Rethinking Private Financing of Scottish Public Projects

2020

JUBILEE SCOTLAND
Campaigning to end global debt slavery

Foreword

Jubilee Scotland has since the Jubilee 2000 coalition worked for the cancellation of unjust and unpayable global debt. We want fair and transparent financial systems, which allow societies to prioritize citizen-determined needs such as health and education. Jubilee Scotland has historically focused on the Global South and contributed to international campaigning on challenging debts to help reduce poverty and inequality. However, there is a battle to be fought along the same lines in Scotland.

Since the 1990s Public Private Partnerships (PPP) have been used to fund public projects in Scotland. This scheme – in its various forms over the years – has left cash-strapped local authorities across Scotland paying much more than needed for public projects. Scotland has a higher per-capita expenditure on PPPs than any other UK region(1). It has created unjust debt and added unnecessary pressure on local services across the public sector. Taxpayers in Scotland are liable for a £30 billion legacy of payments between 1997 and 2042(2) – and figures obtained from hundreds of public bodies reveal that extra costs and rocketing inflation are set to add nearly £5 billion to the overall price tag of PFI schemes UK-wide(3).

> "Scotland has a higher per-capita expenditure on PPPs than any other UK region."(1)
>
> J. Benjamin and T. Jones, 'The UK's PPP Disaster', Jubilee Debt Campaign, 2017.

This report will outline the problems with Public Private Partnerships, provide examples of how these contracts are harming Scotland and illustrate that there is cross-party support for abandoning this method of financing public projects. Most importantly, the report will outline an alternative model for financing Scotland's public projects.

At Jubilee Scotland we believe it is time to rethink the private financing of Scottish public projects. The Public Private Partnership model cannot be allowed to continue. Scotland deserves better.

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Introduction to PPPs

Public Private Partnerships (PPPs) have, in all their forms, saddled the Scottish public sector with high levels of debt, poor service provision, lack of accountability and unsafe buildings.

PPPs are expensive

PPPs have since the 1990s been championed as a means of securing new or maintaining existing infrastructure while avoiding high levels of public debt. However, enlisting private finance to build and maintain Scotland's public infrastructure has proven time and time again to be a costly affair. A UK National Audit Office report, found that in some cases "PPP projects revealed costs around 40% higher than the costs of a project financed by government borrowing."[(4)] In addition to the high interest costs, PPP projects also burden local councils with high fees for accountancy, legal advice and consultancy.

These higher costs of PPP projects are often justified by their proponents stating that risk is 'transferred' from the public to the private sector and that the private sector is more efficient than the public. However, both these assumptions are wrong, as Whitfield observes: "the public-private partnership model is high-cost and high-risk for the public sector."[(5)] In PPP contracts "the private sector has insisted on government guarantees which ensure all the risk is borne by the public."[(6)] Evidence from hundreds of studies in the last 25 years shows that it is a myth that private companies are more efficient than the public sector[(7)]. The National Audit Office 2017[(8)] "found no evidence of operational efficiency" in PPP hospitals compared to non-PPP Hospitals. Rather, they reported that "PFIs have resulted in higher maintenance spending in PFI hospitals."

> "The public-private partnership model is high-cost and high-risk for the public sector."[(5)]
>
> D. Whitfield, Public Alternative to the Privatisation of Life, 2019

PPPs are highly lucrative for the private sector. These projects are initially financed with a 'risk premium' during the construction phase to offset potential losses: "Once construction is completed and construction risk evaporates, the PPP consortium refinances the project, at lower rates of interest, with ownership shares transferring to pension funds and long-term institutional investors, requiring stable low-risk returns (…) The public sector is left effectively paying high interest rates, while the companies benefit from lower interest rates following refinancing."[(9)]

This is unacceptable in a financial climate where local authorities are struggling to fund vital public services. Scotland needs a new model which benefits the public rather than investors.

PPPs leads to declining service standards

PPPs have been a major driver of outsourcing and privatisation of service provision. These outsourced services have created health hazards in prisons and hospitals and have added to the pressure on service.[10] Additionally, outsourcing is associated with lower salaries and poorer working conditions for employees.[11] PPP contracts are extremely difficult to renegotiate, and public authorities are therefore forced to reduce service levels and staff numbers when budgets come under pressure. Allyson Pollock suggests that the cost of PFI schemes has created an affordability gap in the NHS which among other things has resulted in "30% cuts in bed capacity and 20% reductions in staff in hospitals financed through PFI."[12]

When private companies are involved in providing public services, taxpayers' money is spent on assuring a profit to company shareholders, banks, bondholders and service providers, rather than ensuring that the public receives the best possible service and the workers the best possible conditions. Scotland needs a new model which prioritises access to high quality services for the public and fair working conditions for workers.

PPPs have meant a loss of accountability

The use of PPPs has meant a loss of accountability in public services. Our public bodies, buildings and institutions are operated and monitored by the private sector for contracted periods. Changes to accounting laws in 2009 ensured that PPP assets are now on, not off-balance sheets. However, the financial details of the specific deals remain protected by corporate confidentiality.[13] This hinders effective scrutiny of how corporations use taxpayers' money, and the true cost of PPPs.[14] Not only does the profit of these projects go to the private sector instead of back to the government,[15] but the public does not have an overview of how big this profit is. Scotland needs a new model which puts accountability to the taxpayer before the interests of Big Business.

PPPs means unsafe and unusable buildings

When infrastructure is built with profit in mind for the investor, rather than quality for the taxpayer, the Scottish public frequently ends up with unsafe and unusable buildings.

In January 2016, we saw an example of this with the catastrophic failure of the gable end wall of the Oxgangs Primary School building in Edinburgh. During a storm, nine tonnes of masonry fell onto a pathway used by children and parents. The construction firm had been allowed to "self-certify" that the buildings met building safety standards, and had forgotten crucial wall ties needed for the building's structural integrity.

Subsequent investigations of PPP properties found safety concerns that led to the closure of 17 schools across Edinburgh. This affected 7,600 pupils, their parents, teachers, and other schools receiving the displaced pupils. Architect Prof. John Cole concluded in an independent report that it was “a matter of timing and luck” that no children were killed or injured at Oxgangs.[16] One parent from the Parent Community Council at Oxgangs Primary School relayed to Jubilee Scotland that while building issues can be rectified, confidence cannot. Furthermore, this incident has had a large impact on the children:

> “My eldest son finished P7 this year, and it was notable that so many P7 pupils included their experience of the wall collapse as a particular memory of school life in the leaver’s yearbook. For me, as a parent, this isn’t the sort of formative memory one would hope for their child in notionall “advanced” nation.”
>
> Parent of Children attending Oxgangs Primary, July 2019

Scotland needs a new model which has safety and quality at its heart, instead of one which incentivises companies to cut corners in order to secure higher profits.

Scotland needs a new model

As Unison points out: “Scottish and UK Government Ministers regularly distance themselves from the disastrously expensive funding mechanisms used to build schools, hospitals and other public infrastructure over the last twenty years. But, both governments are continuing to use it.”[17]

Jubilee Scotland believes that it is time for Scotland to stop the short-term thinking and invest in its public services in ways which serve the people, rather than private companies. When it comes to quality, service delivery, and worker safety, there is evidence to show that PPP schemes have flaws that could be avoided by a different approach to public services.[18] This report will suggest such a different approach.

Right: Oxgangs Primary School after the storm (credited by Deadline News)

What is the Difference Between PPPs, PFIs, NBDs, HUB and MIM?

In this report we are using PPP as the general term for all public-private partnership schemes including PFI, NPD, Hub and MIM.

Public Private Partnerships (PPPs) are long-term contracts where the private sector designs, builds, finances and operates an infrastructure project.

The Private Finance Initiative (PFI) is a model where “the private sector raises and finances 100% of the debt and equity and any reward (and risk) which flows from the vehicle is for the private sector.”[19] It is used in various forms across the world.

The Non-Profit Distribution model (NPD) was introduced when the SNP came into power in 2007. The NPD model is a “design, build, finance and maintain” model which shares many of the same features of PFI.[20][21] It was designed to deliver capped returns to the private sector and greater transparency. Nevertheless, “Critics argue that it’s not as different as its supporters make out.”[22] Under new classification rules profit capping means that projects are automatically classified to the public sector, which has had the effect that the model is no longer used.[23]

Hub projects are another major strand of the Scottish Government’s PPP mix. Hub is a specific form of PPP in healthcare, education and community development[24]. Just like NPDs, hub is a model where the private sector is “designing, building, financing and maintaining the infrastructure asset.”[25] The hub programme contains both revenue funded (DBFM) projects and capital funded projects, i.e. no private sector funding (known as DBDA: Design and Build Development Agreement). All projects are identified within the Scottish Futures Trust (SFT) hub programme.[26]

The Mutual Investment Model (MIM) is a form of public private partnership which was introduced to Scotland in 2019 as a response to the classification rules which have suspended the use of NPDs. “Under the MIM scheme, the providers of equity capital will be rewarded both through the return on the subordinate debt capital they will have invested, and also through the potential for taking dividends, just like in old PFI. Unlike original PFI, however, the public sector clients will be able to invest equity capital themselves, probably up to 15 or 20% of the total equity stake.”[27]

PPPs in Scotland: A Brief History

Since 1992, private financing has been the main source of funding for large government projects in Scotland. First introduced in the UK by the Conservatives in the early 1990s, the financing scheme was expanded by New Labour.[28] When Labour formed a minority government in the first Scottish Parliament in 1999, the policy of private financing was continued in a devolved Scotland.[29]

Private financing initiatives entered into Scotland as a part of the neo-liberal vision of state-business partnership,[30] of which its 'budgetary advantage' was key for Scotland. The Scottish government was until 2012 unable to issue bonds. This was changed in the 2012 Scotland Act. However, the bonds are not UK-Government backed and thus perceived as higher-risk by the market.[31] Unable to borrow at optimal terms, the Scottish Government's spending power is limited by the Total Management Expenditure Budget set by the UK Treasury. Here, the up-front cost of a project will be charged against Department Expenditure Limited (DEL) capital, and capital charges and revenue and depreciation against DEL revenue.[32] With these limitations, and faced with budget cuts and austerity, the Scottish Government's ability to cater to the needs of public infrastructure is limited.

This is where private financing comes in. The upfront costs of private financing have no impact on DEL capital, as it is accounted for 'off-balance sheet'. Additionally, only annual charges show up on DEL revenue.[33] This created a budgetary incentive for the use of private financing. This budgetary incentive of private financing translates into a clear political incentive; it allowed the Scottish Government to deliver public projects in a context of soaring public demands and limited financial means. However, as Howell and Pollock[34] make evident, this came as a result of budgetary reporting standards, not the underlying economic differences. PPPs conceal debt as a contractual obligation in revenue budgets over the length of the contract. It is regarded as a future obligation paid from revenue budgets and is, in effect, contractual debt with the same legal obligations as capital programme debt. As discussed above, and as evidenced by our case studies included in this report, private financing continues to prove extremely costly for the Scottish public in the long-run. In addition to this, there are cases, such as the Edinburgh Royal Infirmary hospital, where the government will never own the asset, because the PPP is a leasing agreement.[35]

Recognising the major financial flaws of the PPP schemes, the SNP sought to change the use of PFIs when they gained power in 2007. However, rather than finding alternative methods of financing, the SNP introduced 'Non-Profit Distributing Schemes' (NPDs). NPDs were a name change rather than a policy change; the economic aspects of NPDs largely remain the same as those of PFIs, and they continued to draw their main advantage from their budgetary classification.[36] The primacy of the budgetary incentive as a driver for the use of PPPs is evident by how recent changes to the European System of Accounts which ruled that NPDs and HUBs now needed to be 'on the books', has effectively suspended the use of PPPs in Scotland.[37] Without the clear budgetary incentives - which allow for the long-term economic costs of PPPs to be hidden - private financing is evidently no longer an attractive option to Scottish politicians.

2019 was thus a key moment to rethink financing strategies for Scottish public projects. However, rather than recognising the detrimental effects of PPPs and finding alternative solutions, the Scottish government introduced the Welsh Mutual Investment Model (MIM) as a replacement for NPD and HUB.[38] This is yet another form of private financing initiative, with few substantial differences to the old models.[39] Its main attraction seems to be that it is a way around the European System of Accounts. According to Cuthbert, MIM "represents a retrograde move back to something which has many of the flaws of the old private finance initiative, with the attendant risks of poor value for money and excess private sector profits."[40] MIM claims to have social gains such as apprenticeships and local purchasing through the supply chain, however Whitfield observes that "all of these policies can be obtained in all infrastructure contracts through the procurement process - it just requires clear political statements and committed procurement officers."[41] The Scottish Futures Trust's (SFT) analysis of the model "did indeed show that the MIM approach was likely to be more expensive than funding capital through public borrowing."[42] Nevertheless, the model was adopted – with no proper consultation[43] - to give the Scottish Government the extra capacity it needed to achieve its National Infrastructure Mission targets.

> "MIM represents yet another example where Scottish Ministers are accepting the distorted and restrictive rules of the current devolution settlement as a given."[46]
>
> Cuthbert, 'MIM model in Scotland', 2019

The SFT report notes that other European Countries are moving away from PPPs,[44] and that the decision to adopt MIM reflects the peculiar circumstances of Scotland's devolution settlement: "The Scottish and Welsh Governments are proceeding with this type of investment model where borrowing is constrained, and additivity is a key factor. The UK government which does not have the same constraints on borrowing has decided not to proceed with this type of investment model at present."[45] It is clear – as Cuthbert observes – that "MIM represents yet another example where Scottish Ministers are accepting the distorted and restrictive rules of the current devolution settlement as a given".[46]

Current PPP Contracts in Scotland

Below follows an overview of current PPP contracts in Scotland, showcasing the extent to which this flawed financing model is currently shaping the Scottish economy and Scottish lives. However, such an overview – including how much money these contracts are costing the taxpayers – is painfully hard to gather. Projects are classified in complex ways, adding to the lack of transparency already enforced by corporate confidentiality. Even in the Annual Accounts produced by councils, the payments made to PPP contractors are not clearly marked out. Jubilee Scotland posed questions to the 2019 unaudited accounts of Argyll and Bute, Highland Council, and Edinburgh Council. These councils were all forthcoming with further details regarding payments and details of their respective PPP projects when questioned, however the information was not initially presented in ways which could give the public an accurate overview of how much is paid to private companies for public services.

The original PPP scheme used in Scotland – the PFIs – is the easiest to get an overview of. Scotland currently has 81 PFI contracts.[(47)] An additional three contracts belonging to the Ministry of Defence are found in Scotland. In total, these contracts have a capital value of: £5.679 billion. In the time period 1998-2017, the Scottish Government paid £10.204 billion in unitary charges for these projects. The unitary payments for most of these projects are not complete. According to estimations made in 2017, the Scottish Government is set to pay another £18.800 billion until the end of 2039. Unitary Charges include Service and Management - a fee section which the National Audit Office estimates makes up about 60% of the total charge - but even subtracting these fees, the projects are costing the Scottish Government and Scottish tax-payers £11,602 billion. That is more than double the capital value of the projects.

The Scottish Government's 'Infrastructure Investment Plan 2015: progress report 2018-2019'[(48)] identifies 51 NPD/hub contracts of which 10 are NPDs and 41 are hub DBFM (Design, Build, Finance and Maintain) contracts. These 41 contracts constitute the total number of DBFM projects which have been procured via hub. A total of 55 DBFM projects are being delivered within these 41 hub contracts, since a number of project sites are being bundled together into single contracts.

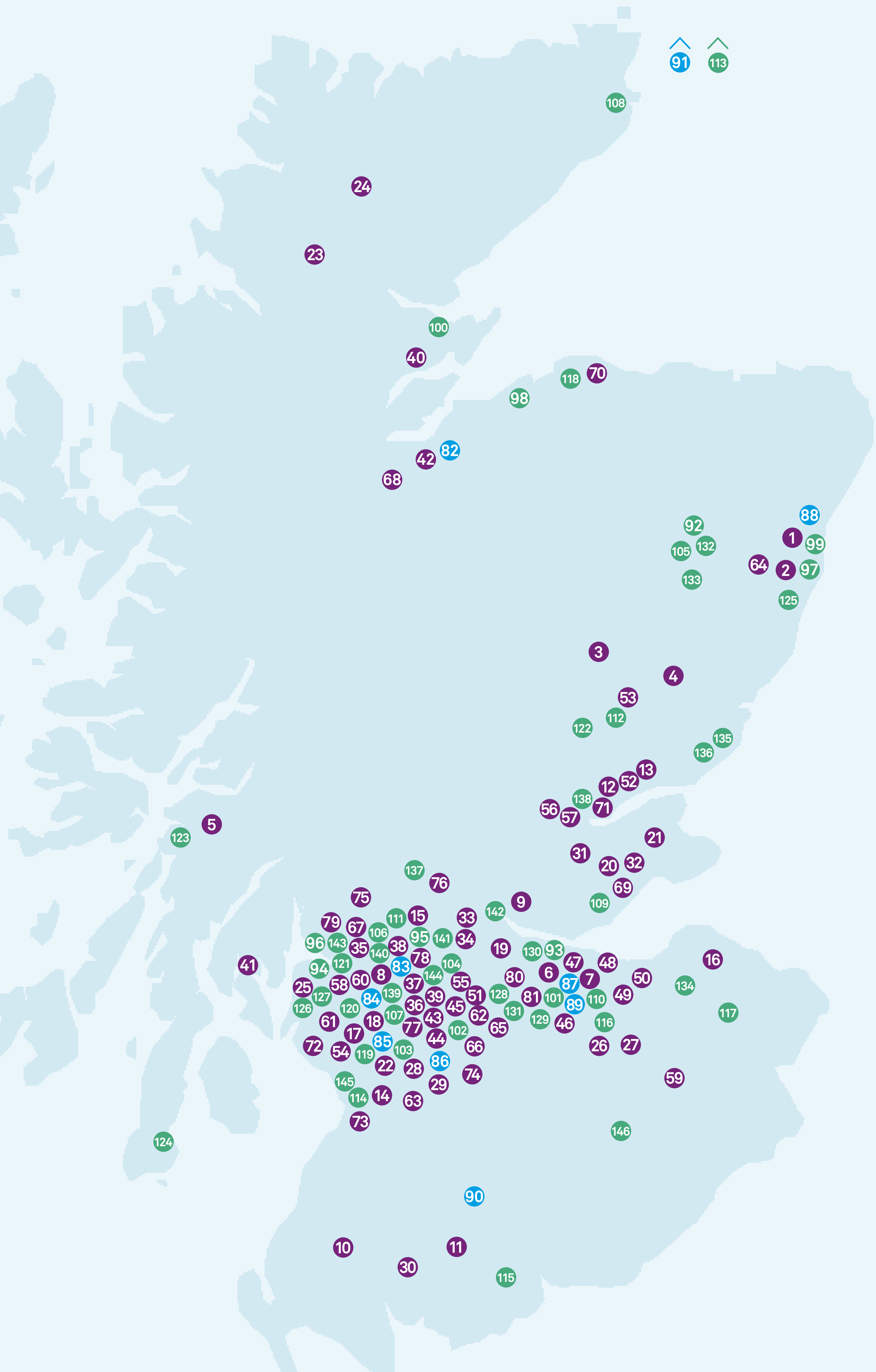
In 2018-2019, the Scotland-wide HUB/NPD investment programme took forward revenue funded initiatives worth £3.5 billion[(49)]. As illustrated in the three case studies included in this report the total unitary payments over the lifetime of such projects are significantly higher than the capital value[(50)]. Meaning that the projects will be draining public funds unnecessarily in many years to come.

- ● — 81 PFI contracts
- ● — 10 NPD projects
- ● — 55 revenue funded HUB projects
- * — Case study on following page

1 Aberdeenshire Schools PPP1
2 Aberdeenshire Schools PPP2
3 Angus A92
4 Angus Schools
5 * Argyll & Bute Waste Management
6 * Edinburgh Schools PPP2
7 Edinburgh Schools PPP1
8 Glasgow Schools
9 Clackmannanshire Schools
10 Dumfries & Galloway Waste
11 Dumfries & Galloway Schools
12 Baldovie
13 Dundee Schools
14 East Ayrshire Schools
15 East Dunbartonshire Schools
16 East Lothian Schools
17 East Renfrewshire Schools PPP1
18 East Renfrewshire Schools PPP2
19 Falkirk Schools PPP1
20 Fife Schools PPP1
21 Fife Schools PPP2
22 Ayrshire College-Kilwinning Campus
23 Highland Schools PPP2
24 Highland Schools PPP1
25 Inverclyde Schools
26 Midlothian Schools PPP1
27 Midlothian Schools PPP2
28 Crosshouse Maternity
29 East Ayrshire Community Hospital
30 Provision of Maternity & Day Care services
31 General Hospitals & Maternity Services
32 St Andrews Hospital & Health Centre
33 Acute Hospital
34 Clackmannanshire Community Health Services
35 Gartnavel Royal Hospital
36 Larkfield
37 SGH - Geriatric medicine
38 Stobhill & Victoria ACADs
39 Stobhill Local Forensic Unit
40 Easter Ross PC Centre
41 Mid Argyll Community Hospital
42 * New Craigs Hospital
43 Hairmyres Hospital
44 Stonehouse Hospital
45 Wishaw General
46 Ellen's Glen House
47 Ferryfield House
48 Findlay House
49 Midlothian Community Hospital
50 Royal Infirmary of Edinburgh
51 Tippethill (Bathgate)
52 Carseview Centre
53 Forfar & Kirriemuir CRC
54 North Ayrshire Schools
55 North Lanarkshire Schools
56 Perth & Kinross Office
57 Perth & Kinross Schools
58 Renfrewshire Schools
59 Scottish Borders Schools
60 M6 DBFO
61 M77 (includ. Glasgow Southern Orbital)
62 Addiewell Prison
63 Kilmarnock Prison
64 Aberdeen
65 AVSE (Almond Valley Seafield & Esk)
66 Daldowie
67 Dalmuir
68 Highland
69 Levenmouth
70 Moray
71 Tay, Dundee (Scottish water)
72 MSI, Meadowhead, Ayrshire (Scottish water)
73 South Ayrshire Schools
74 South Lanarkshire Schools
75 Balfron Schools
76 Stirling Schools
77 Police Force Training Centre, Strathclyde
78 M80 Stepps to Haggs
79 West Dunbartonshire Schools
80 West Lothian Schools PPP2 (PPP3)
81 West Lothian Schools PPP1

82 Inverness College
83 City of Glasgow College
84 M8, M73, M74 Motorway Improvements, Glasgow
85 Ayrshire College (Kilmarnock Campus)
86 Acute Mental Health & North Ayrshire Community Hospital (Woodland View at Ayrshire Central Hospital)
87 Scottish National Blood Transfusion Service National Centre, Edinburgh
88 Aberdeen Western Peripheral Route/ Balmedie Tipperty
89 Royal Hospital for Sick Children/ Department of Clinical Neurosciences, Edinburgh
90 Dumfries and Galloway Acute Services Redevelopment Project
91 NHS Orkney New Hospital & Healthcare Facilities

92 Inverurie Campus
93 South Queensferry High School
94 Greenock Health and Care Centre
95 Stobhill Mental Health unit
96 Clydebank Health and Care Centre
97 Aberdeen Community Health & Care Village
98 Forres Health Centre
99 Woodside Health Centre
100 Tain Health Centre
101 James Gillespie's High School
102 Wishaw (NHS Lanarkshire Bundle)
103 East Kilbride (NHS Lanarkshire Bundle)
104 Kilsyth Health Centres (NHS Lanarkshire Bundle)
105 Alford Academy
106 Maryhill Health Centre
107 Eastwood Health & Care Centre
108 Wick High School
109 Levenmouth High School
110 Redevelopment of Royal Edinburgh Hospital Campus - Phase 1
111 Greenfaulds High School
112 Forfar Community Campus
113 Anderson High School
114 Ayr Academy
115 Dalbeattie Learning Campus
116 Newbattle Community Campus
117 Kelso High School
118 Elgin High School
119 William McIllvaney Campus
120 Barrhead High School
121 Our Lady & St Patrick's High School
122 Baldragon Academy
123 Oban High School
124 Campbeltown Grammar School
125 Lochside Academy
126 Largs Campus
127 Inverclyde Continuing Care Beds for Mental Health
128 Blackburn Partnership Centre (Lothian Partnership Centre Bundle)
129 Allermuir Health Centre (Lothian Partnership Centre Bundle)
130 Pennywell All Care Centre (Lothian Partnership Centre Bundle)
131 West Calder High School
132 Inverurie Health Care Hub
133 Foresterhill Health Centre
134 East Lothian Community Hospital
135 Ladyloan Primary School
136 Muirfield Primary School
137 Stirling Care Village
138 Pharmaceuticals Services, Ninewells, Dundee
139 Gorbals Health Centres
140 Woodside Health Centres
141 Cumbernauld Academy & Art Theatre
142 Bertha Park High School
143 Blairdardie Primary School
144 Carntyne Primary School
145 Queen Margaret Academy
146 Jedburgh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Case Studies

CASE STUDY 1: Waste Management in Argyll and Bute

Argyll and Bute Council signed a 25-year waste management contract with Shanks Waste Management Ltd (now Renewi Services Ltd) on 4th September 2001. The capital value of the project was £21.7m. The rate of interest on the bank loan is fixed at 5.79% through an interest rate swap. Total unitary payments in the course of the contract (actual and estimated) are £122.3m and unitary payments to date are £82.3m. Shareholders' receipts in the form of dividends and interest paid on the shareholder loan represented over 7% of the total payments by the local authority to the SPV since the contract started in 2003. Thus, over the years, the Argyll and Bute contract has been a steady source of profit to Shanks/Renewi.

Waste management is a fast-changing area as new technical solutions are developed, and new regulations are introduced. However, PPP contracts are notoriously inflexible and obstruct a Council's ability to respond promptly to new technologies and regulations. Following the 2012 Scottish Government requirements to increase the range of recyclable materials collected, the Renewi contract imposed increased transaction costs on Argyll and Bute and the Council commented: "The Contract Variation process with Shanks turned out to be complex and lengthy".(51) In January 2021, the Scottish Government will introduce a ban on Biodegradable Municipal Waste (BMW) going into landfill. As a result, the Council has produced a further strategy document which predicts that existing treatment facilities would need to be converted. We have yet to see how far the PPP contract will obstruct the Council's ability to respond to the BMW directive.

> "The Contract Variation process with Shanks turned out to be complex and lengthy."(51)
>
> Environment, Development and Infrastructure Committee, Argyll and Bute, 2016

On the Renewi contract coming to an end , Argyll and Bute Council notes that "we will need to look at the best model for waste disposal in the future, and in doing so consider in detail a range of options, from in-house waste disposal to a private contract, with various models in between. In doing so we will have to balance the need to provide a high quality service which complies with our legal responsibilities against what is cost effective and sustainable for the Council in the changing financial landscape."(52) Argyll and Bute Council is estimating a budget gap of £5.56 million for 2020/21, rising to £7.083 million in 2021/22.(53) Within a necessary culture of budget cuts, this Council should not be forced to use their limited means to line the pockets of yet another private company. They need real alternatives to private contracts and a waste management system which can implement new technologies and comply with new regulations.

CASE STUDY 2: Schools in Edinburgh

The City of Edinburgh awarded the second of its two grouped schools PPP projects to Axiom Education (Edinburgh) Ltd. The contract was signed on 3rd April 2007 and runs for 31 years. The contract is to Design, Build, Finance and Operate (DBFO) six secondary schools and two primary schools – a 9,700m^2 estate catering for 6,700 pupils. The total cost of the investment is £208m.

Total unitary payments over the lifetime of the project are £716.5m. Unitary payments to date are £231m.
The initial award was controversial because at the preferred bidder stage, a consortium in the race headed by Balfour Beatty and Innisfree, was passed secret information on the bidding process. Balfour Beatty withdrew, leaving just one preferred bidder. This meant that if the Council was to get the investment in new schools that it sought, it had no option but to appoint Axiom hence reducing a competitive element of the tendering process.[54]

This case illustrates that the structural deficiencies of the PPP bidding process facilitates a strong tendency towards monopoly among the firms tendering for the contracts. The PPP projects are often bundled together in a way where only large consortiums are able to bid for them. Very few Scottish companies can take on such large contracts and when local firms rarely win bids for construction and services the profit leaves the local area.[55] As we see in the case presented here Edinburgh had no option but to appoint the bidder with no competition for the contract. We need a model that ensures that Public Infrastructure is built by
the best possible contractors, not by the only companies large enough to bid for contracts.

CASE STUDY 3: New Craigs Hospital, Inverness

New Craigs Hospital is a 234-bed healthcare campus that provides mental health and learning disability accommodation. It opened in July 2000 and was the first psychiatric facility to be funded under a PPP scheme in Scotland. It is a 26-year contract, built and managed by the Robertson Group. The capital cost was £16.5 million: total estimated unitary payments are £106 million. Unitary payments made to date are £73.2m. The rate of interest on the senior loan extended by the Bank of Scotland is currently 6%. Additionally, there is a regularity of 12% rate of interest on shareholders loan. It is this, which accounts in part for the higher cost of private financing.

Many NPD/Hub projects have shareholders with corporate relationships with offshore tax havens - Jersey, Guernsey, Cayman Islands, British Virgin Islands, Dubai International Financial Centre, Luxembourg and Cyprus. The name of the SPV managing New Craigs Hospital is Robertsons Health (New Craigs) Ltd. The immediate parent company is Robertsons Health (New Craigs) Holdings Ltd. This is 70% owned by companies registered in the Channel Islands. One of the ultimate parent companies of the SPV is Elgin Infrastructure Ltd (70%) which is owned by: 3i Infrastructure PLC (50%) which is registered in Jersey[56] and Cobalt Project Investment Ltd (50%). Cobalt is a fund managed by Dalmore Capital Ltd which in turn is managed by Equitix Investment Management Ltd. This is owned by Equitix Holdings Ltd which, via the Cayman Islands is owned by Tetragon Financial Group Ltd, registered in Guernsey.[57]

PPP refinancing means that investors located offshore in tax havens, can own, control, and sell on UK infrastructure virtually tax-free.[58] Scottish taxpayers' money should not end up in offshore tax havens. A Scottish hospital should not be owned by companies registered abroad with no accountability or transparency. We need a model for financing that allows facilities such as New Craigs Hospital to be in the hands of the public.

What Should We Do About the Current PPP Contracts?

This report is focused on an alternative means of public financing going forward, rather than how to deal with existing PPP contracts. However, even if we change the system now, the many PPP deals Scotland has - usually lasting 25 to 30 years – will be draining public funds in years to come.

Unison[59] suggests that buying back PPP contracts offers the prospect of saving billions of pounds for the Scottish Government. We saw this solution carried out when the Scottish Government bought back the Isle of Skye bridge from Bank of America after a decade of protests by locals against very high toll costs.

An alternative way of taking back control of public assets could be to nationalise the Special Purpose Vehicles (SPV) - through which PFI contracts operate.[60][61]

Jubilee Scotland supports both these ideas and urges the Scottish Government to explore these options in order to take action on this issue as soon as possible.

Party Positions on Private Financing

The economic and social drawbacks of PPPs is to a large extent recognised by the Scottish political parties.

SNP

Before they came to power, the SNP consistently criticised PFIs. Even after their introduction of NPDs, the SNP's criticism of these financing schemes has continued. In 2016, the First Minister called for an inquiry into the use of PPPs and PFIs.[62] The SNPs 2016 manifesto stated that "the Scottish Futures Trust will continue to review existing PFI/PPP contracts".[63]

Scottish Labour

In his first conference speech as Scottish Labour Party Leader, Richard Leonard said that private financing is "unjust", and characterized PFI debts as pushing "public services to the brink". Recognising the devastating effect of PPPs, MSP Leonard pledged that Scottish Labour would go 'into the next Holyrood election committed to signing no new private finance deals', and that that Scottish Labour would develop 'alternative public sector models for funding...'[64]

Scottish Conservatives

In relation to the latest Edinburgh New Sick Kids Hospital PPP disaster, Scottish Conservative shadow health secretary Miles Briggs MSP called for Audit Scotland to do a full investigation of the PPP deal. He also called for "full transparency' around the project, evidently calling for the need to tackle the issues of keeping PPPs 'off the balance sheet".[65] These recognitions, and the Scottish Conservatives' heavy criticism of the Edinburgh New Sick Kids Hospital, have yet to be realised in their policies.

Scottish Greens

The Scottish Greens pledged to fight privatisation in their 2016 manifesto, stating that they "will push for a debt arbitration commission to explore cancelling or significantly renegotiating any damaging PFI contracts".[66] Furthermore, the Scottish Greens published a report in 2016 that showed that the current debt held by local Scottish authorities mounts to 11.5 billion.[67] At the time MSP Patrick Harvie, Finance spokesperson for the Scottish Greens, said that "Given the crisis facing local authority finance, it's unacceptable that councils are using Council Tax Revenue to deal with historic debt that enrich private banks". He further stated that "We must improve oversight so that our local authorities aren't forced into such high-risk financing in the future."[68]

Scottish Liberal Democrats

The Scottish Liberal Democrats passed policy for all PPP projects to be cancelled at conference in Dunfermline in September 2018.[69] At the time, they stated that they "believe PFIs and NPDs push today's infrastructure costs onto the next generation and that this is not a sustainable model", citing reasons of hidden public borrowing and providing private companies with guaranteed profit regardless of the success of the contracts.[70]

Lack of action on PPPs despite criticism from political parties

From this overview it is evident that all of the major Scottish parties recognise the devastating effect that the economic model of PPPs has for communities across Scotland. Yet, there is a severe lack of action on PPPs. Considering the clear economic drawbacks, allied with issues of accountability, transparency, poor services and unsafe buildings, it is necessary to ask why these initiatives continue to be favoured in Scotland.
It is clear to Jubilee Scotland that Scotland needs to significantly rethink the way in which it finances its public services. It is necessary to give cash-strapped Scottish Councils an alternative method to borrow money in a sustainable and transparent way. Below we will present one such method.

Above & right: The Scottish Parliament

A New Scottish Model: Local-National Partnerships

Scotland needs a public financing approach to its public projects. The idea is simple. We suggest that Scotland should have a model where Local Authorities are supported by a national body in order to find the best possible solutions for designing, building, financing, operating and managing their projects. It will be a Local National Partnership.

The National side of the partnership

This national body could be a Scottish National Investment Company (SNIC), as suggested by Common Weal in 2017.[71] SNIC will be a centre of excellence, through which local councils can seek guidance for their investments.[72] Common Weal envisions that "Local authorities would gain from free access to the SNIC's team, which would contain cutting edge expertise in public financing, planning, legal issues, energy strategies, architectural design and construction."[73] The centre will help local authorities find the best financing packages to fit their project, avoiding the trap of short-term thinking and expensive solutions where a large stakeholder's dividend is needed for private stakeholders. It will be a support and advice body which encourages lifecycle planning, community involvement, comprehensive impact assessments for projects and independent inspections. Furthermore, SNIC will be able to act as an independent broker, which can ease any political tension between national priorities and local wishes.

> "Local authorities would gain from free access to the SNIC's team, which would contain cutting edge expertise in public financing, planning, legal issues, energy strategies, architectural design and construction."[73]
>
> Cairns et al, 'Building Scotland's Future Now', Common Weal Policy, 2017

SNIC would also be able to provide Local Authorities with unbiased advice on whether or not it might be worth investing in older buildings in local communities. PPP contractors have had no interest in old buildings being mended and repurposed, as this does not promise the big financial rewards sought by these companies. However, many buildings around Scotland have stood the test of time – mending them and making do with what we already have could be the most sensible solution. Especially since these buildings are often placed at central locations in communities. PPP companies have been too keen on taking control of these locations and using them for alternative purposes, pushing our public services to less desirable and less convenient areas of towns. Experts at SNIC would be able to help Local Councils assess their assets realistically and weigh up the costs of repairing against new projects. Both the Councils and the environment could benefit from such considerations.[74]

The Local side of the partnership

In a Local-National Partnership, local authorities will be the legal owners of public projects and also their operators. Whilst the Scottish Government is restricted by firm borrowing limitations, local councils are not.[75] To ensure that public interest is maintained in these projects and that the projects remain transparent it is necessary to make all projects subject to democratic accountability.[76] There is little new risk associated with such sub-national borrowing: in the current PPP landscape of Scotland, councils are paying large sums in “rent” for their public projects, which complicated contracts makes it impossible to default on. One could argue that the risk of Local Authorities going bankrupt in a Local-National Partnership is lower than in a PPP as the payments would be significantly lower.

If further reassurance is needed, Scotland may take inspiration from The North Carolina model. This has been recognised as a key case study on implementing an early identification and assistance program which can minimise risks associated with sub-national borrowing.[77] The key features in the model are that (1) the state reviews and approves the issuance of all local government debt, and (2) that the state exercises oversight over local government fiscal management.[78] The state is granted powers to assume fiscal control over local operations if signs of fiscal stress emerge, with the aim of avoiding that it turns into a crisis.[79] Since its over-sight system began in 1932, North Carolina has only taken over the operations of three cities and one special district despite of a large number of local units (100 counties, 527 special districts, and 459 cities).[80] In each of these four instances, financial control was turned back to the cities within a year.[81] In a Scottish context, this would mean that the National Authorities will assist the Local Authorities to borrow under the best possible conditions and also stand as guarantor – which we know from the North Carolina model will mean that bonds are higher rated. Local Scottish Authorities will be trusted to manage projects independently (as they already do in the current system), however National Authorities will provide an oversight which allows early identification of problems and prompt assistance to troubled Councils.

The advantages of a Local-National Partnership are clear:

— Local authorities are helped to find **sustainable and transparent** borrowing mechanisms

— There will be **no 'stakeholder's dividend'** - public money is spent for public good and the surplus goes back into the public's pocket

— SNIC will be a **pooling of Scottish public-sector expertise,** which will be directly linked up to local authorities to strengthen their ability to **maximise the gain from hard-earned tax money**

— The model allows for financing packages that are **tailored for and by Scotland**

— All involved agents will be **democratically accountable** and close monitoring and oversight can be implemented at all stages of projects

— Without private interests involved, **real consideration can be given to repairing old buildings** for public use, rather than building new facilities

Funding for the Local-National Partnerships

Local authorities would have a number of borrowing options to fund public projects. According to Common Weal they could borrow from the Public Works Loan Board or the Scottish National Investment Bank.(82)

Borrowing from the Public Works Loan Board

The Public Works Loan Board (PWLB) already lends money from the National Loans Fund to local authorities(83) and many Scottish councils – such as Dundee and Fife - are already using this option to fund projects since "PWLB rates offer very good value to local authorities"(84) despite a recent increase in the rate of borrowing.

Borrowing from The Scottish National Investment Bank

The Scottish National Investment Bank (SNIB) is set to be operating by 2020, however the bank will initially 'lend solely to the private sector'.(85) SNIB will need a dispensation (like Royal Bank of Scotland) in order to lend to the public sector. The Bank is created with the intention of having a 'mission-oriented' role focusing on solving Scottish societal issues(86) which should make such a dispensation attainable as it distinguishes SNIB from commercial banking. The Nordic Investment Bank, the KfW Bankengruppe and the European Investment Bank all lend to the public sector,(87) and would be examples to follow.

SNIB is created to facilitate the growth of the Scottish economy in a sustainable way, and specifically to meet the goal of a net zero carbon economy by 2045 as pledged by the Scottish Government in 2019. The research brief on SNIB delivered by the Scottish Parliament Information Centre (SPICe) specifically mentions a renaissance of national investment banks whose fundamental role is to channel public capital into 'areas of the economy in the most need'.(88)
It therefore seems clear that the urgent need of local councils for alternative financing mechanisms should be a priority for SNIB and specific financing facilities aimed at public sector bodies could be created within the new bank.

To ensure Local National Partnerships benefit from SNIB a few key steps need to be taken[89]:

— **SNIB needs to seek dispensation in order to lend to the public sector.** Lending to the public sector would be treated with the same scrutiny as private lending.

— **SNIB needs to be granted the powers to issue bonds** to provide for lending to the public sector. This allows for greater utilisation of the changes in the Scotland Act 2012, as these bonds are likely to prove more flexible and will be able to take advantage of the current low interest rates. It was recognised in the Implementation Plan that most successful national investment banks are able to leverage initial public capital by issuing bonds.[90]

— **SNIB needs to be open to alternative public investors,** to generate the capital necessary to lend to the public sector. A significant investor can be Scottish pension funds, such as the Scottish Government Pension Fund. Thus, the Local-National Partnership has an added advantage of **offering sustainable, safe, long-term places for pension funds to invest their money.**

Considering Scotland's lending limitations, the creation of a Scottish Investment Bank that can lend to public bodies presents a unique opportunity for Scotland to create a solution for financing public projects tailored to Scotland.

Concluding Remarks

Scotland needs a financing model which has safety and quality at its heart. A model which puts accountability to the taxpayer before the interests of Big Business. Scotland needs a Local National Partnership model - it will be a financing scheme tailored for and by Scotland.

In its essence the Local National Partnership model is a simple solution to a complex problem. It allows Local Authorities to take back control, and the National level to play an active role in creating a better reality for the Scottish people. The key is political will to prioritize transparency, quality and safety. We need a change of attitude towards public projects – and for both local and national actors to realise that private financing is not the only, nor the best way.

Once we have removed the harmful PPP schemes in Scotland, we need to turn our attention to the international context of the PPP problem. The UK government is playing an active role in promoting PPPs to developing countries as a means of financing and managing infrastructure. PPPs are now thoroughly embedded in development strategies and the UK's Department for International Development uses money from its aid budget to fund the Private Infrastructure Development Group (PIDG) which exists to promote PPPs to finance infrastructure in developing countries.(91) Additionally, the UK has "trained over 600 overseas officials from 50 countries on PPPs and infrastructure".(92)

At both the UN and the Bretton Woods Institutions, the PPP model is being held up as a method of mobilising private capital in support of the Sustainable Development Goals (SDGs).(93) However, the more governments pay private firms, the less they spend on essential services. Furthermore, PPPs limit access to services because they "often come with new or increased fees for users of services"(94) as we have seen in Tanzania, where the high costs of PPPs in the country's electricity system were pushed onto consumers in a way which saw energy tariffs increase by 40 percent in a year.(95) Additionally, as illustrated in this report, these models in their different forms will contribute to the accumulation of debt in the poorest countries in the world. Debt which could have been avoided.

Scotland must take upon itself to promote more responsible lending and borrowing practices.

We need to take action now. We need to rethink financing of public projects in Scotland - find a solution which serves the public - and then export that to countries around the world.

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