

Wales TUC

‘PFI/PPP’

A brief summary for consideration by the Health and Social Services Committee - 4th July 2001.

The Wales TUC would firstly place on record appreciation for having the opportunity to give evidence to the National Assembly for Wales Health and Social Services Committee on the subject of PFI/PPP. This brief précis augments the Wales TUC submission on PFI/PPP last year to the National Assembly for Wales.

Of course, it will be of small surprise to Committee Members that the Wales TUC is opposed to PFI and PPP. This is based not only from our experience to date of post transfer employment conditions and value for money, but the worrying, continuing, ethos that now pervades the management of public services; outsourcing and privatisation. The Committee will be aware that the Assembly Local Government and Housing Committee has also taken evidence about PFI on 16th May 2001. "Members expressed a number of reservations about PFI as a method of procurement. There was particular concern about the impact on staff, the implications for the quality of service provision and whether schemes would deliver value for money in the long-term..." (LGH-07-01 (min)).

PFI/PPP as a Principle

According to Milne(1), ‘the (PFI) policy reflects a strain of government thinking that sees the state’s role as a guarantor and facilitator rather than a direct provider of services’. The Prime Minister’s Official spokesman recently suggested that most people did not really care who provided NHS services, so long as it was free at the point of delivery. Of course, from the Wales TUC point of view, this is a legitimate answer to the wrong question. For patients across Wales who have found that the outsourcing of cleaning services has resulted in worse standards of hospital cleanliness or tax payers who are having their income top-sliced into PFI company profits, then a more relevant question might elicit a response that concurs with recent surveys of the UK population who overwhelmingly want public services delivered by an accountable Public Service.

The experience of Staff

The rationale for staff to be transferred into the private sector is for future savings to be made through the reduction in staff terms and conditions. Outsourcing companies have hardly kept this light under a bushel. It is true that transferring staff do keep their terms and conditions through TUPE, but it is equally

true that one or both of two things then happens;

- a. Transferred staffs have their conditions reduced over time. Pension provision is a case in point where all too frequently, good final salary superannuation schemes have been replaced with money purchase schemes. The PFI consortia suggested to unions at the University Hospital of Wales that TUPE would apply on day one but not on day two.
- b. New staffs are employed on the companies' own terms and so a two tier workforce is developed.

Of course, government might (in effect) take the view that this is no longer their concern. The Wales TUC believes that the best and most efficient way to provide quality public services and to deliver the modernisation agenda is to have a fairly paid, motivated and committed team of people as the NHS Confederation concurred in its presentation to you on 20th June 2001 on the same subject. Privatisation not only acts against this, but it has, and will continue to, hit disproportionately against those who are already low paid, women and part time workers, as research by the Equal Opportunities Commission in 1995 established.

Public Service

It may seem old fashioned, but there continues to be an ethos in the public sector of the "Team". We know, because our members tell us often, that the new political fashion of dissecting the public sector into so-called core and non-core is an absolute nonsense, based as it is on perception rather than reality. It is also based on an assumption that public opinion just won't swing behind the privatisation of 'professionals' – so called core staff - and that mainly low paid, NHS support staff - so called non-core/soft FM - will not get the same support. Clearly one cannot exist without the other and so the public service team takes shape. We do recognise that there has been some dilution of the view that "soft-FM" staff need to be transferred. The Wales TUC would go further and argue that should any PFI proceed, all staff should be excluded.

Public Sector alternatives

If PFI and PPP's are only to be used where they deliver Value for Money, then it is crucial to look closer at what constitutes best VFM. Every scheme must show that it can provide better value for money by measuring it against a public sector comparator (PSC). The PSC should show the cost of a scheme if a public authority provided the service itself. However, the role of the PSC in PFI is different. Under PFI, the PSC is a hypothetical benchmark. It is a device for demonstrating the savings or value for money of the PFI option and it is constructed according to strict rules. The construction of the PSC is a very subjective exercise and there is evidence to suggest that the margin for error casts doubt on the value for money claimed. The Wales TUC would like to see a genuine public sector alternative, using public sector finance and public sector innovation considered alongside every proposal to use private sector finance.

Efficiency

The Assembly, like the UK Government, states that PFI will provide value for money because the private sector is more efficient than the public sector. The case for private sector efficiency is not supported by any evidence but is merely asserted. One element of performance and risk is that projects should be built on time and to cost. As with other forms of procurement, PFI has examples of good practice and others that have seriously overrun. There is no reason why incentives and penalties could not be built into conventional procurement, in much the same way as they were by the NHS Wales Estates function, to ensure all schedules are met. In fact members might be aware that one of the first 'Design, Build, Operate' schemes in Wales, the Barry Neighbourhood Hospital, was seemingly only able to have its defective roof replaced when the project management was returned to the NHS from the private sector by the then Secretary of State for Wales.

Transfer of Risk

One of the arguments for PFI is that it moves the risk from the public sector to the private sector. The major VFM component of all PFI schemes is derived from the allocation of risk. The underlying assumption of PFI and PPP's is that risk will be allocated to the parties able to manage them at least cost. The Wales TUC has reservations about the treatment of risk and it is our view that it is not unusual for retained risk to be undervalued whilst transferred risk overvalued. The Treasury Taskforce itself says '*estimating probabilities is not an exact science and inevitably assumptions – some quite bold – have to be made*'. The steady fall in the capital charged by the financial markets for PFI projects could be said to reflect the perception of the market that the private sector is, in fact, not taking on significant risks in PFI projects. For many PFI projects, it is only the transferred risks that make the project value for money. Additionally, the calculation of risk can be sensitive to small variations in assumptions. Indeed, the public sector often bears the cost of the assumed risk taken by private capital. The increased pressures on revenue budgets in turn puts pressure on staffing budgets which have often been cut back in order to meet the cost of annual PFI payments.

Value for Money

The Wales TUC remains convinced that PFI merely stores up debt for the long term by removing capital schemes from the balance book. It is a strange claim that says "we are investing more in health" by virtue of a new PFI hospital when government hasn't paid a penny and the NHS will have to pay many times over the cost of the hospital to pay for it. The project to rebuild University College Hospital in London, for example, saves £160 million in capital costs, but the hospital trust will pay £20 - £30 million a year to the consortia. Over a 30 year span, this adds up to the trust paying £900 million for a £160 million scheme. The Assembly should instead be building up a stock of capital to fund traditional capital projects. As the body of research and information on actual PFI schemes builds up, a disturbing pattern is emerging of a significant funding gap between what the public authority can afford and the actual, annual charges of the PFI scheme. Even more disturbing is the way in which this gap is being met, namely by cuts in services and by drawing in additional funds, with knock-on effects for other services. Those who should know better often describe the NHS of 2001 along the lines of a hard to stop tanker, a bottomless pit, averse to change and unable to reform itself. The Wales TUC would not argue

that there is no need for reform *per se*, but would question the view that only the private sector is capable of achieving reform because the NHS is ineffective and inefficient. Neither is demonstrably the case as any contrast with comparable health services will show, not least the incredibly inefficient US model.

The Long Term Impact

The long term impact of PFI on healthcare delivery is cause for concern. There are issues of democratic accountability raised by direct private sector provision of healthcare and there is concern about the high risk of paying for services which may become obsolete during the lifetime of the PFI contract. PFI service contracts typically span 20 to 30 years to allow private contractors to recover their capital costs over a reasonable period and this clearly raises concerns that the public sector may end up contractually wedded to paying for a service it no longer requires or can obtain more cheaply elsewhere.

It is the view of the Wales TUC that a broad reflection of the type of society we live in can be seen through the public services we provide. It is also about our attitude to them; whether they are seen as a burden or an asset. It is about a commitment to quality public services, provided by fairly paid and motivated staff. It is also about recognising that for this to occur, the government cannot shirk the responsibility of investing in them. Clearly services must be efficient, but we would remind the Committee that 'efficient' and 'cheap' is not the same thing. If staffing is provided more cheaply elsewhere, then there is a requirement on the Assembly to find out why and clearly the Wales TUC will not stand by where it is on the basis of our members losing pay, terms and conditions and it certainly will not fit with the Assembly's commitment to equality and social inclusion either. We also re-iterate that we do not believe that PFI offers value for money.

We look forward to expanding our themes at the Committee meeting of the 4th July 2001.

(1) Seamus Milne (2001), 'Partners in Crime? And health and education', *The Guardian*, 20 March 2001.