to be able to deliver the service"* (FCO Annual Report 2003). At the time of procurement, the company had accumulated about US$7bn losses and a reputation for aggressive accounting and inflating revenue. Global Crossing filed for Chapter 11 bankruptcy protection in January 2002. http://www.wsj.com/articles/SB1012350107689277360 Corporate greed led to executives receiving salaries and lump sum pensions before bankruptcy, but redundancy payments to staff never arrive and the value of pensions plunged. (Frank Partnoy, Infectious Greed: How Deceit and Risk Corrupted the Financial Markets, 2003) Global Crossing emerged restructuring in December 2003 majority owned by Singapore Technologies Telemedia.			
01/05/2000	**HM Treasury Customs & Excise** Fujitsu	429.0	500.0	n/a
	10-year PFI contract started 2000 but costs rose to £929m by August 2003 (a 86% increase) due to additional requirements. Business Case benefits reduced from £4bn to £1.2bn in November 2003. In April 2006 the contract was merged into the Department's ASPIRE ICT contract. https://www.nao.org.uk/wp-content/uploads/2006/07/0506938.pdf http://www.publications.parliament.uk/pa/cm200304/cmselect/cmpubacc/138/138.pdf			
06/03/2001	**Strategic Transfer of the Estate to the Private Sector (STEPS)** HM Customs & Excise and the Inland Revenue Mapeley Group (Fortress Investment, Soros Real Estate and Delancey Estates). Fortress bought out Soros and Delancey in 2004 and floated Mapeley on London Stock Exchange in 2005 reducing its stake to 55%.	213.0	4,200.0	370.0
	20 year PFI contract in which both departments transferred the ownership and management of the their estates. Mapeley's bid was much lower than other bids and they immediately transferred freehold and long-leasehold properties to a company in Bermuda to avoid UK taxation of capital gains. Mapeley paid £220m for estate (574 buildings) plus further £150m over ten years. http://www.publications.parliament.uk/pa/cm200405/cmselect/cmpubacc/553/553.pdf STEPS contract eight years on: The contract was refinanced in 2006 with the government receiving 30% of the gain. There appears to be no evidence of the scale of tax evasion (NAO, 2009c). https://www.nao.org.uk/wp-content/uploads/2009/12/091030.pdf Managing the HMRC estate, NAO, January 2017. Whole life cost of contract £4.2bn, £213m more than originally forecast, para 2.7. *"Performance deteriorated across a range of measures in 2013-14." "Mapeley's performance in 2014-15 remained below the quality standards HMRC had set out in its invitation to tender"* (para 2.9). https://www.nao.org.uk/wp-content/uploads/2017/01/Managing-the-HMRC-Estates-Full-Report.pdf			
2008	**Military Flying Training PPP contract, Ministry of Defence** Ascent Flight Training – a joint venture between Lockheed Martin and Babcock International Group plc	n/a	3,200.0 - 6,800.0	n/a
	25-year PPP contract to provide flying training at five UK sites with new core training running by 2012 and full capacity by 2014. Long delays between 2008-12 with end of 2019 a new date for full capacity. Only 250 aircrew to start training each year instead of 480. Ascent paid £143.3m by March 2015 and failure to train will reduce overall cost. MoD also reduced aircrew training numbers after cuts to front-line squadrons. https://www.nao.org.uk/wp-content/uploads/2015/06/Military-Flying-Training.pdf Public Accounts Committee: Strategic financial management of the MoD flying training, December 2015 http://www.publications.parliament.uk/pa/cm201516/cmselect/cmpubacc/391/391.pdf			

22/06/2004	**Glasgow Royal Infirmary, Scotland** Multi-storey car park owned by Impregilo Parking (Salini Impreglio SpA, Italy) and operated by APCOA Parking UK (APCOA Parking AG, Germany) and contract renewed for further 10 years in 2014.	n/a	n/a	12.1
	Hospital Car Parking Charges: Report of the Review Group, Scottish Executive, November 2007. www.gov.scot/Resource/Doc/924/0054983.doc Despite a Scottish Government policy decision to abolish hospital car parking charges at 14 NHS hospitals, they remain at three PFI hospitals - Edinburgh Royal Infirmary, Glasgow Royal Infirmary, and Ninewells Hospital in Dundee. http://www.independent.co.uk/life-style/health-and-families/health-news/hospital-parking-charges-scrapped-in-scotland-916676.html Free parking saves patients over £25.0m since charges abolished 31 December 2008. Scottish Government Press Release 11 October 2015 http://news.scotland.gov.uk/News/Free-parking-saves-patients-over-25m-1e31.aspx The cost of terminating the three PFI contracts was considered to be "prohibitive" and three companies involved were not interested in negotiating such a deal. http://www.independent.co.uk/life-style/health-and-families/health-news/hospital-parking-charges-scrapped-in-scotland-916676.html Glasgow Royal Infirmary Business Case: PPP Car Parking Project http://www.nhsggc.org.uk/media/224705/PPP%20Car%20Park%20Project%20At%20Glasgow%20Royal%20Infirmary.pdf Project Agreement http://www.nhsggc.org.uk/media/224707/Glasgow%20Royal%20Infirmary%20Project%20Agreement%20GGHB.pdf Current rates: £1.70 per hour http://www.apcoa.co.uk/parking-in/glasgow/glasgow-royal-infirmary.html Meanwhile NHS hospitals in England made £120.6m from parking charges in 2015-16, up 5% on the previous year. https://www.theguardian.com/society/2016/dec/28/hospitals-in-england-net-more-money-than-ever-from-car-park-charges			
1998 -	**Ninewells Hospital, Dundee, Scotland** 30-year PFI contract with Impregilo Parking, but they sold the contract to Vinci Park (Indigo), which controls parking on the entire hospital site. See Glasgow Royal Infirmary above	n/a	n/a	n/a
	Nicola Sturgeon, then Scottish Health Secretary, was quoted as saying "In Tayside, the company that runs *the car park at Ninewells has said it is not interested in negotiating an end to the contract"* *http://www.scotsman.com/news/sturgeon-ending-hospital-parking-charges-would-cost-tens-of-millions-1-752345* Rates from 1 November 2016: £2.20 in short-stay car park, annual staff permit is £416.40 https://www.thecourier.co.uk/fp/news/local/dundee/299656/ninewells-hospital-car-park-charges-increase/			
31/08/1998	**Royal Infirmary of Edinburgh, Scotland** Balfour Beatty plc Part of redevelopment of hospital. Car Park contracted to Empark UK Ltd with 10-year contract since 2012. See Glasgow Royal Infirmary above.	n/a	1,437.9 (overall hospital cost) (1)	180.0 (overall hospital cost) (1)
	Current rates: 0-1 hour £1.30, 5-6 hours £6.50 http://www.nhslothian.scot.nhs.uk/GoingToHospital/Travel/Pages/Parking.aspx			
2001-2016	**Edinburgh Schools PPP 1** Edinburgh Schools Partnership (Amey Ventures, Amey Buildings, Amey Business Services, Project Management International Ltd, Miller Construction (now Galliford Try). 32-year contract for 17 schools	n/a	531.3	129.0
	High winds blew a large section off an outer wall at Oxgangs Primary School in late January 2016. Inspections uncovered structural flaws in all PFI schools built in the city between 2002 and 2005, which led to their closure for several weeks. Children had to be transported to alternative facilities around Edinburgh. The City Council had to source buses from other parts of Scotland that met with seat belt and safety regulations. Emergency closure of PFI-built schools strands 9,000 Edinburgh pupils https://www.theguardian.com/uk-news/2016/apr/10/emergency-closure-of-pfi-built-schools-strands-9000-edinburgh-pupils Further faults uncovered as 17 Edinburgh schools close over construction fears http://www.scottishconstructionnow.com/11804/further-faults-uncovered-as-17-edinburgh-schools-close-over-construction-fears/# Tax haven firms cashing in on Scotland's PFI scandal http://www.heraldscotland.com/news/14448359.Revealed__the_tax_haven_firms_cashing_in_on_Scotland_s_PFI_scandal/ Equity in the Edinburgh Schools PPP 1 project was sold 13 times between 2003-2014 - see Table 10, p25, *The financial commodification of public infrastructure:*			

	http://www.european-services-strategy.org.uk/publications/essu-research-reports/the-financial-commodification-of-public-infras/financial-commodification-public-infrastructure.pdf Report to Edinburgh Schools: Corporate Policy and Strategy Committee, 17 May 2016 http://www.edinburgh.gov.uk/meetings/meeting/3939/corporate_policy_and_strategy_committee			
14/12/04 (financial close)	**Central Manchester University Hospitals NHS Foundation Trust** Catalyst Healthcare (Manchester) - Lend Lease Construction, Sodexo Lend Lease UK sold 50% stake to Lend Lease/PGGM joint venture (Netherlands Pension Fund) in October 2011 and Sodexo sold 15% stake to same joint venture in October 2013.	n/a	3,281.2	512.0
	Defects in fire compartmentation discovered in a substantial part of Central Manchester University Hospital. Trust issued unavailability notices with £1.6m deductions in relation to Firestopping work. RNS 26 June 2015 http://www.londonstockexchange.com/exchange/news/market-news/market-news-detail/40CZ/12403694.html Moody's downgrades Catalyst Healthcare (Manchester) Financing plc's ratings, 29 June 2015 because fire compartmentation increases risk of project termination. https://www.moodys.com/research/Moodys-downgrades-Catalyst-Healthcare-Manchester-Financing-plcs-ratings-to-Ba1--PR_328974 Moody's restores original grading on 28 September 2015 on the basis that progress was being made in resolving dispute https://www.moodys.com/research/Moodys-confirms-Catalyst-Healthcare-Manchester-Financing-plcs-ratings-with-a--PR_335173 Unavailability deductions increased to £33m by April 2016, but disputed by Catalyst Healthcare. Settlement agreed – Trust deductions waived and released; contractor to pay sum of money to Trust; Trust will assume responsibility for and complete work on Firestopping defects and not issue further deductions relating to this work; Trust may have had legal basis to terminate contract but agreed not to do so in relation to Firestopping issue. RNS 28 April 2016 http://uk.advfn.com/stock-market/london/catalyst-h-r-bd-40CZ/share-news/Catalyst-Healthcare-ManchesterFin-Settlement-Agree/71287995			
26/09/07 (financial closure) Peterborough Hospital Investments Ltd (49%), John Laing Infrastructure Fund (30%) & Macquarie Peterborough Hospital Investments Ltd (21%)	**Peterborough City Hospital** Peterborough and Stamford Hospitals NHS Foundation Trust Brookfield Infrastructure Partners sold30% stake to John Laing Infrastructure Fund in April 2013. Macquarie has 21% and Peterborough Hospital Investments 49%.	n/a	2,004.0	336.0
	A fire safety review is under way at Peterborough City Hospital after checks revealed issues with the ceiling voids, 5 December, 2014 http://www.peterboroughtoday.co.uk/news/health/investigation-under-way-into-fire-safety-at-peterborough-city-hospital-1-6456249 Peterborough City Hospital withholds £1.4m payment over fire scare, 27 February 2015 http://www.peterboroughtoday.co.uk/news/health/peterborough-city-hospital-withholds-1-4m-payment-over-fire-scare-1-6602849 London Stock Exchange Regulatory News Service 11/05/16, 09/06/16, 21/06/16 http://www.londonstockexchange.com/exchange/prices-and-markets/debt-securities/company-summary/XS0308856276ZZGBPCWTR.html?ds=0&lang=en Moody's Ratings 05/03/15 https://www.moodys.com/research/Moodys-downgrades-Peterborough-Progress-Health-plcs-ratings-to-Baa3-from--PR_320048 Moody's Ratings 23/06/15 https://www.moodys.com/research/Moodys-confirms-Peterborough-Progress-Health-plcs-ratings-with-a-developing--PR_328507 Peterborough and Stamford Hospitals NHS Foundation Trust: Recommendations of the Contingency Planning Team, PriceWaterhouseCoopers, 2013 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/284289/Recommendations_Contingency_Planningteam.pdf Enforcement Notice issued on Peterborough City Hospital, 12 April 2016. Cambridgeshire Fire and Rescue Service issued an Enforcement Notice on 22 March 2016. Stephen Graves, Chief Executive at Peterborough and Stamford Hospitals NHS Foundation Trust, said: *"Following a review of the fire safety standards to which our hospital has been built, a significant number of issues were identified with the fire separation infrastructure. Work has been going on throughout the hospital since 2015 to both identify the scale of the problem and begin remedial action. The survey work has recently uncovered a more extensive range of defects than originally thought, which means that the work to rectify the problems will take longer than anticipated. This, combined with the fact the remedial work has to take place while the hospital continues to deliver its services to patients, means it will not be completed until February 2019."* http://www.peterboroughtoday.co.uk/news/health/exclusive-enforcement-notice-issued-on-peterborough-city-hospital-to-ensure-building-is-made-safe-after-lack-of-progress-on-fire-safety-concerns-1-7324456			

27/11/2002 (financial closure) Innisfree Ltd (100%)	**Coventry University Hospital** University Hospitals Coventry and Warwickshire NHS **Trust** 39-year PFI contract, construction by Skanska UK Skanska sold 30% equity to Innisfree Ltd in September 2012, which now has 100%.	n/a	3,761.2	378.9
	Fire safety concerns at £380m University Hospital Coventry http://www.bbc.com/news/uk-england-coventry-warwickshire-37224973 A report to the Trust Board meeting on 24 November 2016 stated: "*A Remediation Plan was developed to address deficiencies in the fire compartment walls that were identified as part of routine maintenance work. Phase 1 of the plan has been implemented and work is on-going*" (p77). The report also emphasized: *"…the Regulatory Reform (Fire Safety) Order 2005 that the Trust is only responsible for carrying out fire risk assessments in areas under which it has direct management control. Areas such as plant rooms, electrical cupboards, service ducts, service risers, above false ceilings, and other areas which fall under the control of ISS, Vinci and Project Co are risk assessed by those respective organisations"* (p80). NHS Trust Board meeting, 24 November, 2016 http://www.uhcw.nhs.uk/clientfiles/File/PUBLIC%20November%202016%20Trust%20Board.pdf The repair bill is estimated to be £47m. Reported that a joint West Midlands Fire Service and NHS Trust investigation revealed "holes in fire compartment walls" http://www.fia.uk.com/news/fire-service-sheds-light-on-failings-at-pfi-hospital.html			
31/07/2012 (financial close)	**Sheffield Highway Maintenance,** Sheffield City Council Amey plc (Ferrovial, Spain) 25 year PFI contract Amey, Aberdeen Asset Management and Tetragon each have 33.3% of SPV equity.	n/a	1,744.7	369.0
	Highways, trees and people: Sheffield's secret shame – *"…evidence of many high value trees recently removed or to be removed with dubious justification, residents being consulted after felling, extreme interpretations of the risk to people and infrastructure, decades of life left in trees scheduled for removal, and irreplaceable heritage trees under threat"* http://www.barrelltreecare.co.uk/pdfs/BTC112-AANews-Complete-151016.pdf An independent street tree survey had recommended 1,000 trees be felled with a further 241 to be crown reduced or considered for felling, 25,000 trees required no work and 10,000 needed some remedial treatment. However, over 4,000 trees have been felled by early 2017 under Amey's '6Ds' approach of removing dangerous, dead, dying, diseased, damaging or causing discrimination ('obstruction with pavements'). Amey has carried out pre-dawn raids to cut down trees, activists have been arrested and Sheffield Tree Action Group membership is now over 5,000. A High Court application by STAG for a judicial review was refused in February 2016. STAG November 2016 update https://ianswalkonthewildside.wordpress.com/2016/11/08/important-update-from-deepa-shetty-on-behalf-of-stag/ Amey's resurfacing has been widely criticised. 16 roads had to be repaired after resurfacing – 300 metres of a main road, structural failure of another, and 200 metres of three other roads; potholes appeared on other roads. Contract includes an extensive resurfacing and other works in the first five years. The quality and sustainability of 'resurfacing' is widely disputed. http://www.thestar.co.uk/news/16-roads-across-sheffield-developed-potholes-after-2billion-resurfacing-1-7994990			
06/05/10 (financial close)	**Birmingham Highway Maintenance,** Birmingham City Council Amey plc (Ferrovial, Spain), 25-year PFI contract. Amey sold 33.3% of SPV equity to Tetragon Financial Group plc in December, 2010, so Amey, Aberdeen Asset Management and Tetragon each have 33.3%.	n/a	2,391.5	322.0
	Birmingham City Council locked in dispute with Amey over potholes and damaged roads. Council to enforce penalty clauses as a result of performance but Amey claimed they had met all milestones. http://www.birminghammail.co.uk/news/midlands-news/birmingham-city-council-locked-disupte-8534597 The dispute that was referred to adjudication, related to the first five years, called the "core investment period". It arose over the proper meaning of the project agreement and its scope. This dispute was referred to Andrew Goddard QC as the adjudicator and his decision was given in July 2015. The council had sought a number of declarations and the adjudicator's decision summarised them in three separate parts (issues one to three). The council subsequently disputed a monthly payment of £1.18 million and claimed it had overpaid Amey some £18.8 million between June 2013 and July 2015. Amey Annual Report 2015 *"In 2015, the Group incurred an exceptional charge of £55.0m in respect of the possible impact of an unfavourable resolution of ongoing litigation on the Birmingham contract and a revision of the contract's profitability going forward."* https://www.amey.co.uk/media/2204/2803-amey-annual-report-2015_v9-aw-singlepgs.pdf October 2016 In Amey Birmingham Highways Ltd v Birmingham City Council [2016] EWHC 2191 (TCC), HHJ Raeside QC concluded the adjudicator's decision was wrong, as a matter of law, and was not binding on either party.			

1/12/11 (financial close)	**Glasgow Recycling and Renewable Energy Centre** Glasgow City Council, Viridor Limited (Pennon Group plc) and Interserve plc 25-year contract to handle 200,000 tonnes of council "green bin" residual waste every year. On 15 November 2016 Viridor terminated Interserve's construction contract. Alan Cumming, Viridor's capital projects director stated: "…our contractor Interserve has continually and repeatedly failed to meet delivery milestones". Construction of the £154m plant started in 2013 and was supposed begin operating in 2016. http://www.thenational.scot/news/viridor-drops-interserve-from-contract-to-build-waste-management-plant-in-glasgow.24820 In August 2016 Interserve's half-yearly results stated: *"We are taking action to exit the Energy from Waste sector. Our assessment of the aggregate impact of exiting this sector is in line with the £70 million exceptional charge we announced in May."* http://www.interserve.com/investor-centre *"Many of Interserve's problems stemmed from three supply chain company insolvencies during construction, the largest of which was gasification technology supplier Energos".* http://www.constructionenquirer.com/2016/11/15/interserve-kicked-off-glasgow-energy-plant-job/	n/a	n/a	154.0
05/02/2006 (financial close)	**London Borough of Camden – Chalcot Estate** 15-year contract signed in May 2006 - 4 years later than planned for only half the originally proposed 30-year length - between LB Camden (Housing Revenue Account) and Partners for Improvement in Camden Ltd (United House, Rydon, Bank of Scotland) for the refurbishment, management, maintenance, repair, and lifecycle works of five residential tower blocks (712 flats). Troubled procurement with major delays and cost rises; a rival bidder pulled out, leaving just one bidder for 4 years of negotiations and led the Government to reject the Final Business Case in February 2005 on value for money grounds after the overall contract cost rose from £55m to £120m (Inside Housing, Camden PFI pull out puts plans in doubt, 27 June 2002). http://www.insidehousing.co.uk/camden-pfi-pullout-puts-plans-in-doubt/113530.article Inside Housing, 2005, Camden hit by new blow - http://www.insidehousing.co.uk/camden-hit-by-new-blow/1446311.article 25 Feb 2005). Cost-cutting led to the use of lower quality cladding and windows to the residential tower blocks with a known problem of thermal inefficiency, highly exposed to wind and cold, and selected for PFI investment precisely because of the need to clad and replace the windows (Rumble, N (2009), 'The PFI debacle in Camden Social Housing', 20 January, 2009. http://thebelsizeactivist.blogspot.com/2009/01/pfi-debacle-in-camden-social-housing.html). Council report in July 2009 revealed major resident dissatisfaction and inconvience from the works, unresolved damp, mould, leakage, ventilation, and heating problems, damage to tiles, mould growth and condensation on the new windows, and defects to the cladding panels that led to a new product being sourced (at no cost to the Council), a serious health and safety incident involving a protective metal plate falling from height (LB Camden 2009, Interim Project Report from the Director of Housing to the Camden's Housing and Adult Care Scrutiny Committee, July; see also: Rumble, N (2008), 'Camden PFI Chalcots', 3 December, http://nigel4belsize.blogspot.com/2008/12/camden-pfi-chalcots-december-2008.html To date, Partners for Improvement in Camden has been fined just £14,341 over 10 years and has paid out £3.62 million in dividends to its shareholders.	n/a	147.9	66.2
01/03/2003 (financial close)	**London Borough of Islington – Street Properties 1** 30-year contract signed in March 2003 between LB Islington (Housing Revenue Account) and Partners for Improvement in Islington Ltd (United House, Rydon, Hyde Housing, Bank of Scotland) for the refurbishment, management and maintenance of 2345 mainly Victorian street properties (1,900 tenanted and 445 leasehold dwellings) of which approximately 20% are Grade II listed and some 50% located in conservation areas. Hundreds of resident complaints in the first few years of the refurbishment phase under United House over sub-standard works confirmed by Chartered surveyors Consul, (employed by Islington to independently verify residents' complaints) produced two damning reports in 2005: 'We could find no consistency of quality of design in the kitchen layouts and in places isolated wall units had been fitted above seating area or positioned randomly along different wall areas of the kitchen,' (Inside Housing, 'Disunity leads consortium astray', 8 June 2005). Despite an improvement plan being put in place, problems have continued and are ongoing with many examples of tenants and leaseholders taking legal action at repairs and maintenance not being done and some leaseholders having sucessfully overturned being charged for works that were never carried out. In one court case, an independent surveyor found that United House and its various sub-contractors had caused major new structural damage to a Grade II Listed Building by cutting through and undermining a third of the joists, along with approximately 180 further defects and omissions, 6 breaches of gas safety regulations, 33 breaches of water safety legislation, 26 breaches of electrical regulations causing Category 1	n/a	356.9	89.0

	hazards under the Housing Health and Safety Rating System and breaches of building regulations and listed building legislation. The scale of the defective works led to the Council to undertake Remedial Works to rectify the original damage and defective PFI works to the value for £92,200. A dispute between Islington Council and Partners for Improvement in Islington Ltd saw the Contractor make claims for compensation leading to a Settlement Deed in July 2010 that involved the Council paying £69,000 plus allowing the Contractor to retain cost savings contractually owed to the Council. To date, Partners for Improvement in Islington has paid out £3.7 million in dividends to its shareholders and Islington has refused to disclose whether any financial penalties have been made against the contractor under S.43 (commercial sensitivity). On 18 January 2012 United House sold its Housing PFI investment portfolio to John Laing Infrastructure Fund.			
15/09/2006 (financial close)	**London Borough of Islington – Street Properties 2** 16-year contract signed in September 2006 between LB Islington (HRA) and Partners for Improvement in Islington 2 Ltd for the refurbishment, management, and maintenance of 4118 street properties not included in the Street Properties 1 scheme.	n/a	421.3	153.0
	Has experienced near-identical problems to the Street Properties 1 PFI scheme with lots of examples of properties and residents with poor or defective works compounded by poor service repair - covered in the Islington Tribune newspaper. Having completed its major works contract on both schemes, on 18 January 2012 United House sold its Housing PFI investment portfolio to John Laing Infrastructure Fund. To date, Partners for Improvement in Islington 2 Ltd has paid out £7.5 million in dividends to its shareholders and the Council has refused to disclose whether it has levied any financial penalties on the contractor.			
15/09/2006 (financial close)	**Leeds City Council – Swarcliffe** 30-year contract signed in March 2005 - 3 years later than planned - between Leeds City Council (Housing Revenue Account) and Yorkshire Transformations Ltd (Carillion, Yorkshire Housing Ltd, Bank of Scotland) for refurbishment and on-going maintenance (excluding management) of 1659 homes and the demolition of 949 council flats and maisonettes on the Swarcliffe council estate in Leeds.	n/a	271.2	153.0
	Major delays and cost increases during procurement led the government to delay approval of another housing PFI scheme in Leeds. Major problems rapidly emerged in the construction phase at a time when Mowlem was being taken over by Carrillion. Some 18 months after the contract had begun, not a single council home had been refurbished to satisfactory standards. More than 330 council tenants made complaints about the work (Seacroft Today, 2009). http://www.seacrofttoday.co.uk/news/Tenants39-woes-follow-113m-Swarcliffe.4915259.jp An electrical inspector who worked on the site for two and half years went public that botched work had left residents at risk of electrocution with 80 per cent of properties he inspected at risk of gas explosions from poor electrical work and nearly 500 properties did not have wiring properly earthed (Yorkshire Evening Post http://www.yorkshireeveningpost.co.uk/news/Leeds39s-39deathtrap-timebomb39.4843178.jp To date, Yorkshire Transformations Ltd has paid £3.493m in dividends to its shareholders and the council is rumoured to have made over £300,000 of penalty deductions mainly in the early construction phase.			
05/07/2013 (financial close)	**Leeds City Council – Little London, Beeston Hill and Holbeck** 20-year contract signed in July 2013 after a 9 year procurement disaster between Leeds City Council (HRA) and Sustainable Communities for Leeds (Keepmoat, Frank Haslam Milan, Equitix) for the regeneration of two separate Leeds inner-city council estates: Little London, a residential area immediately to the north of the city centre near to the universities; and Beeston Hill and Holbeck to the immediate south of the city centre.	n/a	327.6	138.0
	Overall, the contract will refurbish 1222 council homes and reprovide 501 council homes of 662 being demolished, plus environmental works and maintenance over 20 years. The project brings together an original Round 2 HRA scheme - Little London - and the Round 5 HRA Beeston Hill and Holbeck scheme, after both schemes were subject to significant procurement delays and problems. The Little London project has a particularly complex and controversial history that involved major local tenant opposition to the PFI route and conflict with the local authority that persuaded the Labour government to require Leeds City Council to consult residents again after 2005; the scheme was then further delayed by the 2008 financial crisis and the 2010 Coalition government review of PFI, and the decision of its original funder to pull out, forcing the council to invest £40 million of its own HRA reserves in the capital works and for the consortium to issue a bond for the rest of the finance. Over these 9 years, the Little London regeneration blueprint was fundamentally altered. All private housing development was also removed from the wider regeneration plan due to market uncertainty. The planned PFI redevelopment of the Community Hub was removed from the PFI scheme and instead the existing site was redeveloped partly through the sale of the former housing office to a national retailer. The Beeston Hill and Holbeck scheme has been far less controversial, but has also seen significant delays and changes to the project scope since it was first bid for as part of Round 3 in January 2004, Round 4 in January 2005 and then Round 5 in April 2006 after it had been previously rejected.			

20/10/2006 (financial close)	**Oldham MBC – Sheltered Housing PFI** 30-year contract signed in October 2006 between Oldham Council (non-HRA) and Oldham Retirement Housing Partnership Ltd (Housing 21), PRG Bullock, Allied Irish Bank Group (UK) Plc) and after a troubled procurement process that was delayed by two years.	n/a	434.4	108.0
	Project originally was a joint initiative with Rochdale Council but only two firms registered an interest, forcing Oldham and Rochdale to split their projects into two separate schemes and re-advertise in 2004. Major problems in Oldham emerged in late 2012 when Oldham Council implemented large financial penalty deductions over defective works relating to building contractor, Bullock, for which Housing 21 was legally liable. Dispute resolution talks led to a deed of variation in August 2013 in which Bullock left the contract and Housing 21 agreed to a £20m programme of rectification works from 2013 to 2016 that led to a £12.3 million loss - a total of £32.3 million financial hit on Housing 21. http://www.socialhousing.co.uk/housing-21-chief-refocuses-on-core-purpose-and-restructures-at-the-top/7002495.article Inside Housing, 20/12/12, http://www.insidehousing.co.uk/regulation/regulator-seeks-reassurance-over-pfi-losses/6525115.article Housing 21 Chief Executive, Pushpa Raguvaran, was forced to leave her post and Housing 21 was subsequently criticised by the Homes and Communities Agency in a regulatory judgement published in August 2013 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/547698/housing_21_rj.pdf Inside Housing, 28/08/13, http://www.insidehousing.co.uk/housing-association-ceo-steps-down-following-%C2%A3123m-mistake/6528312.article			
05/04/2012 (financial close)	**London Borough of Lambeth – Myatts Field North** 25-year contract signed in May 2012 between LB Lambeth and Regenter Myatts Field North Limited (John Laing, Pinnacle, Higgins, E.ON, Norddeutsche Landesbank Girozentrale (Nord/LB), Co-operative Bank, Nationwide Building Society) for demolition and replacement of 305 council homes (including 58 leaseholder), refurbishment of 172 homes, plus management and maintenance, estate remodelling, new park and community centre, and the reconnection of the district heat and power system under 40-year contract with E.ON.	n/a	269.0	80.6
	Scheme suffered major procurement delays, cost increases and numerous project changes compounded by the 2008 financial crisis and its aftermath that included the Coalition government levying a 10% cut in promised PFI credits for the scheme in 2010, amounting to a £16 million hole in the project's finances. Major problems have engulfed every aspect of the construction phase with a large volume of residents complaints over defective works and services in both new build and refurbished properties currently being experienced through floods from faulty pipework. There have been public healthy and safety complaints (Construction News, 2014 - 6 August). https://www.constructionnews.co.uk/markets/sectors/housing/exclusive-safety-failings-alleged-on-150m-pfi/8666839.article http://www.brixtonbuzz.com/2014/07/protest-called-over-intolerable-living-conditions-as-developers-construct-oval-quarter-in-myatts-fields/ Controversy over the E.ON-run district heating system that despite regular outages and unaffordable and inaccurate bills, residents are being told they cannot terminate their contracts with E.ON (see Hodkinson and Essen, 2015). http://eprints.whiterose.ac.uk/85448/1/Hodkinson_Essen_2015.pdf Inside Housing, 2016, 'The Story of the Camberwell Submarine', 19 February, http://www.insidehousing.co.uk/the-story-of-the-camberwell-submarine/7013918.article Novaramedia, 2016, 'Redeveloped into fuel poverty', 24 July, http://novaramedia.com/2016/07/24/redeveloped-into-fuel-poverty-the-story-of-myatts-field-north/ The PFEye Watchdog, https://pfeyeblog.wordpress.com/2015/03/30/myatts-field-north-residents-reveal-dismal-state-of-new-pfi-homes/ Lambeth has levied around £160,000 in financial penalties on Regenter since 2014.			
06/04/2007 (financial close)	**London Borough of Lewisham – Brockley housing** 20-year contract signed in June 2007 between London Borough of Lewisham and Regenter B3 Ltd (John Laing, Higgins, Pinnacle, Rydon, Sumitomo Mitsui Banking Corporation) for the refurbishment, management and maintenance of 1365 council homes, a mix of flats on estates, small infill blocks of flats and individual street properties.	n/a	378.4	96.0
	Procurement was delayed after two bidders withdrew early on from the process towards the end of 2002. By 2009 major problems had emerged in relation to disputed major works to many of the 500 leasehold properties in the scheme that resulted in a Class Action of 23 leaseholders against Regenter B3 and Lewisham Council at the			

	Leasehold Valuation Tribunal between 2009 and 2012. Lewisham accepted the findings on quality, cost and necessity of works, and poor standards of service repair and management, and instructed Regenter and Higgins to ensure all defects and outstandings works be completed to the satisfaction of leaseholders and produce an Improvement Plan for 2012/13 (LB Lewisham Housing Select Committee, 2012 - Brockley End of Year Review 2011/12 - 17/05/12). Over 2013 and 2014, Lewisham fined Regenter £115,667 (Regenter B3 Company Accounts). To date, Regenter B3 has paid out £3,726,000 in dividends to its shareholders.			
17/09/2013 (financial close)	**Salford City Council – Creating a new Pendleton** 30-year contract signed in September 2013 after major procurement delays and project re-scoping between Salford City Council (HRA) and Pendleton Together Operating Ltd (Chevin, Keepmoat and Barratt) for the refurbishment of 1250 homes, the demolition of 885 homes, and the development of 1600 new homes, of which 500 will be 'affordable', plus management and maintenance of the council homes and estate remodelling.	n/a	430.8	78.7
	Procurement was beset with problems, largely imposed by the 2008 financial crisis and further legal and risk issues in the sector. In 2013, the funder for the project withdrew and a bond was issued instead. A major side-effect of the PFI project has been the forced stock transfer of Salford's ALMO, Salix Homes, which was partly caused by the growing costs of the PFI project rendering Salix's business plan for investment unaffordable over the long-term due to borrowing constraints. The government wrote off £65.1m historic housing debt in 2014 as part of the stock transfer deal! http://studylib.net/doc/16041950/salford-city-council---record-of-decision			
01/09/2000 contract award	**Yarl's Wood Removal Centre, Bedfordshire** PPP design, build, operate contract to avoid PFI model because of timescale. Group 4 Amey Immigration Limited (GAIL) Operated by GSL, a Group 4 Falck subsidiary until May 2004 when GSL was sold to Englefield Capital (40%), Electra Partners Europe (40%) and management (20%). GSL's contract was not renewed in September 2003 when Serco Group plc took over the centre.	n/a	116.0 for 6 years	63.3
	Intended to house 900 immigration detainees, including ("failed asylum seekers and illegal migrants"). Opened November 2001. Home Office rushed design, procurement, construction, no sprinkler system and wanted completion in less than a year, but was 6 months late. Within three months a major disturbance led to half centre being destroyed by fire. Prisons and Probation Ombudsman Inquiry, 2004, details the construction and operation of Yarl's Wood, as well as events before, during and after the fire in February 2002. Capita, PriceWaterhouseCoopers and two firms of lawyers engaged in design and procurement of the Centre. http://www.ppo.gov.uk/wp-content/uploads/2015/11/special-yarls-wood-fire-021.pdf G4S can use Victorian riot law to sue Bedfordshire Police for £32m. Court of Appeal concluded that Bedfordshire Police Authority can be sued under the 1886 Riot Damages Act for £32m damage caused by the 2002 fire. https://www.solicitorsjournal.com/news/commercial/consumer/group-4-can-use-victorian-riot-law-sue-police-%C2%A332m http://www.telegraph.co.uk/news/uknews/law-and-order/6417336/Police-face-huge-bill-for-riot-damage.html NAO report 2016: Serco now runs residential services for Home Office, G4S health services for NHS England. Serco's reduction of staff meant there were insufficient operational and management staff; Services at Yarl's Wood did not fully meet the needs of users; The contracts required that training should be provided but staff at the centre were not adequately trained to deal with the particular concerns, issues and vulnerabilities of those in immigration detention. https://www.nao.org.uk/wp-content/uploads/2016/07/Yarls-Wood-Immigration-Removal-Centre.pdf			
01/04/2005 (financial close) Closure 2014, rebuild 2015 - 2017	**South Bank Primary School, Redcar & Cleveland Council Redcar & Cleveland Grouped Schools PFI** 5 schools, 29-year contract. Built by Mowlem plc (later acquired by Carillion plc) and Robertson Capital Projects. SPV now owned jointly by 3i private equity and Dalmore Capital finance.	n/a	294.7	48.9
	Opened summer 2006 but cracked internal walls appeared after two years when the ground fill became saturated and expanded. Four other schools not affected. Carillion originally planned to close the school for a year and replace the ground floor and fill. They started the work in 2015 but the defective fill was so extensive that demolition was necessary. PFI school to close for repairs to structural problems just eight years after opening, 3 June 2014: http://www.thenorthernecho.co.uk/news/11253812.PFI_school_to_close_for_repairs_to_structural_problems_just_eight_years_after_opening_/ Carillion suspended work on site in April 2015 when it discovered the majority of the foundations were build on defective fill. A structural engineer's report recommended demolition and a rebuild, 8 July 2015: http://www.thenorthernecho.co.uk/news/13375340.School_to_be_demolished_less_than_a_decade_after_o			

	pening/ South Bank has 269 nursery and primary pupils. The school initially closed for 14 months but it will be three years by September 2017 when the new school is planned to open. Free transport is provided to the temporary school a mile away where temporary classrooms have been built, 12 July 2016: http://www.gazettelive.co.uk/news/teesside-news/multi-million-pound-school-being-11600418			
01/08/2001	**Sheffield City Council Waste Contract** Veolia 35-year PPP contract	n/a	1,300.0	n/a
	Contract includes Bernard Road energy from waste plant, (which is owned by the Council) and waste collection. Threatened termination and plans to retender services in 2017 with termination of the Veolia contract 2018. The contract is expected to cost £27m in 2017/18 and employs 280 staff. Report to Cabinet 18 January 2017 http://democracy.sheffield.gov.uk/documents/s25096/Waste%20Services%20Review.pdf Once interim contract expires the Council will consider returning to in-house provision: *"However, the recommendation is that the contract will include a requirement for bidders to set out how they will introduce new ways of working to bring greater efficiencies and safer working practices and at the same time enable the Council to consider insourcing this service following expiry of the contract."* http://www.letsrecycle.com/news/latest-news/sheffield-debates-early-end-to-veolia-pfi-contract/			
Totai 43		**2,139.8** (2)	**36,105.7**	**4,459.1**

1. Not included in column totals. 2. Most costs yet to be determined, so this is a fraction of total costs.

Details of contract terminations, cost overruns and delays in PFI/PPP information and communications technology contracts 1998-2007 are available in ***Cost Overruns, Delays and Terminations in 105 Outsourced Public Sector ICT Contracts****,* ESSU Research Report No. 3 by Dexter Whitfield, 2007.

http://www.european-services-strategy.org.uk/publications/essu-research-reports/essu-research-report-no-3-cost-overruns-delays/essu-research-paper-3.pdf

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References and links to evidence on specific projects are included in Tables 11 – 13. References and links to PFI/PPP and public policy issues are in the main reference section.

Information for each buyout, termination and projects that had experienced a major problem had to be compiled from several sources including:

- Stock Exchange Announcements/Regulatory News Service Company Notices and Press Releases
- Company Interim and Annual Reports & Accounts
- UK Companies House annual returns
- Jersey and Guernsey company registers
- Infrastructure fund share prospectuses and websites
- Construction and PPP company websites
- HM Treasury annual PFI current projects data 2011-2015
- National Audit Office PFI reports
- PPP, financial, construction and infrastructure journals
- ESSU PPP Equity Database 2012
- Local newspapers

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The financial commodification of public infrastructure

The growth of offshore PFI/PPP secondary market infrastructure funds

Dexter Whitfield

New research reveals the rapid growth and power of offshore secondary market infrastructure funds in a £17.1bn (€20.1bn) industry, in effect buying and selling hospitals, health centres, schools, colleges, and roads like financial commodities.

- The sale of 33 secondary market infrastructure funds 2003 - 2016 involved the purchase of equity in 1,151 PFI/PPP project companies (includes multiple transactions in some projects) at a cost of £8.1bn (€9.5bn).
- In addition, equity in 980 PFI/PPP project companies (SPVs) has been sold in individual or small bundle transactions since 1998 at a cost of £9bn (€10.6bn).
- The total value of PFI/PPP equity transactions reached £17.1bn (€20.1bn) by mid 2016, a 42.5% increase in less than four years.
- The average annual rate of return on the sale of individual/small bundles was 28% (based on 110 transactions involving 277 PFI/PPP projects between 1998-2016).
- The three-way profit gain - original SPV shareholders, secondary market fund sales and shareholder dividends of secondary market funds – means the total annual rate of return could be between 45%-60% - three to five times the rate of return in PFI/PPP final business cases.
- The five largest listed offshore infrastructure funds made a total profit of £1.8bn (€2.1bn) in the five-period 2011-2015 but paid ZERO tax.
- Twelve offshore infrastructure funds have equity in 74% of the 735 current UK PFI/PPP projects.
- Equity in Edinburgh Schools PPP1 project was sold 13 times between 2003-2014.
- New guides to The Statistical Treatment of PPPs in Europe (Eurostat, EPEC and EIB, 2016) and the World Bank's Benchmarking PPP Procurement 2017 make no reference to PFI/PPP profiteering from the sale of SPV equity or to offshoring. It demonstrates a biased, self-serving and politically selective approach to statistics and procurement designed to aid the PPP industry and evade key matters of public interest.

The report recommends new controls to restrict offshoring public assets, termination of the PFI/PPP programme, nationalisation of SPVs, increased public investment and radical public management. Published October 2016.

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