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Northern Ireland companies losing out under Executive's PFI/PPP Policies

University report calls for review of capital investment policy and moratorium on using PFI and PPP in Northern Ireland

NIPSA urges NI Executive Ministers to intervene

The long standing campaign by the public service union NIPSA against Private Finance Initiative (PFI) and Public Private Partnership (PPP) in Northern Ireland has received a massive boost with the publication of a report from the University of Edinburgh.

The University's Centre for International Public Health Policy was commissioned by the trade union to undertake an independent review of the use of PFI/PPPs. The resulting report highlights that Northern Ireland faces a staggering £10 billion plus bill in unitary charges for PFI/PPP contracts if Executive Ministers stick with the current investment policies.

Critically, when local companies are facing meltdown and workers unemployment, the university team says that Ministers' current policies channel work to large overseas companies at the expense of local providers.

The report concludes that the time is right for an independent review of capital investment policy in Northern Ireland and recommends an immediate moratorium on the use of PFI/PPP until the review is completed.

Professor Allyson Pollock from the University, widely respected as an expert authority on PFI/PPP issues in the UK, said the team's research confirmed there was no credible base to support the current policies on the use of PFI and PPP. Speaking at the launch of the report today in Belfast Professor Pollock said:-

"Our report shows that the economic case for using PFI/PPP in Northern Ireland is extremely weak, and is becoming weaker still as the relative cost of private finance increases due to the financial crisis.

At the same time, with public sector accounting rules due to change, the so called additionality advantage of PFI/PPP is being eroded, undermining the NI Executive's central rationale for the policy.

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NIPSA represents over 40,000 members in the Northern Ireland Civil Service, Education & Library Boards, Health and Social Services Boards and Trusts, the Northern Ireland Housing Executive, & District Councils.

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This is therefore an appropriate time for a full, independent inquiry and, in the meantime, a moratorium on the use of private finance for current projects. For the inquiry to be successful, it will require the publication of all PFI/PPP contracts and financial models, so that value for money can be properly evaluated."

NIPSA's General Secretary John Corey said the University's report was the most significant analysis of the use of PFI/PPPs in Northern Ireland since the 2002 Assembly review on PPPs and provided clear and compelling evidence for a fundamental change of policy. Mr Corey said:-

"NIPSA has campaigned against the use of PFI and PPP for the provision of essential public service infrastructure and public services. We have never been convinced that these procurement routes provide taxpayers with value for money. We have also been deeply concerned that in the longer term massive unitary charges for PFI/PPP projects would leave Northern Ireland short of public funding for essential services.

The publication today of this independent and rigorous report analysing the current and future PFI/PPP commitments for Northern Ireland provides a compelling case for a fundamental review of the NI Executive's policy on future public service procurement.

Today we urge Ministers to intervene and impose the moratorium on further use of PFI/PPP as recommended by this independent report."

ENDS

Note

The Executive summary and conclusions of the University's report are attached.

Executive Summary

- The use of public private partnerships (PPPs) In Northern Ireland has dramatically increased since the late 1990s. As of March 2008, contracts for 35 PPP projects had been signed, representing private financing of £1.29 billion. A further 13 projects, with a capital value of £1.94 billion, are now being negotiated with private sector bidders and are due to sign before 2012.
- Private finance creates a public debt. The public bodies involved in PPPs have to pay annual payments to the private sector over a long period, often 30 years. The future payments on schemes signed to date amount to some £4.7 billion. As the projects currently in negotiation are signed off, the liabilities accruing to PPP contracts in Northern Ireland will rise to more than £10 billion.
- Different rationales have been used to support PPP in Northern Ireland in the last decade. The first devolved administration regarded PPP as a means of generating “additional” investment. However, this rationale was broadened during direct rule, when PPP (by now the “preferred” method for capital investment) was embraced as part of wider measures to reduce the size of the public sector.
- In fact, neither rationale is valid. The “additionality” of private finance is illusory – an accounting anomaly which distorts financing decisions. Similarly, the notion that PPP can help to rebalance the economy is a misconception. This is a policy that will channel work to large, overseas companies at the expense of domestic providers, curtailing private sector growth.
- In reality, the legitimacy of PPP stands or falls on its cost-efficiency credentials: i.e. whether the policy is better value than the alternatives, such as direct borrowing. The evidence demonstrates that finance costs are higher for the private sector, and this, combined with an excessive rate of return on capital, has led to very high costs for the public authorities involved in contracts.
- These costs are increasing for new schemes due to the financial crisis, which has eliminated bonds - the cheapest source of private finance - and significantly increased the margins on bank finance.
- New accounting regulations will address the anomaly whereby debt raised through a private sector intermediary is not recorded on the public sector’s balance sheet. This will remove the central attraction of PPP for the political parties of Northern Ireland. With devolution restored, there is a clear need for a full, independent review of capital investment policy in Northern Ireland.

Conclusion

The reasons for the adoption and expansion of PPP under devolution stem from an accounting regime that does not reflect the underlying economic reality. Using PPP allows the scoring of investment to be postponed against the Assigned Budget, creating an incentive to pursue this model even when the long run cost to taxpayers will be higher. It is clear that the NI Executive and the NI Office were responding to this when formulating capital expenditure policy in the late 1990s.

Under direct rule, PPP was seen as a way of “rebalancing” the economy through transferring services from the public to the private sector, shrinking the former and expanding the latter. However, the argument that the public sector is “crowding out” the private sector is poorly evidenced, and the fundamental characteristics of PPP are actually likely to *reduce* the capacity of government action to stimulate expansion in the private sector. The notion that any value is added to the economy simply through transferring services from public to private is a misconception: the only way such a transfer can be beneficial if it brings about improvements in productive efficiency, or “value for money”.

The final section of this report looks at the evidence on PPP’s economic credentials. While PPP in NI is due to be radically expanded between now and 2012, there is no credible evidence base that supports this policy. It would appear that the capacity for any improvements in efficiency is eroded due to the excessive profitability of contracts for investors. The evidence shows that rates of return are well in excess of market norms, suggesting the price being paid for risk transfer is too high.

At the current time, the cost of private relative to public funding is rising significantly due to the current financial crisis. This has eliminated the bond finance market –previously the cheapest source of private finance - and curtailed the availability of bank finance. In turn, this has further reduced the degree of competition in the market for finance, and allowed banks to *double* their credit margins.

The change from British to international accounting standards will remove the NI Executive’s reason for using PPP – its superficial ‘additionality’ advantage. At the same time, the economic slowdown means that NI will receive lower increases in funding from the Treasury than has been the case in the last decade. In this context, the high (and increasing) costs of PPP are likely to put pressure on the NI Executive to increase regional taxation and user charges in areas such as water.

We suggest that the time is right for an independent review of capital investment policy in NI, and we recommend a moratorium on the further use of PPP until this is completed.