European Services Strategy Unit Research Report No. 10

PPP Profiteering and Offshoring:

New Evidence

PPP Equity Database 1998-2016 (UK)

Dexter Whitfield

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

Analysis of the updated ESSU PPP Equity Database 1998-2016, first published in December 2012

The updated database can be downloaded:

https://www.european-services-strategy.org.uk/wp-content/uploads/2017/10/ESSU-PPP-Database-1998-2016.pdf

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European Services Strategy Unit
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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.

Contents

Abbreviations in the ESSU Database and this report

AG	Aktiengesellschaft (corporation or plc)
AR	Annual Report and Accounts
BBGI	Bilfinger Berger Global Infrastructure
ESSU	European Services Strategy Unit
FM	Facilities Management
GmbH	Gesellschaft mit beschränkter Haftung (private company)
HICL	HICL Infrastructure Company Limited
HSBC	Hongkong and Shanghai Banking Corporation
INPP	International Public Partnerships
Inc.	Incorporated
Interim	Interim Report or Results
JLIF	John Laing Infrastructure Fund
NAO	National Audit Office
NHS	National Health Service
NPD	Non-Profit Distributing
n/a	not available
PIP	Pensions Infrastructure Platform
plc	Public Limited Company
Press	Press release issued by company
PIP	Pensions Infrastructure Platform
PPP	Includes Private Finance Initiative (PFI) and PF2 projects
RNS	Regulatory News Service issued via the London Stock Exchange
SEC	US Securities & Exchange Commission 8K Filing
SMIF	Secondary Market Infrastructure Fund
SPV	Special Purpose Vehicle (company)

Summary

- The average annual rate of return was **28.7%** in 1998-2016 more than double the 12%-15% annual rate of return in PFI/PPP Final Business Cases.

- The updated ESSU PPP Equity Database records **462** transactions between 1998-2016 involving the direct sale of equity of **1,003** projects (including those where equity was sold multiple times) at an estimated cost of £10.3bn.

- A sample of 334 projects, a third of the total number of projects engaged in the sale of equity in 118 transactions, a quarter of the transactions between 1998-2016, provides information to determine the annual rate of return.

- In 2016, **100%** of equity transactions were to offshore infrastructure funds in Jersey, Guernsey and Luxembourg, based on the ESSU sample of 334 projects. The percentage in 2011 and 2014 was 70% for both years and 60% and 61% in 2015 and 2013 respectively.

- Nine offshore secondary market infrastructure funds owned **50%-100%** of the equity in 334 PFI/PPP projects or **45.4%** of PPP projects in the UK in 2016 (Whitfield, 2016).

- The evidence for the average annual rate of return is based on a sample of 334 projects, a third of the total number of PPP projects involved in the sale of equity in 118 transactions, a quarter of the transactions between 1998-2016. It is a significant sample reflecting different sectors, size, geography and a spread of vendors and purchasers of PPP equity.

- Education and health PPP projects account for 62.7% of projects in equity transactions followed by transport with 10.4% and criminal justice with 8.4%.

- There has been little change in the average time **6.47**-year gap between the date of financial closure of projects and the sale of equity. This is consistent with other findings.

- An average of **43.4%** of project equity was sold in each transaction in the sample.

- The **£18,387m cost of PPP equity transactions and mergers/takeovers of secondary market infrastructure funds is a further additional cost of PPPs**. It is money **extracted** from PPP projects once they have reached financial close, and in effect, an indirect public cost. Financial institutions, aided by construction companies and FM contractors, extract the increased value once construction of PPP projects is completed, risk is significantly reduced, repayments government guaranteed and a secondary market ramps up the value of SPV equity.

- The direct public costs of PPPs are even higher. The total public cost of PPP buyouts, bailouts, terminations and major problem contracts was estimated to be £7,567m (Table 10, Whitfield, 2017). Further additional costs of PPPs were estimated to be £20,335m based on the additional cost of private finance compared to public investment, additional PPP transaction costs and interest rate swap liabilities in many PPP projects. The combined additional cost of PPP projects was **£27,902m** (ibid).

Recommendations

New controls to restrict offshoring public assets

PFI/PPP equity assets are totally dependent on UK taxpayer funding of PPP projects. Infrastructure funds rely on the stable unitary payments made by government, the NHS and local authorities, which further facilitates increased value of the assets. New regulations should include:

- make it illegal to transfer equity ownership of PPP assets from UK registered companies to offshore infrastructure funds, which is solely for the purposes of tax avoidance;
- make it illegal to establish offshore PPP holding companies of SPV assets;
- repatriate equity ownership of PPP SPV companies to UK registered companies;
- prevent the flotation on the London Stock Exchange of PPP infrastructure funds by companies registered in offshore tax havens;
- amend the standard PPP contract to restrict the transfer of PPP assets to registered companies in offshore tax havens.

Termination of the PPP programme

The PFI/PPP model of public infrastructure is very expensive, exploitative, increases inequalities and deskills the public sector. Claims about achieving 'value for money', 'social value' and 'commissioning for outcomes' are unfounded.

Nationalisation of SPVs

Nationalisation of the local PPP project companies (SPVs) is the most effective way of stopping the trade in PPP equity and secondary market funds and return to public ownership. It would significantly reduce the financialisation and marketisation of public infrastructure (People v Barts PFI, 2015).

New radical public management

Nationalisation 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 schools, hospitals and other public buildings. Innovation, improvement and early intervention and the continuous engagement 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 PPP programme should be replaced by increased public investment – *"…the average cost of all government borrowing is 3% to 4%, compared with an estimated financing cost of 7% to 8% for all private finance projects"* (NAO, 2015).

See page 21 for summary of Labour Party PPP commitments made in September 2017.

Part 1

Continued growth of the PPP secondary market

This part explains the distinction between the direct sale of equity in SPVs as distinct from changes in ownership of SPV equity that occur through the merger or takeover of secondary market infrastructure funds. It discusses the drivers of equity transactions and the scope and content of the ESSU PPP Equity Database.

The direct sale of equity in SPVs

The updated ESSU PPP Equity Database records 462 transactions between 1998-2016 involving the direct sale of equity of 1,003 projects (including those where equity was sold multiple times) at an estimated cost of £10.3bn. A sample of 334 projects, a third of the total number of projects involved in the sale of equity in 118 transactions, a quarter of the transactions 1998-2016, provides information to determine the annual rate of return. This is a significant sample reflecting different sectors, size, geography and a spread of vendors and purchasers of PPP equity. An average of 43.4% of SPV equity was sold in each transaction in the sample of 334 projects, with the range varying from a very small percentage to total ownership.

Every Public Private Partnership (PPP) contract has its own Special Purpose Vehicle (SPV) (usually a private company) to undertake the design, construction, finance and operation of the project, plus a holding company that owns the SPV.

SPV were traditionally funded by 85%-90% senior debt and 15%-10% equity loans (subordinate debt) raised by the equity owners. The Coalition government's 'reform' of PFI in 2012 allowed PF2 projects to change the debt/equity 75%/25% and to encourage public sector bodies to become minority equity owners. Subordinate debt carries more risk than senior debt and earns a higher expected rate of return due to the greater inherent risk. In the event of bankruptcy, subordinated debt lenders receive payment only after senior debt is repaid in full.

> *"Equity in PFI SPV companies is usually divided between the bank or financial institution, the construction company and the facilities management contractor. PFI SPV companies are private UK registered companies and are liable to pay UK corporate tax. Equity transactions include the sale of subordinate debt and are released from any unfunded capital commitments. PFI/PPP project company shareholders normally agree to offer their co-shareholders the first option to purchase their shares when they want to sell part or all of their shareholding – this a legal requirement in the PF2 contract. If other shareholders do not wish to purchase the shares, the vendor will seek to sell in the secondary market. Competitive tendering is increasingly used to sell PFI/PPP equity"* (Whitfield, 2016).

Why PFI/PPP project ownership matters

The ownership of PFI/PPP companies is critical for governments and public bodies, local authorities, service users, community organisations, staff and trade unions:

- Revenue from the sale of equity goes to the parent company that owns the equity, not the SPV. None of the gains flow back to PPP schools and hospitals or to local authorities, NHS Trusts and government departments that ultimately pay for PPP projects. Nor does the secondary market generate additional value for the economy.

- Annual profits (or losses) enable the SPV to pay dividends to the equity owners. When they are offshore infrastructure funds, the ultimate beneficiaries are their shareholders.

- The ownership of equity is critically important because the SPV shareholders have the responsibility for implementing the PPP contract, project performance and long-term facilities management such as repairs and maintenance, provision of utilities, responding to problems, health and safety, management of sub-contractors and employment policies and practices. They are also responsible for charging policies for internal changes and community use of facilities.

- Democratic accountability is eroded because the sale of PPP equity transfers ownership of the SPV from the original contractor, banks and facilities management contractor to secondary market infrastructure funds, most of which are located in offshore tax havens. Funds listed on stock exchanges are ultimately accountable to their shareholders. Unlisted funds are private equity funds or partnerships accountable to their investors. In both cases the chain of accountability is considerably extended and weakened in each link. The sale of equity is not subject to democratic accountability and public bodies have no control over which PPP assets are sold, when or who acquires them. The scale of profiteering invalidates the original value for money assessment. Most PPP projects would not have proceeded had this been taken into account.

- The secondary market infrastructure funds are unlikely to 'accept' the conclusion of PPP project contracts and for them to cease to be part of the funds assets. They are likely to try to persuade local authorities and NHS Trusts to have a further contract to deal with changes in the use of buildings, additional facilities and/or property management of other public buildings. The shareholders of secondary market funds demand higher annual dividends and the expectation is that this is achieved by growth, not a reduction in assets.

- As the rate of PPP equity transactions increases, it accelerates financialisation, so that more public buildings become commodities to be bought and sold. The intrinsic value is not in the hospital or school, but in the profit and dividends that can be extracted. This market makes no reference to the needs of pupils, parents, patients and staff or to public policies or public investment (from The financial commodification of public infrastructure: The growth of offshore secondary market infrastructure funds, 2016).

"Secondary trading in projects will reinforce the power of capital over the rentier state and will have profound implications for services and democratic accountability. Schools and hospitals will be traded like other commodities" (Whitfield, 2001).

The prime objective of the ESSU database is to provide public access to the scope and scale of the sale of equity in PPP projects and to report on key trends and developments. It publishes only corporate information on transactions and disclosed profits. This is a public interest matter since construction companies and finance capital are extracting significant additional profits from public investment than planned at the financial close of projects.

Further information on specific direct equity transactions

The ESSU PPP Equity Database 1998-2016 provides details of transactions including the date of sale, vendor and purchaser, name of project, date of financial closure of project, percentage of SPV shareholding, price, profit, annual rate of return and information sources.

The sale of secondary market infrastructure funds

The sale of secondary market funds leads to an **indirect,** but equally fundamental change of equity ownership. These transactions are detailed in a separate database included in The financial commodification of public infrastructure: The growth of offshore PFI/PPP secondary market infrastructure funds (2016).

New infrastructure funds, usually offshore, developed alongside the growth of equity transactions. These funds expanded through mergers and takeovers with the full or part-sale of 33 secondary market infrastructure funds 2003–2016. They involved the purchase of equity in 1,151 PPP project companies (includes multiple transactions in some projects) at a cost of £8.1bn. Offshore infrastructure funds were floated on the London Stock Exchange, but registered in Jersey, Guernsey of Luxembourg. Other financial institutions, pension funds and mainly multiple shareholders via nominee companies own over 95% of their shares.

The combination of these two developments means that offshore infrastructure funds currently have equity in 547 PPP projects. Allowing for a small degree of duplicate ownership, the total number of projects is estimated to be 500. **Twelve offshore infrastructure funds have equity in 74% of the 735 current UK PPP projects** (Whitfield, 2016)**.**

Furthermore, the offshore funds have a significant influence when they own a majority of the equity in an SPV. **Nine funds own 50%-100% of the equity in 334 PPP projects or 45.4% of PFI projects in the UK** (ibid).

SPV dividends are received by these infrastructure funds according to their equity shareholding and then paid out in dividends (usually 5%-8%) to their shareholders.

Further information on the transfer of ownership via merger or takeover of secondary market infrastructure funds

Appendix B of *The Financial Commodification of Public Infrastructure: The growth of offshore secondary market infrastructure funds* contains 33 mergers or takeovers of secondary market infrastructure funds between 2003-2016 involving 1,151 UK PPP projects. It provides date, vendor, purchaser, cost, names of PPP projects and percentage shareholding owned. https://www.european-services-strategy.org.uk/wp-content/uploads/2017/01/financial-commodification-public-infrastructure.pdf

There is a degree of overlap with the database of direct equity transactions.

Appendix A identifies 334 PPP projects owned by nine offshore secondary market infrastructure funds that own 50%-100% equity in SPVs.

The drivers of PPP equity transactions

The rapid increase in the sale of PPP equity, the emergence of a secondary market and mergers and takeovers of secondary market infrastructure funds in the UK can be explained by three main factors:

Firstly, the flow of capital from the industrial and manufacturing sector, the production process, into the secondary circuit of capital with investment in land, real estate and housing, aided by state support and guarantees.

Secondly, attempts to transform the public sector through financialisation, marketisation and privatisation.

Thirdly, neoliberalism and the state-business PPP partnership model which was dependent on deregulation, creating the conditions for new opportunities for accumulation, corporate welfare and the absence of controls on offshoring and tax avoidance.

Fourthly, globalisation aided the flow of foreign capital to finance PPPs and facilitated UK government's promotion of the PPP in other industrialised countries and aligned with the World Bank and International Monetary Fund imposition of PPPs in the global south.

Finally, the corporate interests of PPP equity shareholders may also drive transactions. For example, some companies have sold equity when they have been confronted by financial and economic crisis and a falling share price. Some others have transferred PPP equity to their pension fund in lieu of annual cash payments into the fund.

See pages 28-33 of *The financial commodification of public infrastructure* for more details and Smyth and Whitfield (2015 and 2016).

PPP equity transactions in ESSU Database

The European Services Strategy Unit PPP Database and this report focus exclusively on the sale of equity in PPP project companies.

It is also important to highlight:

- The database reports solely on transactions and profit/loss disclosures by parent companies and infrastructure funds.
- PPP equity transactions usually include the sale of the relevant proportion of subordinated debt, also referred to as loan note interest.
- Normally at least two companies are formed with each PPP project – one to undertake the construction and finance and to operate the facility after construction is completed, plus a holding company.
- The sale of equity is only once source of profit in PPP projects (Whitfield, 2012).
- Profits from equity transactions may not be disclosed for up to a year later when company annual reports are published. Profit/loss may not be attributable to individual PPP projects when they are sold in a bundle. This, in part, is why the average rate of return for 2016 is lower than the immediate preceding years.
- The database does not record internal transfers, for example, between subsidiaries within the same parent company.
- Nor does the database include PPP buyouts or terminations when ownership transfers to the public sector as these are contained in Whitfield (2016 and 2017).

At financial close of a PPP, the financial model will include a rate of return, usually 12% - 15%, but this does not limit the private sector to this return. It is an indicative return, which the preferred bidder company considers acceptable to sign the contract.

The equity in PPP special purpose companies is owned by the respective parent companies and the profit/loss from the sale of equity is retained by the parent company. A company may sell part or all of its shareholding, whilst other shareholders retain their stakes. The SPC shareholders usually have pre-emption rights, which give them the right to acquire the shares of other shareholders who want to sell their equity. The sale of equity in PPP projects usually includes the sale of debt or loan note interest.

By March 2016 there were 715 operational PPP contracts in the UK (HM Treasury, 2016) although the number of signed PFI contacts is about 800, but 55 projects were removed in the 2012-16 period alone, because they had expired, terminated or been reclassified.

This research is based on *actual* profits and rates of return, not those predicted when the contract was signed.

Whilst analysis of financial models can provide useful insights into the business case economics of PPP projects, this is limited. PPPs were claimed to be the 'only option' with risk transfer and pricing being 'flexible' and open to different technical and financial interpretations. This scenario provides only limited assurance that value for money was rigorously pursued and business cases were sound.

The database is built using a multiplicity of sources including London Stock Exchange Regulated News Service (RNS) by vendors and purchasers, company annual reports, Annual Returns to Companies House, Jersey and Guernsey Company Registers, HM Treasury and Scottish Executive annual current PPP projects, infrastructure journals, infrastructure fund websites The methodology adopted for the ESSU PPP Equity Database is available in Appendix 1.

The sample of projects with data used to determine an annual rate of return on an equity transaction represents 33% of PPP projects where equity has been sold and 25% of PPP equity transactions 1998-2016. It covers all sectors and projects with a range of capital value.

The level of transparency or financial disclosure regarding the sale of equity in PPP projects has declined despite the UK government making a commitment to reduce commercial confidentiality on matters of public interest. Companies selling and acquiring PPP equity frequently issue Regulated News Service statements provide only partial information about a transaction. Some companies do not issue RNS notices as they appear to regard the transaction is not 'significant' financially, but there are examples where this is clearly not the case, for example Carillion plc.'s £87.8m sale of a 50% share equity in Southmead Hospital, North Bristol NHS Trust in 2015. In addition, the annual reports of public companies often do not provide basic details of PPP equity transactions. The Pensions Infrastructure Platform (PIP) and the PPP Equity PIP Limited Partnership, managed by Dalmore Capital, invest pension fund money in PPP projects, but do not provide any public information about these investments.

The database focuses on the sale of shares and change of ownership of PPP project companies after the contract has been signed. It excludes the original investment in equity at financial close of the project, because this is primary transaction. Nor does it include financial gains from refinancing projects once they are operational.

The emergence and systematic growth of the secondary market, particularly since 2003, has two parts. The first is the trade in equity in individual or bundles of PPP projects. The second is the acquisition of some or all of the assets of secondary market infrastructure funds, mostly by recently established offshore funds designed to capture market share and consolidate 100% ownership of PPP project companies.

The sale of equity in PPP project companies via the secondary market provides a means by which construction companies, banks and financial institutions can extract additional substantial profits. Also equity owners receive annual dividends from PPP project companies and there are many other – see Table 2 in Private Wealth Machine (Whitfield, 2012).

Part 2 of *The Financial Commodification of Public Infrastructure* explains why PPP project ownership matters and the role of the secondary market in value creation and value capture.

Who owns the secondary market funds?

Banks, other financial institutions, infrastructure funds, pension funds and investment management companies own eight of the largest secondary market funds registered offshore. The latter are nominee companies whose singular purpose is to hold shares on behalf of a large number of other nominee companies in order to conceal corporate and individual ownership of shares (Table 13, Whitfield, 2016). The shareholders of secondary market infrastructure funds are the beneficiaries of the tax benefits of the offshore location of funds.

Companies normally disclose major shareholders who have over a 3% or 5% shareholding in the company. The originators of some funds, such as HBSC, John Laing Group and Bilfinger Berger began with about 20% equity stake in the new funds, but significantly reduced or sold outright the equity in subsequent years

Construction companies, banks and other financial institutions seek higher profits by selling part or all of the share equity in PPP project companies on average six years into the contract. The secondary market in PPP equity emerged in 2003 encouraged by some transactions obtaining a high annual rate of return.

The number of willing buyers of equity increased, often infrastructure funds set up by construction companies. Most of these funds are registered in offshore tax havens with company shares traded on the London Stock Exchange. The infrastructure funds pay no tax when registered offshore – five of the largest listed offshore infrastructure funds – HICL (Guernsey), John Laing Infrastructure Fund (Guernsey), 3i Infrastructure plc. (Jersey), International Public Partnerships Limited (Guernsey) and Bilfinger Berger Global Infrastructure (Luxembourg) - made a total profit of £1.8bn in the five-period 2011-2015, but paid no corporate tax (Whitfield, 2016). The construction companies originally retained a 20%-25% ownership of the funds, but sold the majority of their shareholding to obtain further profits once the funds were established.

Although the 2008 financial crisis led to the delay or cancellation of many PPP projects, the secondary market continued unabated. Only in 2015-16 did the number of transactions decline.

The secondary market provides an opportunity for *additional* profit over and above the profit that construction companies build into construction costs and the cost of risk transfer. Banks and financial institutions charge interest rates on PPP finance significantly higher than public investments. The National Audit Office (NAO) analysis revealed the cost of private finance was between 7%-8% compared to public finance of 3%-4% (NAO, 2015), plus they receive significant fees for arranging interest rate swaps.

The price paid for PPP equity, in theory, reflects the relative value of the financial and physical assets being sold, but also reflects their secondary market value. For example, the degree of competition from the sale of equity in other PPP projects, knowledge of the reason(s) why the vendor is selling the asset and whether the purchaser already has an equity stake in the project or is building a particular portfolio of assets. Hence the price paid for PPP equity is as a financial asset and further removed from its value as a school or hospital to the local community and service users.

Future flow of equity transactions

The recent slowdown in the number of PPP equity transactions has occurred in parallel with a decline in pipeline of new PPP projects. Unfortunately, this slowdown does not mean the secondary market is 'running down'. Although Carillion plc. has withdrawn from bidding for future PPP contracts following technical delays and financial losses, it will presumably proceed to sell the equity in projects they already own.

Consolidation of PPP equity ownership in offshore infrastructure funds is almost certain to continue. In addition, the current PF2 pipeline may expand following the Highways England announcement in summer 2017 that PF2 may be used for large tunnelling projects such as the 1.8 mile tunnel under Stonehenge as part of the £1.3bn A303 Amesbury-Berwick Down road improvement project and a new tunnel under the River Thames as part of the £1.5bn Lower Thames Crossing project (Out-Law.com, 2017). In addition, following the Hansford Review, Network Rail 'is now open for business' for third party delivery *"…because there is considerable private sector appetite to invest in long life secure assets such as railways"* (NetworK Rail, 2017).

Global transactions and secondary markets in other countries

Global trends in the sale of PPP equity were evidenced in 146 global secondary market transactions (297 PPP projects) that occurred between 1998-2012 (Part 7 and Appendix 5 in Whitfield, 2012). A sample of the global sale of secondary market funds 2013-2016 provided details of 14 transactions (107 PPP and public infrastructure projects) mainly by global private equity firms (Table 16, Whitfield, 2016).

Secondary markets are developing in Australia, Canada, Germany, France and the Netherlands, although they are small relative to the UK secondary market (Whitfield, 2012). Global private equity funds, banks, construction companies and infrastructure funds are financing and extracting profits on a large scale in the global south (Hildyard, 2016).

Resources provide more detailed analysis

The global scale of PPP equity transactions and the outright sale of public infrastructure assets was examined in *PPP Wealth Machine: Appendix 5: Global PPP equity transactions 1998-2012* https://www.european-services-strategy.org.uk/wp-content/uploads/2012/11/PPP-Equity-Report-Final-full-4.pdf and ESSU Research Report No. 8, 2016.

PFI/PPP Buyouts, Bailouts, Terminations and Major Problem Contracts in UK (ESSU Research Report No. 9, 2017) https://www.european-services-strategy.org.uk/wp-content/uploads/2017/02/pfi-ppp-buyouts-bailouts-and-terminations.pdf

The growth of offshore infrastructure funds is discussed in *PPP Wealth Machine: UK and Global trends in trading project ownership*, 2012 and ESSU Research Report No. 8, 2016.

Evidence of PFI equity transactions were earlier tracked in Whitfield, D. (2010) *Global Auction of Public Assets: Public sector alternatives to the infrastructure market and Public Private Partnerships*, Spokesman Books, Nottingham, and later in evidence to the House of Commons Public Accounts Committee and the Treasury Committee in 2011.

Part 2

The scale of PPP equity transactions 1998-2016

This part summarises the annual rate and value of equity transactions 1998-2016, the reason for wide variations in the annual rate of return, the annual rate of return sample of 334 PPP projects and analysis by sector, type of purchaser and average revenue.

Direct SPV equity transactions 1998-2016

The number of annual equity transactions and PPP projects has varied annually with little correlation between the numbers and estimated annual value of transactions and projects (Table 1). However, the number of recorded transactions in 2016 was the lowest since 2008 and the annual total of PPP projects in 2015 was the lowest since 2002.

In contrast, the value of equity sold in 2015 and 2016 was high relative to the number of transactions and to the value of equity sold in earlier years. In other words, there were fewer, but higher value transactions, particularly health, school and highway projects. The average project was valued at £19m in 2016 compared to £4m in 2011.

The total estimated cost of £10,286m was calculated using a larger data set than the sample (Table 2), which included transactions that disclosed only the cost of equity and calculated on an annual basis. Using the cost of transactions in the sample produced totals of £9,011m and £11,749m based on the number of PPPs transactions respectively. Thus the £10.3bn total should be regarded as more robust.

Table 1: **Annual rate and value of UK PPP equity transactions 1998-2016** (UK)

Year	Number of equity trans-actions	Number of PPP projects (includes those where equity sold more once)	Value of equity sold (£m) (Number of transactions)	Estimated total value based on average (£m)
2016	16	38	649.5 (16)	649.5
2015	22	26	353.0 (13)	597.4
2014	45	70	635.8 (19)	1,505.8
2013	47	74	390.0 (30)	611.0
2012	52	116	853.7 (38)	1,168.2
2011	38	112	389.6 (32)	462.6
2010	23	82	614.0 (19)	743.3
2009	29	66	377.4 (22)	497.5
2008	14	40	136.3 (8)	238.5
2007	22	66	414.8 (15)	608.4
2006	35	113	807.7 (23)	1,229.1
2005	42	55	389.6 (19)	861.2
2004	32	75	143.7 (12)	383.2
2003	17	31	134.6 (8)	286.0
2002	4	4	n/a	n/a
2001	15	26	117.4 (4)	440.2
2000	7	7	n/a	n/a
1999	1	1	n/a	n/a
1998	1	1	4.6 (1)	4.6
Total	**462**	**1,003**	**6,411.3 (279)**	**10,286.5**

Source: European Services Strategy Unit PPP Equity Database 1998-2016. Includes multiple sale of equity in some PPP projects.

Scale of financial gains

The PPP equity transactions where it was possible to calculate an annual rate of return comprise 25.5% of the total number of transactions and 33.3% of the number of PPP projects involved in those transactions (see Tables 1 and 2). The transactions include PPPs in a range of sectors, different capital values and geographic locations in the UK.

The average annual rate of return was 28.7% in the updated ESSU PPP Equity Database 1998-2016, which is virtually the same as the 29% between 1998-2012. The evidence reinforces the findings that the average annual rate of return is significantly larger than the 12%-15% in the Final Business Cases for PFI/PPP projects.

The lower than average rate of return of 13.6% for 2016 is expected to increase as additional information becomes available for transactions in annual reports and other documents.

Wide variations in annual rate of return

There are wide variations in the percentage of equity sold, the number of PFI projects in each transaction varies from one to nineteen and the annual rate of return varies considerably. For example, Interserve plc transferred equity in 19 PPP projects to the Interserve Pension Fund in a £55m transaction in 2012 (Database transaction No. 332). The average annual rate of return was calculated to be 1.2%. A few months earlier, Interserve plc had sold equity in the same nineteen projects to Dalmore Capital for £89.5m and an average annual rate of return of 35.7%.

The highest rate of return in the Database was obtained by Hochtief PPP Solutions Limited (Hochtief AG, Germany) when it sold equity in five UK PFI projects (plus one in the Republic of Ireland) to Hochtief PPP Schools Capital Limited in December 2006. The 49% equity stake was sold for £12.4m and Hochtief obtained an exceptional gain of £9.1m (Hochtief PPP Solutions (UK) Limited, Annual Report 2007, p10). Hochtief PPP Solutions subsequently paid a £9.01m dividend to Hochtief PPP Solutions GmbH (Germany) in 2006 (Hochtief PPP Solutions (UK) Limited Annual Report p6, 13 and 17).

> *"In order to give investors the opportunity to participate in the company's portfolio of schools, HOCHTIEF PPP Solutions pooled six PPP school projects in HOCHTIEF PPP Schools Capital Ltd. at the end of 2006. The contract, which was signed in December 2006, stipulated that HOCHTIEF sell a total of 49 percent of the shares to investor The PFI Infrastructure at a fixed price at the end of 2007. Meanwhile, the investor was acquired by Infrastructure Investors [Barclays Bank]. This company exercised the buy options in the fourth quarter of 2007. The maturity of the projects pooled in HOCHTIEF PPP Schools Capital, their timely completion and increased interest by infrastructure investors led to a further reduction in the discount rate for the sale of the shares. This means that we were able to raise the sale price significantly compared to the preliminary price agreed in 2006. HOCHTIEF PPP Solutions remains the majority shareholder of HOCHTIEF Schools Capital and retains responsibility for these projects. The price obtained for the sale of the HOCHTIEF shares greatly exceeded the preceding portfolio valuation"* (Hochtief AG Annual Report 2007, p31).

Initially, this was, in effect, an intra-company transaction. However, Hochtief PPP Solutions (UK) Limited established a 51/49% joint venture in June 2007, Hochtief Schools Capital Limited, with HSC Investments Ltd (Infrastructure Investors, Barclays Bank). HSC purchased the 49% issued share capital in Hochtief Schools Capital Limited on 25 November 2007 for £12.4m, exactly the same cost as the original transaction in December 2006.

The annual rate of return was calculated using the same methodology as other transactions with 1.52 years between the average financial close of the projects and the November 2007 transaction. This produced an annual return of 181.4% due to the £9.1m exceptional gain from the £12.4m purchase price and the short time between financial close and the sale of equity. In fact, construction was not completed in four of the projects in Salford, East Ayrshire, North Ayrshire and Bangor (Northern Ireland) until late 2008 (HM Treasury, 2016). This exceptionally high annual rate was the prime cause of the high average annual rate of return of 55.7% for 2007.

In 2016 Hochtief PPP Solutions (UK) Limited sold its 51% stake in the joint venture with HSC resulting in the transfer of a 25.5% shareholding in five UK schools to HICL for £22.7m (no further details are available).

Table 2: **Sample of PPP equity transactions with annual rate of return data available 1998-2016**

Year	Number of Transactions	Number of PPP projects	Total cost of transactions	Reported corporate profit	Average annual rate of return
2016	5	16	260.1	126.2	**13.6**
2015	6	10	172.9	118.1	**24.5**
2014	5	7	164.4	94.9	**27.0**
2013	15	21	209.8	120.9	**23.8**
2012	8	45	289.8	158.4	**19.7**
2011	12	29	187.2	96.8	**16.4**
2010	9	31	388.6	191.5	**22.0**
2009	10	41	306.0	50.4	**24.7**
2008	3	8	83.1	46.3	**24.2**
2007	7	33	177.6	102.7	**55.7**
2006	11	36	200.8	77.3	**32.5**
2005	11	14	263.3	108.5	**26.6**
2004	6	16	66.8	26.3	**43.9**
2003	8	20	134.6	87.3	**42.3**
2002	0	0	0	0	**0**
2001	1	6	92.5	58.5	**63.3**
2000	0	0	0	0	**0**
1999	0	0	0	0	**0**
1998	1	1	3.4	4.6	**179.3**
Total	**118**	**334**	**3,000.9**	**1,468.7**	**28.7**

Source: European Services Strategy Unit PPP Equity Database 1998-2016. Includes multiple sale of equity in some PPP projects.

Service analysis

Education and health PPP projects account for 62.7% of projects in equity transactions (Table 3). There were twice as many PPP schools/college transactions compared to health to the end of 2016 compared to 1998-2012 (June) period. This resulted in education transactions increasing to an 8.0% gap over the number of health projects. Housing/accommodation transactions also increased in 2012-2016.

Table 3: **PPP equity transactions by service** (1998-2016)

Service	No. of PPP projects in equity transactions (includes those where equity sold more than once)	% of PPP projects in equity transactions
Education – schools & colleges	353	34.9
Health – hospitals and health centres	277	27.8
Transport – public transport, roads & street lighting	104	10.4
Criminal Justice – prisons, courts, remand centres	85	8.4
Housing	30	3.0
Defence	25	2.5
Waste Water	20	2.0
Leisure	13	1.3
Fire and Rescue	9	0.9
Misc	87	8.8
Total	**1,003**	**100.0**

Source: European Services Strategy Unit PPP Equity Database 1998-2016. The analysis took account of the transfer of various Barclay's infrastructure funds and Equitix Limited to offshore status in November 2013 and February 2015 respectively. Includes multiple sale of equity in some PPP projects.

The average revenue per PPP project is £10.4m, although there is wide variation between services that reflect the capital cost of projects (Table 4). For example, transport (rail and road), waste management and defence projects are usually high cost projects. Similarly, the capital cost of hospitals is larger than a group of schools. Table 4 is compiled solely from transactions where the sector and cost are identifiable and it thus excludes transactions that bundle PPP projects from different services. Nor does it take account of differences in the size of equity stakes. Hence, the average revenue from the sale of PPP equity is indicative.

Table 4: **Indicative average revenue from PPP equity transactions**

Sector	No. of transactions	No. of PPP projects	Cost of equity £m	Indicative average revenue per PPP £m
Health	68	106	1,298.8	12.3
Education	63	160	725.9	4.5
Transport	29	44	1,274.9	29.0
Justice	15	27	160.2	5.9
Defence	11	12	306.0	25.5
Water/waste	4	6	42.9	7.1
Housing	3	7	46.4	6.6
Fire Stations	3	3	9.7	3.2
Waste management	2	2	54.6	27.3
Misc.	16	22	112.8	5.1
Total	**214**	**389**	**4,032.2**	**10.4**

Source: European Services Strategy Unit PPP Equity Database 1998-2016. Includes multiple sale of equity in some PPP projects.

Shift to offshore infrastructure funds

Offshore infrastructure fund transactions increased from 20% in 1998-2012 (June) compared to 34% of total transactions from 2012 (July) to the end 2016.

Table 5. **Category of purchasers of PPP equity in ESSU database**

Type of purchaser	No. of transactions	No. of PPP projects
Offshore infrastructure fund	145	318
Other infrastructure fund	179	343
Pension fund	19	71
Joint venture – construction company & bank or pension fund	12	69
Other financial institution	12	17
Construction or PPP company	57	109
Total	424	927

Source: European Services Strategy Unit PPP Equity Database 1998-2016; Excludes transactions where information was not available.

In 2016, 100% of equity transactions were to offshore infrastructure funds in Jersey, Guernsey and Luxembourg based on the ESSU sample of 334 projects. The percentage in 2011 and 2014 was 70% for both years and 60% and 61% in 2015 and 2013 respectively (Table 6). This analysis excludes projects that were acquired by UK or foreign companies that were later acquired in secondary market infrastructure fund mergers or takeovers have been excluded. The table thus understates the current level of offshore ownership of PFI equity.

Table 6: **Percentage of projects in sample where PPP equity acquired by offshore funds**

Year	No. of projects in which equity acquired by offshore funds	Percentage of projects %
2016	38	100
2015	15	60
2014	49	70
2013	45	61
2012	45	39
2011	79	70

Source: European Services Strategy Unit PPP Equity Database 1998-2016

Offshoring and taxation of secondary market funds was discussed more fully in Whitfield, (2016). Twelve offshore infrastructure funds have equity in 547 PPP projects in September 2016. Infrastructure funds have been primarily acquiring PPP equity assets and seek to build up a large share of the equity. For example, John Laing Infrastructure Fund has 75%-100% equity ownership in half its thirty-eight health, education, housing, regeneration and justice projects.

Funds will also dispose of assets under certain circumstances. For example, HICL sold 56% equity (and subordinated debt) in Colchester Garrison Ministry of Defence project jointly to the Pensions Infrastructure Platform, Allianz Capital Partners and Dalmore Capital Fund II for £139m (€185m) in February 2015.

> *"The profit on disposal, after costs, is £21.7m over the Directors' valuation of £86.6m as at 30 September 2014."*
>
> *"The decision to sell was taken following the recent disposal by a co-shareholder of its holding in Colchester. This disposal was undertaken by way of a competitive tender process, and it provided a benchmark value for the Company's interest in Colchester, which the Board considered to be significantly ahead of the value that could be achieved by retaining the project. The Board will always consider and evaluate potential disposals which are in the best interests of shareholders." (HICL, 2 February* 2015).

Secondary market infrastructure funds may also sell share stakes to *"…divest certain projects in order to optimise portfolio performance"*, the rationale for the sale of a 50% equity stake in the Doncaster schools project (HICL, 2012).

Time gap between financial close and sale of equity

The average time gap between the financial close of PPP projects and the sale of equity in the updated ESSU PPP Equity Database is virtually the same as the average in the National Audit Office research, although the latter does not cover the 2012-16 period. The date of financial close of each project (HM Treasury, PFI Current Projects, March 2016) is followed by a 15- 24 month construction phase which means that the sale SPV equity occurs an average four to five years after facilities become operational.

Table 6: **Time between financial close and sale of PPP equity**

Date	Average time gap (years) National Audit Office research	Average time gap (years) ESSU research
2012-2016	n/a	6.79
2010-2011	5.89	7.83
2008-2009	6.48	5.98
2003-2007	6.72	5.26
Average	6.44	6.47

Source: National Audit Office, 2012 and European Services Strategy Unit PPP Equity Database 1998-2016.

Multiple transactions of some PPP projects

Many equity transactions are incremental or cumulative acquisitions of equity, a key objective of the larger offshore secondary market infrastructure funds such as HICL, JLIF, INPP and BBGI, as they seek 100% ownership of each SPV in which they invest. For example, HICL's 100% ownership of Metier Holdings Limited was achieved in five transactions in which the original shareholders - HSBC Bank, Bouygues UK, London Financial Group, Siemens plc and Ecovert FM - sold equity to HICL over a three-year period 2006-09. HICL only needed three transactions to obtain 100% ownership of the Stoke Mandeville Hospital SPV over six years. John Laing Infrastructure Fund took only two transactions in 2011 to achieve full control of the Newham Schools SPV.

In some cases, construction companies acquire additional equity in a SPV when co-shareholders decide to sell part or all their equity. For example, CDC Projects S.A., one of the four shareholders in UK Highways M40 (Holdings) Limited, the SPV for the M40 Denham to Warwick, sold their equity to the three remaining shareholders – Carrilion plc, John Laing plc and Hyder Investments Limited in 2000. The following year Hyder sold its shares to Laing

Investments, which meant that under the Shareholders Agreement, Carillion and Laing each owned 50% of the SPV. Later in 2001 Laing sold a 22.5% stake to Carillion for £8.9m. In 2004 Carillion sold a 50% shareholding to Laing together with a 50% equity stake in the A249 road in Kent in a £19m deal. Three months later, Laing sold a 50% stake to the Secondary Market Infrastructure Fund (SMIF) for £26.3m obtaining a net profit of £6.4m in just three months! (John Laing plc Annual Report 2004, p3 and 5). Laing sold its remaining 50% stake in the M40 SPV to the newly formed John Laing Infrastructure Fund in 2010. The SPV remains 50/50 ownership by JLIF (Guernsey) and the renamed SMIF - Semperian PPP Investment Partners Holdings Limited (Jersey).

Edinburgh Schools PPP1 and Calderdale Hospital SPVs and examples of a combination of several direct equity transactions coupled with changes of ownership as a result of secondary market fund mergers or takeovers.

Equity in the **Edinburgh Schools PPP 1** project was sold 13 times between 2003-2014 (Table 10, p25, *The financial commodification of public infrastructure*). Eight were direct equity transactions involving the sale of shares by the original equity holders from 2001 (Amey Ventures, Miller Construction, Quayle Munro Holdings PFI Fund and Bank of Scotland) and later John Laing plc. The five secondary market fund takeovers were the 2007 sale of SMIF by Star Capital to Land Securities plc and the sale of PFI Infrastructure Company to a Barclays Bank, Societe Generale and 3i joint venture; the Bank of Scotland sale of 47 projects to four UK pension funds in 2008; the sale Trillium (the renamed SMIF) to Semperian PPP Investment Partnership in 2009; and Lloyds Bank sale of Scottish Widows with 32 PFI projects to Aberdeen Asset Management (now Standard Life Aberdeen) in 2014.

Equity in Edinburgh Schools PPP 1 is now owned by four offshore companies - Semperian PPP Investment Partners (Jersey) 32.9%; Aberdeen Infrastructure (No.3) Ltd (Aberdeen Infrastructure Partners LP Inc., Guernsey) 30%; John Laing Infrastructure Fund (Guernsey) 20% and 3i Infrastructure plc (Jersey) 17.1%.

The PPP project suffered major problems in 2016 when 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 (page 40, Whitfield, 2017).

The **Calderdale Hospital** SPV experienced six direct equity transactions involving the original shareholders - Bovis Lend Lease (Lend Lease Corporation, Australia), Bank of Scotland, RCO Holdings and Societe Generale in 1998 (Table 9, Whitfield, 2012). Three indirect changes of ownership occurred via the acquisition of RCO Holdings by ISS Europe and the subsequent sale of the equity to Bank of Scotland in 2005; Lend Lease sold a 30.1% stake in 2002 to Quayle Munro Holdings plc and made a £9.5m profit, but had a change of mind in 2006 when it sold a further 19.9% stake to a joint venture, Catalyst Investment Holdings Limited, it established with Bank of Scotland. Societe Generale sold its 16.67% stake to a joint venture, Infrastructure Investors, in which was a partner with Barclays Infrastructure, 3i Investments and Fleming Family & Partners. Three years later Societe General sold its stake in the joint venture to Barclays Integrated Infrastructure Fund. Finally, in 2010 Lend Lease sold its 50% shareholding in Catalyst Investment Holdings to Lend Lease PFI/PPP Infrastructure CIHL Holdings Limited, registered in Jersey.

Calderdale Hospital SPC Holdings Limited is currently 80% owned by Consolidated Investment Holdings Limited (previously Catalyst, which in turn is jointly owned by Aberdeen Asset (NO3) Limited (Aberdeen Infrastructure Partners LP Inc., Guernsey) and the remaining 20% by Barclays Integrated Infrastructure Fund Bidco (3i Infrastructure plc, Jersey).

100% of the Calderdale Hospital SPV equity is currently owned offshore.

Total SPV equity ownership transactions

A fuller picture of the scale of UK PPP equity transactions is obtained by combining the annual direct SPV equity transactions with the indirect, but equally fundamental change of SPV ownership, mergers and takeovers of secondary market infrastructure funds (Table 7). The total of 2,154 PPPs illustrates how many SPVs are involved in direct and indirect changes of ownership taking account of the nearly 800 PPPs that had been signed between early 1990s to the end of 2016 and the fact that many projects have not been involved in direct or indirect equity transactions. The combined cost of both types of equity transactions is £18.4bn (Table 7).

Table 7: **Total equity sales in PPP project companies plus transfer of ownership via sale of secondary market fund PPP assets 1998-2016 (UK)**

Direct sale of equity by SPV shareholders			**Sale of secondary market infrastructure funds**		**Total transactions that result in change in equity ownership**	
Year	**Sale of equity in PPP project companies in ESSU database 1998-2016** (including amendments prior to 2012		**Sale of equity in PPP project companies as a result of the sale of secondary market infrastructure funds** (Table 18, ESSU Research Report No. 8)		**Combined total of the two types of transaction**	
	Number of PPP projects	**Cost of equity transactions £m**	**Number of PPP projects**	**Cost of transactions £m**	**Number of PPP projects**	**Cost of transactions £m**
2016	38	649.5	19	18.4	57	667.9
2015	26	597.4	76	160.4	102	757.8
2014	70	1,505.8	39	629.0	109	2,134.8
2013	74	611.0	131	933.0	205	1,544.0
2012	116	1,168.2	26	1,437.8	142	2,606.0
2011	112	462.6	26	143.4	138	606.0
2010	82	743.3	0	0	82	743.3
2009	66	497.5	388	1,580.9	454	2,078.4
2008	40	238.5	154	1,083.0	194	1,321.5
2007	66	608.4	113	1,084.7	179	1,693.1
2006	113	1,229.1	10	20.0	123	1,249.1
2005	55	861.2	31	150.0	86	1,011.2
2004	75	383.2	0	n/a	75	383.2
2003	31	286.0	23	123.8	54	409.8
2002	4	n/a	0	0	4	n/a
2001	26	440.2	0	0	26	440.2
2000	7	n/a	0	0	7	0
1999	1	n/a	0	0	1	0
1998	1	4.6	0	0	1	4.6
			115*	736.0*	115	736.0
Total	1,003	**10,286.5**	**1,151**	**8,100.4**	**2,154**	**18,386.9**

* Estimated cost of 6 transactions with 115 PPP projects – see Table 18, The Financial commodification of public infrastructure, ESSU Research Report No. 8, 2016 and European Services Strategy Unit PPP Equity Database 1998-2016

The **£18,387m cost of PPP equity transactions and mergers/takeovers of secondary market infrastructure funds** is a further additional cost of PPPs. It is money **extracted** from PPP projects once they have reached financial close, and in effect, an indirect public cost. Financial institutions, aided by construction companies and FM contractors, extract the increased value once construction of PPP projects is completed, risk is significantly reduced, repayments are government guaranteed and a secondary market ramps up the value of SPV equity. Public investment and nationalisation of PPPs would ensure this means of extraction and a secondary market would cease to exist.

The direct public costs of PPPs are even higher. The total public cost of PPP buyouts, bailouts, terminations and major problem contracts was estimated to be **£7,567m** (Table 10, Whitfield, 2017).

Further additional costs of PPPs were estimated to be **£20,335m** based on the additional cost of private finance compared to public investment, additional PPP transaction costs and interest rate swap liabilities in many PPP projects. The **combined additional cost of PPP projects was £27,902m** (ibid).

Part 3

Recommendations

ESSU Research Reports No. 8 (2016) and 9 (2017) made a series of recommendations that included:

New controls to restrict offshoring public assets

PFI/PPP equity assets are totally dependent on UK taxpayer funding of PPP projects. Infrastructure funds rely on the stable unitary payments made by government, the NHS and local authorities, which further facilitates increased value of the assets. New regulations should include:

- make it illegal to transfer equity ownership of PPP assets from UK registered companies to offshore infrastructure funds, which is solely for the purposes of tax avoidance;
- make it illegal to establish offshore PPP holding companies of SPV assets;
- repatriate equity ownership of PPP SPV companies to UK registered companies;
- prevent the flotation on the London Stock Exchange of PPP infrastructure funds by companies registered in offshore tax havens;
- amend the standard PPP contract to restrict the transfer of PPP assets to registered companies in offshore tax havens.

Termination of the PPP programme

The PPP model of public infrastructure is very expensive, exploitative, increases inequalities and deskills the public sector. Claims about achieving ‘value for money’, ‘social value’ and ‘commissioning for outcomes’ are unfounded.

Nationalisation of SPVs

Nationalisation of the local PPP project companies (SPVs) is the most effective way of stopping the trade in PPP equity and secondary market funds and return to public ownership. It would significantly reduce the financialisation and marketisation of public infrastructure (People vs. Barts PFI, 2015).

New radical public management

Nationalisation 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 schools, hospitals and other public buildings. Innovation, improvement and early intervention and the continuous engagement 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 replaced by increased public investment – *“…the average cost of all government borrowing is 3% to 4%, compared with an estimated financing cost of 7% to 8% for all private finance projects”* (NAO, 2015).

John McDonnell, Shadow Chancellor, stated at Labour National Conference on 25 September 2017, that a Labour government would stop new PPP deals and would *“…intervene immediately to ensure that companies in tax havens can’t own shares in PFI companies*” and would *“…bring existing PFI contracts back in-house."*

This is a very progressive and welcome decision that needs to be followed by developing the above recommendations and to strengthen support in community and trade union organisations, local authorities, NHS Trusts and other public bodies for this strategy.

Labour will nationalise PFI

1. Review, in conjunction with local authorities, NHS Trusts and other public bodies, all PFI contracts to assess the SPVs' performance on safety, including fire risk, in PFI buildings; labour and equalities impacts, and wages; changes in equity ownership; quality of delivery on service and construction contracts.

2. Consult on amending or repealing legislation, which provides government underwriting of unitary payments to PFI companies whilst ensuring the sustainability of public sector budgets reliant upon previous forms of PFI credits and payments. Existing PFI schemes were supposed to remove risk from the public sector but have failed to do so.

3. Consult on appropriate methods for returning the ownership and responsibilities of SPVs [special purpose vehicles] to the public sector, with shares-for-bonds nationalisation (via an Act of Parliament) the presumed preferred approach. Shares held in countries deemed tax havens may be compensated at a different rate from others. Differential compensation rates for equity held by pension funds will also be considered.

4. Ownership of assets and responsibilities for services will be returned to the bodies who have been paying for them, and who no longer need to make unitary payments.

5. Develop a new public sector design/construction model based on public investment that enhances public sector capabilities to plan, design, manage and operate public infrastructure. Examples we will consider include the USA's construction management at-risk. Our intention is not just to take over existing assets, but to build the capacity to deliver projects better in future.

6. Enshrine the rights of staff to have rights kept or enhanced to comparable public sector standards on transfer to public sector bodies.

7. End the UK government's financial and advisory support for similar projects overseas.

Source: Labour Party, 25 September 2017

Appendix 1

Methodology and design of the ESSU PPP database

1. Information sources include:

- Stock Exchange Announcements/Regulatory News Service
- Company press releases
- Company Interim and Annual Reports and Accounts
- UK Companies House annual returns and reports (https://beta.companieshouse.gov.uk)
- Jersey, Guernsey and Luxembourg company registers
- Infrastructure fund websites
- Construction and PPP company websites
- HM Treasury annual PFI current projects data 2011-2015
- Scottish Government PFI and NPD projects 2015
- National Audit Office PFI reports
- PPP, financial, construction and infrastructure journals
- ESSU PPP Equity Database 2012 and 2016 update
- PPP Wealth Machine: UK and Global trends in trading project ownership (2012)

Over 1,000 company annual reports and accounts were examined. Each transaction in the database had to be compiled from several sources.

2. There are sometimes differences in figures between those in an RNS announcement of a sale of equity and the sale price and profit later recorded in the Annual Report and Accounts. The database records the latter figure.

3. Where PPP projects were sold in a bundle of two or more projects, the time between financial close and the sale of equity is calculated for each project using Table 8 and an average time calculated for the entire bundle of projects. When the date of sale of equity is not known, a mid-year point, 1 July, is used. It was not possible to take account of the relative value of each project or the profit attributed to each project because this information was not publicly available. The averaging process is not ideal, for example, the rate of return in transactions where a large bundle of PPP projects is sold with significant variation in financial close dates may not be precise. However, it is unlikely to affect the overall figures, which are based on 116 transactions and 332 PPP projects (includes some projects involved in multiple transactions)

4. The time between the projects date of financial closure and the sale of equity used the month/percentage in Table 8 to calculate the total time (HM Treasury and company accounts).

Table 8: **Percentage of year used in rate of return calculations**

Number of months	Percentage
1	0.08
2	0.17
3	0.25
4	0.33
5	0.42
6	0.50
7	0.58
8	0.67
9	0.75
10	0.83
11	0.92
12	1.00

5. There is sometimes a delay between the formal announcement of the sale of equity and the actual sale itself. The database uses the announcement date by vendor and/or purchaser.

6. Information gaps meant that the total value of equity sales and the average price paid for each transaction were calculated using the number and value of projects for which data was available to arrive at an annual value for all transactions. The same approach was used to estimate the total value of the sale of secondary market funds and the total value of the global sale of PPP equity.

7. Name of Special Purpose Vehicle or Company – the specific name of each company can be obtained from the HM Treasury PPP current projects list. http://www.hm-treasury.gov.uk/infrastructure_data_pfi.htm

8. Changes in company ownership and names:

HICL: HSBC Infrastructure became HSBC Infrastructure Company Limited (HICL) when it floated on the London Stock Exchange in March 2006 and changed its name to HICL Infrastructure Company Limited (Guernsey) on 7 March 2011. The database uses the HSBC up to 29 March 2006 and the HICL abbreviation from that date.

John Laing: Between 2001-2003 the construction, housing and property development divisions of Laing were sold off and John Laing plc became a developer, investor and manager of infrastructure assets. Henderson Global Finance acquired John Laing in December 2006. The John Laing Infrastructure Fund (JLIF) was established in November 2010 as a Guernsey registered company, listed on the London Stock Exchange, to acquire operational PPP projects.

Babcock Brown Public Partnerships (BBPP), listed on the London Stock Exchange in 2006, changed its name to International Public Partnerships in 2009 (Guernsey).

Secondary Market Infrastructure Fund (SMIF) became Trillium and then Semperian PPP Investment Partners in 2009 (Jersey).

Equitix Holdings Limited was acquired by Tetragon Financial Group Limited (Guernsey) in 2015.

Details of 33 mergers and takeovers of secondary market infrastructure funds are detailed in *The financial commodification of public infrastructure: The growth of offshore PFI/PPP secondary market infrastructure funds*, ESSU Research Report No. 8, 2016 https://www.european-services-strategy.org.uk/wp-content/uploads/2017/01/financial-commodification-public-infrastructure.pdf

9. There are sometimes a time difference between the announcement of a transaction via RNS and the actual completion of the transaction. The database uses the formal announcement data, because the date of completion is less frequently disclosed.

Sample

10. Transactions in red constitute the sample of equity transactions where profit and rate of return information is available. It is based on 116 UK transactions and 332 PPP projects between June 1998 and 31 December 2016. Those marked with an * are a second transaction of this equity and the length of time for the purposes of calculating the annual rate of return begins from the date of the first transaction and not the date of financial close.

11. References to 'see above' in the Price, Profit, Average time between financial close and sale of equity and Annual rate of return columns refer to the total provided on the first line of the transaction. Figures for individual projects were not available.

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