

# Public risk for private gain?

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*The public audit  
implications of risk transfer  
and private finance*

*July 2004*

# PUBLIC RISK FOR PRIVATE GAIN?

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## *Summary*

The government's main justification for using expensive private finance as opposed to conventional public financing is that its higher cost is a product of risks transferred from the public to the private sector. According to the government, the rate of interest on private finance is higher than the rate of interest on conventional public financing because it includes a premium for assuming risks formerly underwritten by the taxpayer. The premium is paid by the public sector to private financiers in the form of annual debt charges. In 2003, the Public Accounts Committee reported "We have sought on a number of occasions to gain an understanding of the relationship between the returns which contractors earn from PFI projects and the risks they actually bear. At present the available information is limited and rather mixed..."<sup>1</sup>

The aim of this study was to establish whether there had been public financial auditing of the relationship between risk premiums and risk transfer in National Audit Office (NAO) evaluations of operational PFI/PPP schemes. The NAO has conducted a number of evaluations of operational PFI/PPP schemes which represent the only systematic, published attempt to monitor individual, central government PFI/PPP schemes that are up and running and to make policy recommendations.<sup>2</sup> Since actual risk transfer can only be assessed in the operational phase, we were concerned to establish whether there had been any monitoring of risk, risk premiums and annual PFI payment changes occurring as a result of contract implementation, revision or cancellation. One would expect that where risk transfer does not take place or reverts back to the public sector, the risk premium would fall and this would be reflected in an adjustment to annual debt charges.

We show that the structure of PFI deals makes it difficult to evaluate the relationship between risk and the risk premium for two reasons. First, the private sector body that enters a PFI contract with the public sector is a shell company that does not itself carry risks but transfers them to other companies through sub-contracts, making it difficult to see where and how risk is borne. Secondly, risk transfer is limited by a variety of financial mechanisms that obscure its value. On the basis of our study of the NAO inquiries we show that the government's claim that the higher costs of private finance are due to risk transfer is largely unevaluated for central government PFIs. We examine the implications of our findings for public

<sup>1</sup> Select Committee on Public Accounts. PFI construction performance. 35<sup>th</sup> report, session 2002-3, HC 567.

<sup>2</sup> PFI/PPP refers to private finance initiative (PFI) and public private partnerships (PPP). The European Commission defines PFI as a type of PPP. (European Commission. Green Paper on public private partnerships and community law on public contracts and concessions. Com(2004) 327, Brussels 30 April 2004). Our study is limited to PFI schemes.

accountability and conclude that failure to evaluate the government's case undermines parliamentary scrutiny of public spending.

## *Introduction*

### **Key Points**

- PFI deals worth £35.5 billion have been signed
- Private finance costs more than public finance
- Government claims the extra cost is payment for risk transfer to private financiers
- Evidence for this claim has been questioned by a parliamentary watchdog
- This study examines whether the claim has been audited

PFI has become a major source of public service investment. According to the Treasury, 563 PFI transactions with a total capital value of £35.5 billion had been signed by April 2003. Over £32.1 billion of the deals were agreed after 1997.<sup>3</sup> Between 1995 and 2002 the annual PFI programme increased from nine projects with a total value of £667 million to 65 projects with a total value of £7.6 billion.<sup>4</sup>

Under PFI a private consortium, contracts with a public sector body to finance, design, and construct or refurbish a facility under a time and cost-specific contract. Following construction, the consortium provides support services under a long-term contract. Once the operational period begins, the public body pays the consortium for providing the services. This revenue stream is used to repay debt, fund operations, and provide a return to investors. Deductions can be made from the revenue stream if the private contractor does not meet performance standards specified in the PFI contract.

According to the government, PFI provides operators with an incentive to be more efficient because their own money is at risk: "The involvement of private finance in taking on performance risk is crucial to the benefits offered by PFI, incentivising projects to be completed on time and on budget, and to take into account the whole of life costs of an asset in design and

<sup>3</sup> Total investment in public services is a Treasury category that includes public sector net investment, asset sales, depreciation and PFI. The Treasury PFI aggregate excludes PPP deals and substantially underestimates PFIs because it only covers the 43% of schemes that do not score on the government's accounts as capital spending, that is, are "off balance sheet".

<sup>4</sup> HM Treasury. PFI: meeting the investment challenge, July 2003, p.13. "Total value" is not defined.

construction.”<sup>5</sup> The risks transferred to the private sector in this way would otherwise have remained with the public sector.

Private finance nevertheless costs more than conventional or public finance. Audit Scotland found that in 6 schools’ PFIs overall PFI borrowing rates were between 2.5 to 4 percentage points above public borrowing.<sup>6</sup> Higher borrowing rates are reflected in higher annual charges. The National Audit Office worked out for one PFI scheme that every 0.1 percentage point rise in the rate of interest increased repayments costs by 1% a year, in this case an additional £140,000 on a charge of around £14 million for every tenth of a percentage point increase.<sup>7</sup>

According to the government, risk transfer largely accounts for the different costs of public and private finance: “There is a cost to the Government’s use of private finance, involving the extra cost of the private sector securing funds in the market, but a great part of the difference between the cost of public and private finance is caused by a different approach to evaluating risk.”<sup>8</sup> Risk is given a market value in PFI schemes but not in public financing where the government underwrites risk without making a charge.

The government says paying the market rate for risk is cost effective because the incentive structure of PFI brings benefits that outweigh “any cost involved”,<sup>9</sup> “even taking account of the risk premium paid to the private sector compared to the risk-free rate of interest associated with [public finance].”<sup>10</sup> Furthermore, these benefits would not have been achieved had the risk remained in the public sector: “the private sector is better able to manage many of the risks inherent in complex or large scale investment projects than the public sector.”<sup>11</sup> In other words, even though private finance costs more it provides for countervailing savings through the mechanism of risk transfer.

Risk transfer is therefore the key justification for PFI because PFI would not be worth undertaking without substantial risk-taking by the private sector. According to the Public Accounts Committee: “Without risk-taking by the private sector, for example to reduce the

<sup>5</sup> HM Treasury. PFI: meeting the investment challenge, July 2003, paragraph 1.38.

<sup>6</sup> Accounts Commission. Taking the initiative: using PFI contracts to renew council schools. June 2002, p.59.

<sup>7</sup> National Audit Office. Innovation in PFI financing: the Treasury Building project. HC 328, 9 November 2001.

<sup>8</sup> HM Treasury. PFI: meeting the investment challenge, July 2003, p.41.

<sup>9</sup> HM Treasury. PFI: meeting the investment challenge, July 2003, p.109.

<sup>10</sup> Office of Government Commerce. Credit guarantee finance. Technical note no. 1.

<sup>11</sup> HM Treasury. Quantitative assessment user guide. February 2004, p. 7.

likelihood of the Agency paying for construction cost increases, the use of private finance can bring no benefits to offset the higher cost of finance.”<sup>12</sup>

The importance of risk transfer is reflected in evaluations of value for money. Before a PFI scheme can be approved there must be a demonstration that the deal will save money when compared with a publicly financed alternative. Evidence from hospital PFI schemes shows publicly financed schemes are cheaper until risk transfer is factored in at which point PFI is cheaper.<sup>13</sup>

Doubts have been expressed about the validity of the risk transfer claims made in pre-operational value for money assessments because public sector commissioners know that a demonstration of value for money is a condition of PFI approval.<sup>14</sup> For example, Jeremy Colman, the assistant auditor-general, is reported to have said: “People have to prove value for money to get a PFI deal... If the answer comes out wrong you don’t get your project. So the answer doesn’t come out wrong very often.”<sup>15</sup>

Last year the Public Accounts Committee expressed concern about the premiums charged for risk transfer after a PFI project is up and running: “We have sought on a number of occasions to gain an understanding of the relationship between the returns which contractors earn from PFI projects and the risks they actually bear. At present the available information is limited and rather mixed... The limited information we have been given previously has either been the contractors’ returns on turnover for providing construction service to PFI projects or the separate rate of return equity shareholders are expected, at contract letting, to receive on their investment (a rate which is often understated as it does not include the benefits of subsequent refinancings).”<sup>16</sup>

The same point has been made more recently in a report commissioned by the Association of Chartered Certified Accountants. In a discussion of risk transfer changes in the PFI/PPP operational phase the authors say auditors failed to consider “how such changes impacted on ...

<sup>12</sup> Public Accounts Committee. The private finance initiative: the first four design, build, finance and operate roads contracts. 47<sup>th</sup> report, session 1997/8.

<sup>13</sup> Pollock A, Shaoul J, Vickers N. Private finance and “value for money” in NHS hospitals: a policy in search of a rationale. *British Medical Journal* 2002; 324: 1205-09.

<sup>14</sup> Edwards P, Shaoul J, Stafford A, Arblaster L. Evaluating the operation of PFI in road and hospital projects. Report to Association of Chartered Certified Accountants. Draft, March 2004.

<sup>15</sup> Association of Chartered Certified Accountants. Letter to Geoffrey Spence head of PFI policy, 31 March 2004.

<sup>16</sup> Select Committee on Public Accounts. PFI construction performance. 35<sup>th</sup> report, session 2002-3, HC 567.

the relationship between ... risk transfer and the risk premium contained in the cost of finance.”<sup>17</sup> They concluded: “the lack of financial evaluation from such organisations as the National Audit Office and the Audit Commission is quite striking and suggests that such evaluation may not be straightforward.”

Once a PFI/PPP contract is up and running the amount of risk transferred to the private sector and the price charged for it can change because of a number of factors inherent in such deals. For example, the contract can be revised, creditors’ financing arrangements can be amended, investor returns can be higher than predicted, and contract implementation can fail to enforce risk transfer.<sup>18</sup>

The possibility that risk transfer and risk premium change after the contract has been signed raises crucial audit questions about the government’s justification of PFI in terms of risk transfer. If as the government claims the premium paid to private financiers is justified by the amount of risk transferred then it becomes important to understand the relationship between the premium and risk transferred and to evaluate whether subsequent changes in risk transfer and risk premiums are reflected in the annual charges paid by the public sector under PFI deals. The basic financial audit questions are whether public money in the form of an annual charge is being spent for the purposes voted by parliament, that is, on public services, and whether public financial audit data facilitates scrutiny of the policy.

The Public Accounts Committee suggests that there is insufficient evidence to evaluate the government’s key claim that the higher cost of PFI is a product of risk transfer. The committee has pointed to a lack of data about the risks actually transferred in PFI/PPP deals and the risk premium charged for them. In the absence of publicly available data we turned to public audit evaluations of operational PFI schemes conducted by the NAO. Our aim was to examine whether the relationship between risk premiums, risk transfer and annual charges had been audited. The NAO is the parliamentary watchdog with statutory responsibility for reporting on the central government spending. In this capacity it is the public body best placed to audit public payments for risk transfer through the medium of risk premiums and annual PFI charges.<sup>19</sup>

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<sup>17</sup> Edwards P, Shaoul J, Stafford A, Arblaster L. Evaluating the operation of PFI in road and hospital projects. Report to Association of Chartered Certified Accountants. Draft, March 2004, p.19.

<sup>18</sup> Edwards P, Shaoul J, Stafford A, Arblaster L. Evaluating the operation of PFI in road and hospital projects. Report to Association of Chartered Certified Accountants. Draft, March 2004.

<sup>19</sup> In July 2003 the Treasury reported in outline the results of a survey of PFI schemes and promised to publish the full data in the Autumn. (HM Treasury. PFI: meeting the investment challenge. July 2003). However, these data

The research had two objectives:

- To establish whether auditing of post-contractual changes had been undertaken by the NAO with respect to risk transfer, risk premiums and annual charges.
- From the data available to understand the implications of current financial audit arrangements for public accountability.

The report has two background sections in which we explain how legal and financial mechanisms complicate the public audit task. Section 3 is the evaluation of NAO reports from a public audit perspective. It consists of examination of a series of NAO inquiries into operational PFI deals in order to identify whether the relationship between risk transfer, risk premiums and annual debt charges was audited when risk transfer had evidently changed after the initial contract. In the final section we consider the implications of our findings for public accountability.

### *Section 1: How PFI Contracts Obscure the Audit Trail*

#### **Key points**

- PFI contracting makes it difficult to identify who bears risk
- PFI firms are shell companies that do not bear risk but pass it on to others through sub-contracts
- The main providers of private finance are heavily protected from risk

In this section we examine how the legal structure of PFI makes risk transfer difficult to identify and audit. We consider two main legal arrangements, subcontracting risks to companies other than the PFI company and the differentiation in PFI annual charges between repayment of external debt and payments for performance.

#### **Subcontracting in PFI deals**

In many but not all PFI deals the private sector partner is known as a special purpose vehicle (SPV) or joint venture company.<sup>20</sup> The SPV is a shell company with few assets of its own other than the revenues from the PFI contract. Its shareholders are usually the construction firm,

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were not published at the time of writing (May 2004).

<sup>20</sup> IT schemes often do not involve the SPV model. The contracting structure of PPP deals may or may not involve special vehicles for external finance. However, both IT PFIs and PPPs involve risk transfer to private financiers.



facilities management company and the financiers to the deal. For example, Octagon is the SPV for the Norfolk and Norwich hospital PFI. It is 100% owned by Octagon Healthcare (Norwich) Holdings Ltd., which is in turn owned by the following shareholders: build and design firms John Laing PLC and John Laing Construction, a wholly owned subsidiary of John Laing PLC; facilities management companies Serco Investments Ltd. and Serco Ltd, a wholly owned subsidiary of Serco Group PLC; Barclays UK Infrastructure Fund Ltd., a subsidiary of Barclays Private Equity Ltd., the ultimate parent of which is Barclays Bank PLC; and three venture capital companies, namely, Innisfree Partners Ltd., Innisfree PFI Fund LP and 3i Group PLC.<sup>21</sup> Although in the event of contract default the SPV has no recourse to the resources of its parent companies it is nonetheless the company which signs the main PFI contract with the public sector body commissioning the deal.

The main function of the SPV is to bring the various private sector actors together for the purpose of the PFI deal. (See diagram 1) It does this through a system of contracts, the most significant of which are:

- Contracts with the construction company and service providers
- Contracts with the external financiers who provide debt, subordinated debt, and equity

This system of contracting allows the SPV to shift risks on to other companies. For example, its contract with constructors allocates design, construction, and time overrun risk to construction companies. Similarly, its contract for facilities management allocates performance and availability risk to the service providers. (Diagram 1)

Thus, the SPV is paid an annual income by the public sector to cover the risks transferred to the private sector but it is not itself the bearer of significant risk. This structure is required so that the SPV can enter another set of contracts with external financiers to obtain the project finance. Banks are reluctant to lend to high risk ventures. Being low risk, the SPV is able to secure high levels of relatively low cost borrowing. The problem is that the mechanisms for transferring risk are obscured by the shell company because shareholders in the company (providers of equity) are often also sub-contractors. Thus sub-contractor profits and equity holders' risk premiums are not clearly distinguishable.

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<sup>21</sup> Standard & Poor's. Octagon Healthcare Funding PLC refinancing report. Presale report. 27 November 2003.

## **Differentiating between debt and performance payments in the annual PFI charge – the availability fee**

In most PFIs privately financed investment in public service infrastructure is funded by the public in the form of an annual payment or ‘unitary charge’. The unitary charge is made up of a service fee in respect of the operation of a facility and an availability fee in respect of the charges for finance and a lifecycle maintenance charge to cover infrastructure repair or replacement. The availability fee is in effect the charge made for capital in a PFI deal and it is set at a level sufficient to pay back the principal and interest of all loans and the dividends of shareholders over the life of the contract.

The unitary charge as a whole constitutes the cashflow from the public to private sectors but the capital repayment element (the availability fee) is partly protected from losses if the potential costs of a risk crystallise into real costs, that is, if something actually does go wrong with a scheme. For example, the availability fee is substantially insulated from the financial penalties PFI contractors incur for poor performance. These penalties are deducted from the service fee paid to contractors and are usually capped, except in the extreme case of performance sufficiently bad to warrant contract termination. But even in the event of contract termination financial backers are protected by provisions for compensation so that they receive at least some of their investment back (bank finance is substantially protected by this means). This protection does not necessarily extend to shareholders who are also shareholders in the PFI company, for example, shareholders who are also service contractors.

The Ministry of Defence Joint Services Command and Staff College PFI provides an example. The unitary charge (service plus availability) for this PFI was £26 million. The service fee was £8.3 million and the availability fee £17.7 million. Penalties for poor performance were capped at 10% of the service fee element, or £830,000. This meant that only 3% of the unitary charge was at risk from poor performance.<sup>22</sup> In this case, shareholders providing equity who were also shareholders in the PFI company were covered by compensation provisions in the event of

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<sup>22</sup> National Audit Office. Ministry of Defence: the Joint Services Command and Staff College PFI. HC 537, session 2001-2002, February 2002, p.24.

contract termination. (Compensation provisions are now set out in the Office of Government Commerce’s guidance on a standardised contract for PFI deals.<sup>23</sup>)

Thus, although risk transfer presupposes potential losses for external financiers equivalent, according to the Treasury, to “the full value of the debt and equity it provides to a project”<sup>24</sup>, not all payments to the private sector are at equal risk. Such variations in the security of repayment reflect the fact that different components of external finance carry different amounts of risk. However, differentiating risk bearing in this way makes it much more difficult to identify how risk transfer and risk premiums are related because it is possible that the security of one group of external financiers is improved by actions taken to protect the security of another. For example, so as to provide additional insurance against loss banks require a generous margin of error in the calculation of the availability fee.<sup>25</sup> These margins, to which nobody else has a claim, revert to PFI shareholders if not called upon by the banks, thereby increasing their protection from loss.

One of the key questions we addressed in this study was whether data was provided that showed whether changes in risk transfer, and therefore the basis of the risk premium, were reflected in adjustments to the availability fee. This analysis could not be conducted for PPPs because they do not include an availability fee. In a typical PPP the government is a shareholder with the private consortium in a private business and returns on equity are not set contractually.<sup>26</sup> Thus, although risk transfer changes similar to those that occur in PFI deals also take place in PPPs, they cannot be evaluated in the same way. The National Air Traffic Services PPP provides an example. (Appendix 1)

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<sup>23</sup> Office of Government Commerce. Standardisation of PFI contracts – general. OGC, 2002, revised version pp.56-182.

<sup>24</sup> HM Treasury. PFI: meeting the investment challenge, July 2003, p.33.

<sup>25</sup> The margin is known as a cover ratio. See below pp.23-4.

<sup>26</sup> Although they may be regulated by an industry regulator.

## *Section 2: How PFI Financial Arrangements Obscure the Audit Trail*

### **Key points**

- There are various types of risk
- Risk is transferred through a legal contract
- Not all private finance carries the same amount of risk
- Various financial mechanisms are used to shield private financiers from risk

In this section we identify audit difficulties created by the financial structure of PFI deals. In order to do this we must first consider what is meant by risk, the key consideration in the determination of the cost of private finance.

### **What is risk?**

The Treasury defines risk as the “likelihood, measured by its probability, that a particular event will occur.”<sup>27</sup> So far as PFI/PPP schemes are concerned, relevant events are those which have cost implications for the construction or operation of public service infrastructure. This class of events includes increases in construction costs or construction time (known respectively as cost and time overruns), or loss of benefits through failures in the availability or standard of services provided within the infrastructure.

Government guidance requires that when assessing value for money for PFI approval purposes the overall risk or probability of these events occurring in any scheme be given a monetary value. The value is defined as follows: “An ‘expected value’ provides a single value for the expected impact of all risks. It is calculated by multiplying the likelihood of the risk occurring by the size of the outcome (as monetised), and summing the results for all the risks and outcomes.”<sup>28</sup>

Risk transfer involves the allocation of risk to the private sector through a contract. The guidance states, for example, “typically PFI contracts transfer to the PFI partner the risk that capital costs will exceed estimates made by the procuring authority in a way that some

<sup>27</sup> HM Treasury. The Green Book. Appraisal and evaluation in central government. HM Treasury, 2003 edition, glossary.

<sup>28</sup> HM Treasury. The Green Book. Appraisal and evaluation in central government. HM Treasury, 2003 edition,

conventional contracts may not. Equally, a payment mechanism that calibrates payments made under a contract with the delivery of well-defined benefits provides procuring authorities with a way of ensuring that certain costs are incurred only if certain benefits are delivered.”<sup>29</sup>

The government does not expect all risks to be transferred to the private sector under a PFI contract but only those risks that “create the correct disciplines and incentives on the private sector to achieve a better outcome.”<sup>30</sup> The following risks are retained by the public sector:<sup>31</sup>

- that a facility will meet existing needs, for example, that an NHS hospital has sufficient beds
- that service needs will change, for example, that a hospital requires more beds in the future
- that delivery standards will change
- that demand will change, for example, that a school roll falls or bed occupancy in a hospital rises due to increased numbers of admissions
- that prices rise because of inflation.

Conversely in a typical PFI the following risks are typically transferred to the private sector for the life of the contract (usually 15-30 years) <sup>32</sup>:

- that design standards are met
- that construction costs are higher than expected, for example, because of bad ground conditions
- that the facility is completed on time
- that the building remains available
- that there is industrial action or physical damage

Demand or market risks are also occasionally transferred to the private sector, for example, when payment for a roads or bridge PFI depends on the amount of traffic. But such arrangements are usually accompanied by a concession agreement which allows the consortium to raise additional revenue through user charges at the point of delivery.

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p.30.

<sup>29</sup> HM Treasury. The Green Book. Appraisal and evaluation in central government. HM Treasury, 2003 edition, p.41.

<sup>30</sup> HM Treasury. PFI: meeting the investment challenge, July 2003, p35.

<sup>31</sup> HM Treasury. PFI: meeting the investment challenge, July 2003, p35-6.

<sup>32</sup> HM Treasury. PFI: meeting the investment challenge, July 2003, p36.

## The risk buffer

Risk transfer affects the cost of private finance because, unlike public finance, private finance is priced in the market according to the risks associated with it. Public finance has traditionally been provided through government securities, known as gilts, traded on the London stock exchange.<sup>33</sup> Because the government underwrites the risks of public service investment on behalf of all its citizens, gilts attract what is called a risk-free rate of interest, which means they are the cheapest form of borrowing. In PFI-type deals<sup>34</sup>, on the other hand, companies raise finance directly from the market not from government securities. Private finance is linked to specific projects and debt repayment is devolved to the commissioners of services who service the debt either from government revenues, local taxation or user charges. The cost of this finance is greater because the rate of interest in PFI-type deals is determined by the risks associated with an individual project (for example, the hospital, school, or prison project). A higher rate of interest is charged for financing higher risk schemes than lower risk ones and this is reflected in higher levels of repayment.<sup>35</sup>

PFI schemes use two main types of finance in order to keep the cost of private finance down. One type of finance is low risk and therefore has a lower rate of interest. This is known as senior debt. The other is higher risk and has a higher rate of interest. This is known as subordinate debt or equity. Typically, 90% of finance for PFI schemes is low risk and the remaining 10% is higher risk. The overall cost of finance is the sum of these costs of finance.

There are two main types of senior debt, bank financing and bond financing.<sup>36</sup> Bank financing is provided directly by a bank. Bond financing is provided by institutional or individual investors who purchase bonds on the bond market. Bonds are agreements to pay back an investment with dividends on a certain date. The rate of interest charged for privately financed senior debt is estimated to be between 1 and 4 percentage points above the gilt rate.

Subordinate debt refers to lending that is only paid back after senior debtors have been repaid, and equity refer to shares held by shareholders who only receive a dividend when all other costs

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<sup>33</sup> Public finance need not be provided from new borrowing; public investments can be financed from tax receipts or asset sales.

<sup>34</sup> PFI-type deals refers to PFI and PPP agreements.

<sup>35</sup> The cost of finance is also affected by factors such as the ease of selling the investment on the market, the amount of competition when the investment is sold. and the cover ratios that bank lenders require.

<sup>36</sup> National Audit Office. *Innovation in PFI financing: the Treasury Building project*. HC 328, 9 November 2001.

of the business have been met. Subordinate debt and equity are less secure than senior because they have a lower claim on a project's cash – other providers of capital are repaid first so that should there be a shortage of cash for any reason subordinate debt and equity will be the losers.

Subordinate debt and equity are known collectively as ‘equity buffers’. Their function is to absorb risk, diverting it from the main source of funding. Buffering of this type reduces the interest rate and consequently the size of debt repayment on the largest component of PFI financing, which is senior debt. Subordinate debt and equity therefore command higher rates of interest than senior debt because of the presence of this risk.

Table 1 shows the range of interest rates attached to different financing instruments in six schools PFI projects in Scotland.

**Table 1 Overall cost of capital for 6 Scottish PFI schools projects**

<b>Range of senior debt interest rates</b>	<b>Range of subordinated loan interest rates</b>	<b>Estimated returns on direct equity capital</b>	<b>Overall blended cost of capital for each PFI project</b>
6 to 7% a year	10 to 16% a year	15 to 29% a year	7 to 13% a year

Source: Audit Scotland/Accounts Commission, Taking the initiative, 2002, p.58

*Notes: The equity returns in this example depend on results at the end of the concession period. Good results will raise equity returns above those shown. For example, a lifecycle or cash reserve can be built up during the contract that is not all spent on lifecycle costs. This reserve is the property of shareholders at the end of the project. Investor returns can also be increased by a technique known as refinancing. Refinancing is covered elsewhere in the report.*

Equity buffer provisions required by banks can impinge on the effective interest rate of equity shareholders. When they lend to PFI schemes banks insist that annual payments to the PFI company include a quantity of cash over and above what is required to repay bank debt and which no other party has claim to. This uncommitted cash, referred to by banks as a cover ratio, acts as another type of buffer against risk. Should the cash not been drawn upon it by the time bank debt is repaid it becomes the property of shareholders thereby increasing the returns they make from their investment without any change in their risks. Accountancy firm

PricewaterhouseCoopers (PwC) describe the process as follows: “Lenders set requirements for cover ratios - effectively the level of free cash flow which the project is required to maintain over and above debt repayments – which themselves determine the cashflows to equity and the level of equity return.”<sup>37</sup>

There are several ways in which the public sector can provide resources, or the promise of resources, that have an effect on risk transfer (and therefore on the cost of private finance). The measures function in the same way as equity buffers provided within the private sector since their role is to provide a source of cash that can be drawn on before private investors start to lose money. The measures are often used where private financiers have either proved reluctant to invest or have offered finance at too high a price.

The chief types of public sector equity buffer are as follows:

- Government guarantees are promises by the government to pay off debts if a public body is dissolved. The Residual Liabilities Act 1996 guarantees PFIs in the NHS. It requires the secretary of state for health when dissolving a failing trust "to secure that all of its liabilities are dealt with". However, the power to dissolve a trust is discretionary and although a further letter of comfort has been issued the act does not provide a legal guarantee so much as a statement of intent.<sup>38</sup> Credit rating agency Standard and Poor's give NHS trusts reduced creditworthiness because of the absence of legal guarantee thereby increasing the assessed risk and cost of finance in deals with trusts.
- Letters of comfort fulfil a similar function to the Residual Liabilities Act. They have been issued by individual departments, but this practice is discouraged by the Treasury because it creates, at least morally, a contingent liability for government (a liability for debts in the event of project failure as if the government had been the actual borrower).<sup>39</sup>
- Government subsidies are supplementary revenue streams that reduce the risk of financial failure. The government has provided a special subsidy to hospital PFIs known as the smoothing mechanism. Land sales and department of health capital grants have also been

<sup>37</sup> PricewaterhouseCoopers. Study into rates of return bid on PFI projects. London: PwC, 2002. P.7.

<sup>38</sup> Standard & Poor's. Public Finance/Infrastructure Finance: Credit Survey of the UK Private Finance Initiative and Public-Private Partnerships, Standard and Poor's, London, 2003.

<sup>39</sup> National Audit Office. Innovation in PFI financing: the Treasury Building project. HC 328, 9 November 2001.



used to off-set the costs of investment and therefore the riskiness of a venture. There is a comparable subsidy for local authorities with PFI projects. The subsidy is intended "to assist local authorities in England to meet that part of their expenditure ... under private finance transactions which is attributable to the capital element of the project costs."<sup>40</sup>

### **Combining the roles of equity provider and PFI contractor**

Equity and subordinated debt are not easily distinguishable. Some equity is provided by financial investors but in many cases PFI companies have little real equity: "Pure equity may actually account for a [small] proportion (this is occasionally referred to as "pinhead" equity) as, mainly for tax advantages, risk-bearing funds are often introduced by the PFI partner as deeply subordinated debt."<sup>41</sup> This subordinated debt can be the contractor's fee which is put at risk: "Some ... shareholders may also be contractors to the central consortium company, who undertake to carry out construction, design or facilities management work in the project for a fee from the central consortium company."<sup>42</sup> When the contractor's fee is put at risk as a substitute for true equity it becomes difficult to distinguish between a profit for providing a service and a premium for undertaking a risk. It also has potential to shield contractors from performance risks supposedly transferred in the contract.

### **Other problems with identifying risk transfer**

The classification of risks as transferred or retained by the public sector can be based on incomplete or erroneous data. For example, the Channel Tunnel Rail Link deal<sup>43</sup> put construction risk with the private sector. When the contract had to be revised because of mounting financial difficulties and a failure to secure the private finance that it promised, the NAO inquiry declared that construction risk remained in the private sector, if not with the PFI company, at least with Railtrack, a private company. (Railtrack had been created as a public corporation in 1994 and privatised in 1996). However, Railtrack was put into administration in October 2001 and was bought by Network Rail in October 2002. The buy-out included provision of £10 billion bridge loan by the government to cover the acquisition of Railtrack by

<sup>40</sup> Andy Wynne, ACCA, personal communication.

<sup>41</sup> HM Treasury. Quantitative Assessment User Guide. February 2004, p.24.

<sup>42</sup> HM Treasury. PFI: meeting the investment challenge, July 2003, paragraph 3.35.

<sup>43</sup> This deal is described by the NAO as a PFI but treated as a PPP in this report because of its special characteristics. (National Audit Office. The Channel Tunnel Rail Link. HC 302. March 2001).

Network Rail and to allow “for creditors to be repaid and hence for Railtrack plc to leave administration.”<sup>44</sup> The regulator (the Strategic Rail Authority) continues to provide loan guarantees of £21.1 billion annually. At the time of the bridge loan Network Rail was classified as a public corporation because of the degree of government involvement. Thus it was at this stage no longer true that Channel Tunnel construction risk remained with the private sector.

In another example, the Inland Revenue stated that it had transferred delivery risk to the private sector under the National Insurance IT PFI deal (NIRS). However, when the deal was renegotiated the Revenue acknowledged that transfer of delivery risk was an impossibility because its statutory responsibilities meant that that another party could not be paid to undertake the risk on its behalf.<sup>45</sup> In other words, despite claims to the contrary delivery risk could not be legally transferred.

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<sup>44</sup> Office of National Statistics. National accounts sector classification of Network Rail. NACC decisions – case 2001/22, February 2004

<sup>45</sup> National Audit Office. NIRS2 contract extension. HC 355, 2002.

### *Section 3: The Audit of NAO Studies*

#### **Key point**

- The study was based on 8 inquiries into operational PFI schemes carried out by the National Audit Office

#### **Aims:**

- To establish whether auditing of post-contractual changes had been undertaken by the NAO with respect to risk transfer, risk premiums and annual debt charges.
- From the data available to understand the implications of current financial audit arrangements for public accountability.

#### **Methods:**

Study selection was based on NAO published inquiries into central government PFI schemes<sup>46</sup> conducted between parliamentary sessions 1997/8 and 2003/04 inclusive. Because risk transfer and risk premium changes can only be monitored in the operational phase, the NAO inquiries are the only extensive series of studies of central government operational PFI deals undertaken by a public audit body.<sup>47</sup> (Inquiries dealing with privatisations, evaluation of the procurement process or the initial contract were excluded. See the NATS example Appendix 1).

Each NAO inquiry report was examined to determine whether in the event of contract change the relationship between risk transfer and risk premiums, and annual debt charges had been evaluated or whether evidence was included that would enable such an audit. In particular we wished to establish whether the NAO had collected data on risk transfer, risk premiums and annual debt charges pre- and post contract change.

For each report we looked for the following data items: the baseline financial model in the original contract including, the cash value of risk transfer, premiums and annual charges. Where the report described post-contract changes in risk transfer, as in most cases they did, we looked for data on changes in risk, risk premium and annual charges. Risk transfer mechanisms are complicated and increases in the risks borne by investors under one part of the contract can be compensated by decreases in another part. We therefore did not seek to establish how net risk had changed from contract signing only that there was prima facie evidence that it had.

<sup>46</sup> The schemes were identified from the NAO web-site PFI recommendations service page.

<sup>47</sup> Audit Commission evaluations of local authority PFI/PPP schemes do not form part of this study.

It is important to stress that NAO inquiries are conducted for a variety of purposes and the adequacy of an inquiry in its own terms was not an issue in our research. Rather our enquiry was directly related to the Public Accounts Committee concern to establish whether public audit bodies were seeking to understand the relationship between risk transfer and the risk premium, that is, the rationale for the additional cost of finance. The presence or absence of relevant data is a good test of current capacity of public audit bodies to evaluate the relationship between risk transfer, risk premiums and annual charges.

### **Results :**

The audit of risk transfer, risk premiums and annual debt charges in NAO recommendations service PFI inquiries.

### ***Case studies:***

The NAO lists 50 PFI and PPP inquiries between House of Commons sessions 1997/98 and 2003/04 of which 12 covered operational schemes (8 PFI and 4 PPP) and 38 reported inquiries into the procurement process or asset sales, or they were generic reports providing non-financial evaluations of a class of PFI/PPP deals or particular aspects of deals, or they related to schemes outside the study period.<sup>48</sup> This study was based on the 8 operational PFI inquiries.

### ***Case study I: New IT systems for Magistrates' Courts: the Libra Project***<sup>49</sup>

In 1998 the Lord Chancellor's Department signed a PFI contract with the computer company ICL to develop an IT system called Libra to provide an electronic link for magistrates' courts. The project hit problems and was renegotiated twice because the company had overestimated revenues and underestimated costs and development difficulties. As a result the "total contract cost"<sup>50</sup> was increased from £184 million to £319 million and the contract period extended, additional capital injections by the public sector were introduced and the annual charge reduced,

<sup>48</sup> These are the reports included in the NAO's PFI and PPP recommendations service as "all PFI and PPP/privatisation reports". The five generic studies were 'The operational performance of PFI prisons', 'PFI refinancing update', 'PFI: construction performance', 'Managing the relationship to secure a successful partnership in PFI projects', and 'Department of the Environment, Transport and the Regions: the private finance initiative: the first four design, build and operate roads contracts.' The last report was omitted because it related to schemes before the study period.

<sup>49</sup> National Audit Office. New IT system for magistrates' courts: the Libra project. HC 327, January 2003.

<sup>50</sup> NAO does not define this term. The costs were in respect of infrastructure and "office automation facilities".

and a profits agreement was drawn up guaranteeing shareholders' right to extract profits up to a certain level.

The NAO provides extensive evidence of failures in risk transfer and of the ways in which risks were passed back to the public purse. For example, when the third contract was negotiated after the company's costs increased ICL was in breach of its contract for failure to deliver. However, the Lord Chancellor's Department did not terminate the contract or sue for damages because of the costs and uncertainties of litigation and because of the company's threats of counter-litigation. In fact, the department not only declined to enforce the original risk transfer arrangement it also agreed to share the risks of renegotiation by issuing a legally binding memo of understanding under which development costs were shared and liabilities agreed if a new contract could not be negotiated. The memo ensured terms "much less favourable to the Department than the existing contract terms."<sup>51</sup>

The NAO report also points to an absence of departmental data on risks and premiums. The Lord Chancellor's Department did not obtain a copy of the company's financial model containing information about risk premiums until after the new contract was negotiated even though renegotiation had been on the basis of financial projections in the original contract. There was therefore no baseline data available either to the department or the NAO.

When a new contract was signed under which ICL would only deliver part of the original contract, shareholders were given government guarantees subject to a profit sharing agreement that allowed them to benefit from higher than forecast risk premiums. Whereas the financial model forecast profit of 7.2%, the company would be allowed to keep all profits up to 9%. Excess profits above 9% would be shared with the public sector. The formula was not disclosed by and might not have been known to the NAO but the total public share of these excess profits could not exceed an aggregate of £20 million over the life of the contract. Furthermore, in the event of contract termination £60 million was guaranteed to the shareholders. Thus the shareholders' risk premium was not fixed by the contract but was variable, excess profits were explicitly allowed and profit guarantees were provided.

Our review of the NAO inquiry found:

**1. Baseline data: risk, risk premium and availability fee**

No quantitative baseline data is available for risk and risk premiums because the private company did not release their financial model to the department or the NAO. The availability fee is not published.

**2. Post contract data: risk, risk premium and availability fee**

Consultants were employed to compare the cost of the revised contract with an estimate of what such a contract “should cost” but their calculations excluded “interest, risk and profit”<sup>52</sup> and these data are not published. The revised availability fee is not published.

***Case study 2: Ministry of Defence Joint Services Command and Staff College PFI***

In June 1998, the Ministry of Defence awarded a 30-year contract to Defence Management (Watchfield) Limited, a special purpose company wholly owned by Laing Investments and Serco Investments for a PFI project for the construction of a new college, associated married quarters and single accommodation, and the provision of facilities management services and academic teaching.<sup>53</sup> The college was fully established in September 2000 and the college has so far delivered planned training.

Risk transfer was valued pre-contract at £26 million and allocated as follows:

- Defence Management: design and construction, availability, performance
- Shared: inflation, demand, residual value (college facilities will revert to the Department at the end of the contract or the Department can choose to leave them with Defence Management).

The NAO inquiry shows the value of possible risk deduction in relation to the unitary charge: “The limits agreed on this contract are ... 10 per cent in aggregate of all the elements of the PFI fee that relate to service delivery. Since the elements of the PFI fee that relate to service delivery total £8.3 million, the 10 per cent limit means that only 3 per cent of the total [annual] PFI fee

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<sup>51</sup> National Audit Office. New IT system for magistrates’ courts: the Libra project. HC 327, January 2003, p.18.

<sup>52</sup> National Audit Office. New IT system for magistrates’ courts: the Libra project. HC 327, January 2003, p.23.

[i.e. the unitary charge] of £26 million [2000 prices] is at risk from poor service delivery.”<sup>54</sup> All payment can be suspended in the event of exceptionally poor performance but in these circumstances compensation shall be paid, including compensation to contractors who also provided equity.

The unitary charge was largely protected from demand risk by a guaranteed payment system that ensured minimum payments were student numbers to fall below a certain level. (Table 2) In first year of operation student admissions were 7% below guaranteed minimum which meant that the Ministry of Defence had to pay the PFI operators for more students than attended the college.<sup>55</sup> This arrangement was central to the private company’s strategy because the unitary charge of £26 million was set to ensure that Defence Management recovered “in full its costs of building the College facilities and its other fixed costs from the income it receives for the guaranteed usage.”<sup>56</sup> The effect was to allow investors to receive their dividends earlier than would have been the case had the department not provided a usage guarantee.

**Table 2: Guaranteed usage payments in the MOD College PFI**

	Number	Guaranteed Usage Fee rate	Total Payable	Non-guaranteed Usage Fee rate
		£	£ m	£
Student place days	128,860	97	12.5	2
Residential place days	138,894	45	6.3	5
Married quarters weeks	15,080	489	7.4	62
Total fee			26.2	

Source: adapted from figure 8, p.18, National Audit Office. Ministry of Defence: the Joint Services Command and Staff College PFI. HC 537, session 2001-2002, February 2002.

NOTE: All figures are at July 2000 prices. The guaranteed usage levels fall after year 5 for married quarters and after year 15 for student places.

<sup>53</sup> National Audit Office. Ministry of Defence: the Joint Services Command and Staff College PFI. HC 537, session 2001-2002, February 2002, p.1.

<sup>54</sup> National Audit Office. Ministry of Defence: the Joint Services Command and Staff College PFI. HC 537, session 2001-2002, February 2002, p.27.

<sup>55</sup> National Audit Office. Ministry of Defence: the Joint Services Command and Staff College PFI. HC 537, session 2001-2002, February 2002, p.22.

<sup>56</sup> National Audit Office. Ministry of Defence: the Joint Services Command and Staff College PFI. HC 537, session 2001-2002, February 2002, p.22.

The NAO inquiry finds that risk allocation has worked well. For example, “there were problems with unforeseen ground conditions at the site. The extra costs were... borne by the private sector and not passed on to the Department.”<sup>57</sup> The NAO quotes “speculation in the press” that the companies absorbed £20 million in construction cost overrun but does not attempt to verify the figure. The omission is significant. This is the only recorded instance in the NAO reports where the potential costs of construction risk crystallised into actual costs but the costs borne by financiers who had been paid to undertake construction cost risk are not identified. At the same time, evidence is provided that the risk payments contributed to affordability problems for the ministry. It had planned to meet PFI costs out of its annual budget but the NAO predicted “it will be increasingly difficult for it to meet planned budget and efficiency savings targets in the future.”<sup>58</sup>

There are no references to financial restructuring in this inquiry.

Our review of the NAO inquiry found:

**1. Baseline data: risk, risk premium and availability fee**

Quantitative data is provided for shared risk, risk taken on by Defence Management, and availability fee but not for risk premiums.

**2. Post contract data: risk, risk premium and availability fee**

No evidence of post-contract risk, premiums or availability fee. A press report of extra-contractual construction cost is mentioned but not verified.

***Case study 3: National Insurance Recording System contract extension (NIRS 2<sup>59</sup>)***

A £76 million PFI deal was concluded in 1995 the Benefits Agency and Andersen Consulting for NIRS2, an IT system for administering national insurance (NI) schemes. In 1997 the government introduced significant changes to pensions and NI legislation and the PFI contract was renegotiated. The NAO estimated the value of the contract extension at “between £70

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<sup>57</sup> National Audit Office. Ministry of Defence: the Joint Services Command and Staff College PFI. HC 537, session 2001-2002, February 2002, p.22.

<sup>58</sup> National Audit Office. Ministry of Defence: the Joint Services Command and Staff College PFI. HC 537, session 2001-2002, February 2002, p.22.

<sup>59</sup> National Audit Office. NIRS2 contract extension. HC 355, 2002.



million and £144 million, depending on the amount of work ordered over the remaining life of the contract.”<sup>60</sup>

The inquiry provides evidence of risk reallocation through contract revision: “Under the new arrangements, Accenture continue to bear risks relating to the operation and availability of the system. The risk associated with system enhancements, however, are shared to a greater extent than under the original contract.” The original contract aimed to transfer the risk of development cost overruns and delivery risk to Accenture. In the revised contract development risks were shared<sup>61</sup> and the Inland Revenue formally recognised that delivery risk had not been transferred (indeed, was impossible to transfer) because of their statutory responsibilities.<sup>62</sup>

The inquiry explains changes in the relation between risk and risk premiums in terms of inequalities in bargaining power. Tight deadlines, high contract break and re-tendering costs, and legal uncertainties over intellectual property rights, led the Inland Revenue to extend the Andersen contract rather than open the revised specification to competitive bidding. (The NAO estimated that cancellation of the original contract would have cost the department £44 million in “break costs”).<sup>63</sup>

One consequence of contract extension approach was a substantial increase in the private contractor’s profits. A profit-sharing agreement was added in the event of profit margins exceeding 35%. The Public Accounts Select Committee regarded these rewards as excessive: “the prices agreed appear to be very generous for a non-competitive contract, where in practice the IR had little option but to use Accenture because of the high break costs of the original contract”.<sup>64</sup>

The Agency also imposed poor-performance penalties on the contractor that were lower than entitled under the contract and did not cover the public costs incurred. (Treasury Minister, Dawn Primarolo, said at the time that the government would not demand compensation for the troubled NIRS2 National Insurance Records contract 'for fear of damaging future relationships', even though the contract allowed for compensation).<sup>65</sup>

<sup>60</sup> National Audit Office. NIRS2 contract extension. HC 355, 2002, p.1.

<sup>61</sup> National Audit Office. NIRS2 contract extension. HC 355, 2002, p.17.

<sup>62</sup> National Audit Office. NIRS2 contract extension. HC 355, 2002, p.5.

<sup>63</sup> National Audit Office. NIRS2 contract extension. HC 355, 2002, p.14.

<sup>64</sup> Select Committee on Public Accounts. 13<sup>th</sup> report, session 2000-1.

<sup>65</sup> Edwards P, Shaoul J, Stafford A, Arblaster L. *Evaluating the operation of PFI in road and hospital projects.*

Our review of the NAO inquiry found:

**1. Baseline data: risk, risk premium and availability fee**

No quantitative data published.

**2. Post contract data: risk , risk premium and availability fee**

A comparison of Accenture costs with industry and outsourcing costs is shown as an illustration<sup>66</sup> but quantitative data on risk, risk premiums and the availability fee are not published. (For example, the only information given about the availability fee was that it would be phased and linked to “milestones”).<sup>67</sup>

***Case study 4: Royal Armouries<sup>68</sup>***

In 1993 the Royal Armouries signed a PFI contract with private firm RAI for construction and operation of a new museum in Leeds. RAI were to depend on visitor entrance fees to finance the loans required to build the new museum. However, the museum failed to attract enough paying customers to cover its costs<sup>69</sup> and attempts were made to restructure financial arrangements so as to reduce risks to bank investors and lower the cost of finance. In 1999, when these refinancings proved insufficient and it became apparent that Royal Armouries’ had not transferred performance risk under the PFI deal, the contract was revised.

Under the contract revision, the main risk allocated to the private sector (the ‘demand risk’ of adequate customer numbers) was transferred back to the public sector whilst shareholders, who should have lost their investment when the contract failed through lack of cash, were substantially protected. These changes were achieved by shifting responsibility for the new museum to the Royal Armouries whilst RAI was allowed to retain profit-making activities such as catering, car parks, and corporate hospitality, giving shareholders a chance of profit even

Report to Association of Chartered Certified Accountants. Draft, March 2004, p.61.

<sup>66</sup> National Audit Office. NIRS2 contract extension. HC 355, 2002, p.15. The NAO acknowledges that the benchmarking exercise is based on non-comparable schemes.

<sup>67</sup> National Audit Office. NIRS2 contract extension. HC 355, 2002, p.5.

<sup>68</sup> National Audit Office. The re-negotiation of the PFI-type deal for the Royal Armouries Museum in Leeds. HC 103, January 2001.

<sup>69</sup> This ‘failure’ has to be seen in context. RAI was a private company and under the contract the Armouries did not have access to its underlying financial records. In effect, the company could say what it liked to further its interests.

though the venture had failed and under the original agreement they should have lost their money.

The NAO indirectly provides data on the annual cash consequences of the new contract but not the original contract. Royal Armouries' assumption of responsibility for the museum's debts and operation necessitated the injection of an extra grant of £1 million a year towards running costs and the diversion of a further £2 million a year from other parts of its budget. No information is supplied to show how the Armoury coped with what was essentially a budget cut for activities other than the new museum.

The NAO inquiry fails to show the value of risk transfer and risk premiums.

Data on additional grants and service reductions are of limited use because we do not know the value of risk and risk premiums in the original deal. However, they confirm that an annual £3 million cost was transferred back to the public sector whilst shareholders retained some proportion of their hoped-for profit and perhaps even a higher than expected return.

Our review of the NAO inquiry found:

**1. Baseline data: risk, risk premium and availability fee**

No quantitative data published on risk and risk premiums although a table itemising risk allocation is provided. There was no availability fee in this case due to an agreement that operational costs were funded out of visitor revenues.

**2. Post contract data: risk, risk premium and availability fee**

Data is provided on the annual cash cost to Royal Armouries of taking over main responsibility for the new museum but no quantitative data is given on the value of risk transferred back to the public sector or retained by the private sector. Risk premiums are not stated and are apparently uncapped under the revised contract. Availability fee is not applicable in this case.

## Case Study 5: The cancellation of the benefits payment card project<sup>70</sup>

In May 1996 the Department of Social Security and Post Office Counters Ltd awarded a PFI contract to Pathway, a subsidiary of ICL, to produce a magnetic stripe benefit payment card and to automate the national network of post offices through which most benefits are paid. Up to 20,000 post offices were to be equipped, 67,000 staff trained, and 17 million social security benefit recipients issued with payment cards. The “estimated contract value” was £1 billion<sup>71</sup> over 7 years. One purpose of the contract was to achieve savings by counteracting fraud. Under the deal, Pathway assumed construction risk, operational risk, and fraud risk. An operational trial was to be completed by June 1997 for full implementation by 1999. However, the private company did not deliver on the deal and by May 1999 payment card development was withdrawn from the project and a new contract drawn up.

The NAO inquiry into the project shows a pattern of risk avoidance by the private sector partner to the PFI. For example, when in 1997 the purchasers told Pathway they were in breach of contract for non-delivery Pathway denied liability. Estimating £200 million of lost fraud savings, the department chose to terminate, but Pathway challenged the legality of the decision. In September 1998, with costly litigation in prospect, discussions brokered by the Monopolies and Mergers Commission took place between the government and ICL. An offer was made to extend Pathway’s contract by 2 years under improved terms but this was rejected by ICL alleging it would involve a loss over the life of the project of £200 million. ICL insisted on a solution that allowed Pathway to break even. In the event, the Government decided to halt the benefit card development but continue with Post Office automation, under which nearly all benefit payments will be made by bank transfers.

The cancellation had a substantial public expenditure impact:

- whilst the original delay reduced departmental savings from £667 million (NPV) to £148 million (NPV) cancellation meant that Post Office Counters spent £571 million “for acquiring an asset which does not at this stage yield sufficient income to justify the cost.”<sup>72</sup>
- £127 million of the department’s £270 million budget for its Customer Accounting and Payments system “may be wasted”

<sup>70</sup> National Audit Office. The cancellation of the benefits payment card project. HC 857, August 2000.

<sup>71</sup> £1 billion is a discounted not a cash value. Cash values are not reported by the NAO.

<sup>72</sup> National Audit Office. The cancellation of the benefits payment card project. HC 857, August 2000.

- the switch to bank transfers costs the Post Office an estimated £571 million in lost revenue.

The NAO found incomplete baseline risk transfer data in that the department had taken “only limited steps to evaluate” the risk it was under from late delivery when it signed the original contract<sup>73</sup> Slippage in the timetable was to cost the Department an estimated £5 million a month in additional administration costs and some £9 million a month in lost fraud savings.

Meanwhile the private contractor avoided losses on the deal by brokering new, advantageously priced contracts with the Post Office worth between £600 million and £1 billion. According to the Public Accounts Committee, these deals were a covert form of bail out for the private sector: “The impression remains of an essentially political deal to ensure that ICL has a substantial contract with the PO at a price which seems to have been largely determined in advance of contractual negotiations, as a means, however inadequate, of making up some of the £180m written off by ICL in its 1998-99 accounts”.

Our review of the NAO inquiry found:

**1. Baseline data: risk, risk premium and availability fee**

Data not available.

**2. Post contract data: risk , risk premium and availability fee**

Data not available. Since this is a cancellation, termination compensation (including extra-contractual compensation) and the fee for post office automation would need to be considered.

**Case study 6: Refinancing of Fazakerley prison<sup>74</sup>**

The NAO case study of Fazakerley Prison PFI reviewed negotiations about the allocation of benefits arising from interest rate or refinancing change in a PFI deal. Refinancing is a change in financial structure that affects premiums and risks after a PFI contract is up and running. Refinancing can occur in a number of ways. These are identified by the NAO as follows:

<sup>73</sup> National Audit Office. The cancellation of the benefits payment card project. HC 857, August 2000, p.46.

<sup>74</sup> National Audit Office. The refinancing of the Fazakerley PFI prison project. HC 584, session 2000-2001, June 2000.

### *Changes in financial arrangements that may indicate refinancing*

- There has been an increase in the number of years over which the consortium will repay its financing
- There has been a change in the consortium's finance provider
- There has been a reduction in the "margin" used to determine the amount of interest payable on the financing
- There has been a reduction to the consortium's borrowing costs as a result of fixing interest rates lower for the balance of the contract term than had been expected at contract letting
- There has been a repayment to the consortium's shareholders of some or all of their equity or subordinated debt (usually facilitated by introducing into the project new finance from other sources)
- Constraints on dividend payments have been removed or eased
- There has been a change in the financing arrangements that allows the reserve accounts to be reduced or released.<sup>75</sup>

In the case of Fazakerley, refinancing involved:

- an extension to the period over which the consortium's bank loan would be repaid;
- a reduction in the lending margin for the loan;
- the arrangement of a fixed rate of interest covering the full period of the loan; and
- early repayment of the subordinated debt invested by the shareholders.

According to the NAO, these measures enabled Fazakerley shareholders to “extract financial benefits both earlier and in greater quantity than the expected benefits originally disclosed in their bid for a PFI contract.”<sup>76</sup>

Public risk bearing increased as shareholder financial benefits improved. Extension of the loan repayment period was an important factor in this regard. This was because in the PFI contract the prison service undertook termination liabilities in the event of the project failing. Termination liabilities are agreements to repay outstanding debt to lenders and are higher when outstanding debt is higher. Therefore when refinancing increased the length of the loan and

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<sup>75</sup> National Audit Office. PFI refinancing update. HC 1288, session 2001-2002, November 2002, p.7

<sup>76</sup> National Audit Office. The refinancing of the Fazakerley PFI prison project. HC 584, June 2000.

deferred debt repayment prison services termination liabilities were increased by an estimated £1 million. (Figure 1)

The Fazakerley refinancing improved the expected returns to the consortium’s shareholders partly through early repayment of their original investment and partly by generating a more favourable flow of dividends. The NAO estimated the benefits as follows: “[The] expected returns have increased by £10.7 million (61 per cent) as a result of the refinancing, as compared to their originally projected level of £17.5 million.”<sup>77</sup> The result was an increase in the percentage rate of return from 24% to 39%. These gains are summarised in table 3. The shareholders’ gain occurred because although the cost of the bank loan to the private consortium was reduced by refinancing, debt repayment through the availability fee (and therefore the cost of finance to the public commissioner) was held constant under the terms of the contract, allowing the shareholder rate of return to increase in the same measure that the cost of bank debt decreased.

**Table 3 Summary of increase in expected returns to Fazakerley PFI shareholders**

	£m	£m	% increase since 1995
<b>Expected shareholder returns in original 1995 contract</b>		17.5	
<b>Increase from refinancing before payment to the prison service</b>	10.7		61
<b>Payment to the prison service from the refinancing</b>	(1.0)		(6)
<b>Penalty payment waiver</b>	0.5	10.2	58
<b>Expected shareholder returns in 1999 after refinancing</b>		27.7	

Source: adapted from NAO, The refinancing of the Fazakerley PFI prison project. HC 584, June 2000, figure 2, p.4.

The refinancing deal involved negotiations between the prison service and the contractor about a share of the gains which led indirectly to changes in annual charges. The prison service negotiated a single £1 million payment as compensation for its increased liabilities after

refinancing. However, it also agreed a waiver on £500,000 worth of annual charge payments that the prison service had formerly withheld for performance failures by the contractor. Described by the NAO as a refund to the contractor, the £500,000 was used to off-set the £1 million the contractor had agreed to pay as part of the refinancing deal, reducing it by half.<sup>78</sup>

There is disagreement between the Treasury, the Public Accounts Committee and the NAO about the general significance of refinancing. The Treasury has recently stated that refinancing has only occurred in 7% of PFI deals;<sup>79</sup> the PAC expects that many PFI deals will be subject to refinancing. The NAO assessment also suggests that refinancing is significant: “As over 500 PFI contracts have now been let, including some 200 where the service is already operational (which in many cases increases the likelihood of a refinancing occurring), there may be considerable scope for further refinancing. In addition, the information on completed refinancings ... is based on information from departments. Its degree of completeness is dependent on contractors having informed departments of changes in their financing arrangements and departments identifying correctly when refinancing benefits have arisen.”<sup>80</sup>

Our review of the NAO inquiry found:

**1. Baseline data: risk, risk premium and availability fee**

Baseline data is provided for risk, premium and availability fee.

**2. Post contract data: risk , risk premium and availability fee**

Post contract data is provided for risk, premium and availability.

***Case Study 7: Passport Agency<sup>81</sup>***

In July 1997, the Passport Agency awarded 10-year, £120 million PFI contract to Siemens Business Services for the collection, storage and transmission of passport application data. Siemens’ performance was disastrous. By 1999 passport processing times were between 25 and 50 days compared to the Agency’s target of 10 days; and the backlog of unprocessed

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<sup>77</sup> National Audit Office. The refinancing of the Fazakerley PFI prison project. HC 584, June 2000.

<sup>78</sup> Select Committee on Public Accounts.. 13<sup>th</sup> report, session 2000-1.

<sup>79</sup> House of Commons. Written Answer. 26 March 2004.

<sup>80</sup> National Audit Office. PFI Refinancing Update,. HC 1288,2002, p.13.

<sup>81</sup> National Audit Office. The passport delays of Summer 1999. HC 812, October 1999.



applications had reached 565,000 compared with 300,000 the year before. The NAO found that processing times began to get longer within a year of the PFI contract being signed.

The failings were so politically sensitive that in July 1998 the Home Office introduced emergency measures including free two-year extensions to existing passport-holders, 100 extra staff at passport offices, and a call centre to deal with telephone queries. The measures cost an estimated £12.6 million. Siemens failure led to the company paying penalties of £69,000 but the Passport Agency waived a further £275,000 compensation (“in the interest of good working relationships over the 10 year life of the project”<sup>82</sup>) and at the time of the NAO review the Agency was discussing with Siemens how the costs of the crisis were to be shared. The inquiry also highlighted a contractual defect in that there was no available redress for consequential loss arising from the contractor’s failure to deliver on time.

The Passport Agency PFI provides an example of the political realities of risk transfer in the context of a high profile, essential service. The fact that compensation was waived and the allocation of the costs of failure negotiable suggests that risk transfer was not after all secured by the contract, or not to the value contractually specified and in respect of which the risk premium was payment.

Our review of the NAO inquiry found:

**1. Baseline data: risk, risk premium and availability fee**

Not available.

**2. Post contract data: risk , risk premium and availability fee**

Not available.

***Case Study 8: The Immigration and nationality Directorate’s Casework Programme***<sup>83</sup>

In April 1996, the Home Office Immigration and Nationality Directorate awarded a £76.8 million PFI contract to Siemens Business Services Ltd for an IT dependent business change project. The Casework Programme project was intended to speed up refugee and asylum applications and was scheduled for delivery in October 1998. Payment to Siemens was part

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<sup>82</sup> Edwards P, Shaoul J, Stafford A, Arblaster L. Evaluating the operation of PFI in road and hospital projects. Report to Association of Chartered Certified Accountants. Draft, March 2004, p.61.

<sup>83</sup> National Audit Office. The Immigration and Nationality Directorate’s Casework Programme. HC 277, March 1999.

(70%) based on the achievement of quantified unit cost savings in the directorate’s work, the rest on the achievement of certain milestones in delivery and from fixed charges.

The scheme proved too ambitious and by mid-1999 the backlog of asylum seekers had increased in one year from 52,000 to 219,000. In September 1998, Siemens and the directorate revised the contract and the Government injected an extra £120m funding to pay for 160 extra Siemens staff and IT maintenance. Due to their timing, these events and the subsequent cancellation of the deal in February 2001 do not form part of the NAO inquiry which is limited to the steps Siemens and the directorate took when the backlog began to build up after 1998. Siemens are described by the NAO as having met the costs of delay because their main payment was delayed. However, the directorate also had to defer staff cuts linked to the scheme.

The NAO inquiry reveals a flaw in PFI contracting that effectively undermined risk transfer to the private sector. On the face of it, this was a classic PFI deal with the directorate liable to pay Siemens “only in respect of the actual delivery of certain specific functions and services and achievement of reduced unit casework costs.” But the NAO inquiry found that the baseline for measuring unit costs was not agreed in the contract but negotiated after the contract was up and running. By this stage Siemens was in a strong position to negotiate “a favourable baseline”, thereby influencing in its own interests the measure of risk transferred after the risk premium had been agreed in the contract price.

Our review of the NAO inquiry found:

**1. Baseline data: risk, risk premium and availability fee**

No data available.

**2. Post contract data: risk , risk premium and availability fee**

No data available.

**Table 4 : Summary of data available to monitor post contract changes in risk, risk premiums and availability fee.**

NAO PFI REPORT	1. Baseline data	2. Post-contract data
Libra Project: New IT systems for Magistrates' Courts:	Risk and risk premium data not available because the private company did not release their financial model to the department or the NAO. The availability fee is not availability.	Consultants were employed to compare the cost of the revised contract with an estimate of what such a contract "should cost" but their calculations excluded "interest, risk and profit" <sup>84</sup> and these data are not available. The revised availability fee is not available.
MOD: Joint Services Command and Staff College	Quantitative data provided for aggregate risk and availability fee but not for risk premiums.	No evidence of post-contract change in risk, premiums or availability fee.
NIRS2: Contract extension	Not available.	Not available. A comparison of Accenture costs with industry and outsourcing costs is shown graphically.
The re-negotiation of the PFI-type deal for the Royal Armouries Museum in Leeds	No quantitative data published on risk and risk premiums although a table itemising risk allocation is provided. There was no availability fee in this case due to an agreement that operational costs were funded out of visitor revenues.	Data is provided on the annual cash cost to Royal Armouries of taking over main responsibility for the new museum but no quantitative data is given on the value of risk transferred back to the public sector or retained by the private sector. Risk premiums are not stated and are apparently uncapped under the revised contract. Availability fee not applicable.
The cancellation of the Benefits Payment Card project	Not available.	Not available. Since this is a cancellation, termination compensation (including extra-contractual compensation) and the fee for post office automation would need to be considered
Refinancing of Fazakerley prison PFI contract	Baseline data is provided for risk, premium and availability fee.	Post contract data is provided for risk, premium and availability.
1999 passport delays	Not available.	Not available.
The Immigration and Nationality Directorate's Casework Programme	Not available.	Not available.

<sup>84</sup> National Audit Office. Libra, p.23.

## Section 4: Conclusions

### Key points

- 563 PFI deals were signed by April 2003
- Only 8 financial inquiries into operational PFIs have been undertaken
- Only 1 inquiry attempts to audit the relationship between the cost of private finance and risk transfer
- Governments justification of PFI in terms of risk transfer is not evaluated
- This failure to evaluate raises fundamental questions about accountability

### Findings

This review shows that although 563 PFI deals<sup>85</sup> had been signed by April 2003 only 8 financial inquiries into central government operational PFIs have been undertaken by the NAO. In the 8 studies identified the government's central justification for PFI in terms of risk transfer remains largely unaudited. The review also shows that with one exception (Fazakerley) routine data that would allow auditing of the relationship between risk and risk premiums are not available in the inquiries.

### Availability of routine data on risk and risk premiums

The NAO inquiries confirm other evidence of an absence of publicly available data to evaluate government policy. Risk premiums and risk are contained within the financial models of private consortiums and are not publicly available. In a significant number of cases, the public sector purchaser is unaware of the risk premiums charged. An NAO survey of all PFI deals signed before May 2002 revealed that six commissioning authorities did not know that senior debt risk premiums were changed after contract signature.<sup>86</sup> A fifth of projects surveyed could not give information about their contractors' current financing. In several of the schemes examined the commissioning authorities were either denied access to the financial model or to the PFI company's accounting information. There are also indications that financing arrangements are poorly reported. For example, PricewaterhouseCoopers was unable to include IT schemes in an OGC-commissioned inquiry into PFI rates of return because insufficient financial information was available to the commissioning authorities.<sup>87</sup> In its own report on PFI in 2003, the Treasury

<sup>85</sup> See note 3.

<sup>86</sup> National Audit Office. PFI Refinancing Update, HC 1288, 2002, p.13.

<sup>87</sup> PricewaterhouseCoopers. Study into rates of return bid on PFI projects. London: PwC, 2002.

itself acknowledged that primary data was inconsistently reported by central government departments and announced revisions to reporting practice.<sup>88</sup>

### **Implications for public accountability**

The Public Accounts Committee has twice drawn attention to the paucity of data on the relationship between risk and the cost of private finance. Our study confirms that with the exception of a partial analysis of refinancing, there has been no systematic evaluation of the relationship between risk and the cost of private finance to the taxpayer, either before or after contract revision and financial restructuring. The expectation that changes in risk transfer are accompanied by changes in the premiums paid to private financiers and adjustments to annual payments has not been tested.

Systematic examination of the rationale for and costs of PFI policy are long overdue. The current system of public administration audit and data collection, which concentrates on value for money tests before a PFI scheme becomes operational, has not been evaluated. Lord Sharman's report into government accounting identified two other principles of accountability apart from value for money. These are, confirmation that public money is being spent with propriety (that is, "in accordance with the standards expected of those dealing with public money") and for the purposes intended by parliament.<sup>89</sup> Our study shows that in most cases the NAO's 8 operational PFI inquiries fail adequately to address the second of these principles or to provide data for others to do so. This raises basic democratic questions because, as Sharman put it, "The proper and productive use of public money is an indispensable element of any modern, well-managed, and fully accountable democratic state."

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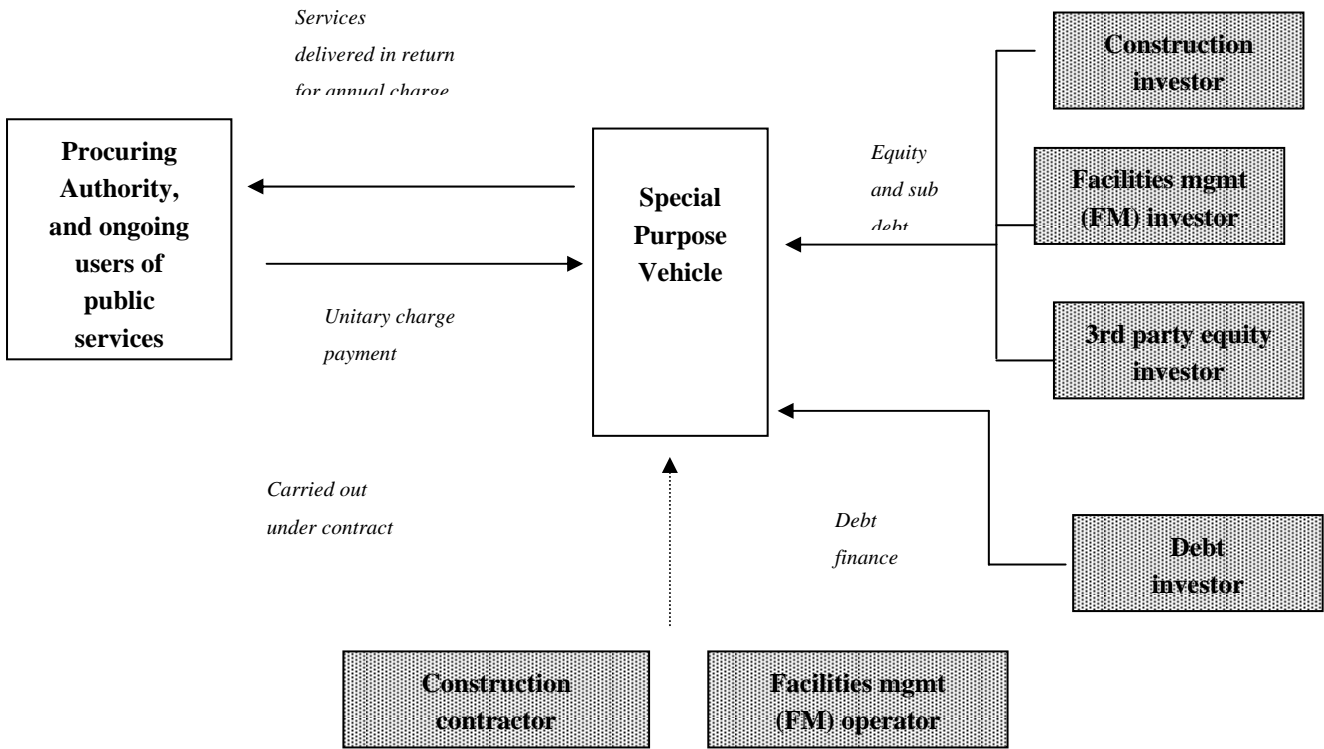
<sup>88</sup> HM Treasury. PFI: meeting the investment challenge, July 2003, appendix B.

<sup>89</sup> The Sharman Report. *Holding to Account*. London: HM Treasury, 2001, p.1.

**Diagram 1**

**The contractual structure of PFI deals**

**Diagram 1**



Source: Office of Government Commerce

## *Appendix 1: National Air Traffic Services (NATS)<sup>90</sup>*

To facilitate privately financed investment through a PPP, in July 2001 the Airline Group (AG), a consortium of 7 UK-based airlines, was sold for around £800 million a 46% share in National Air Traffic Services (NATS) Holdings, the formerly publicly owned company that held a monopoly of air traffic control services in the UK. Five per cent of shares were sold to staff, and 49% retained by the government. The PPP deal was secured between the government and AG but the £733 million acquisition cost was recorded as a NATS not an AG debt. NATS debts rose by a further £690 million, to £1.42 billion, when private finance was raised for new investment. These debt levels were unsustainable on the basis of NATS' revenues.

One of the government's main objectives for the PPP was "to provide a framework that enables NATS to secure the necessary investment for its business."<sup>91</sup> Risk transfer was the key to investment because the level of risk controlled the annual cost of debt repayment and NATS revenues were limited by the amount it could earn as a business. As a newly regulated private company a cap was placed on the extent to which it could raise its prices in response to business downturns.<sup>92</sup> The PPP was based on the principle that NATS would bear the risk of generating sufficient funds for debt repayment out of air traffic business, that is, NATS (and its shareholders) bore the demand risk. However, problems arose soon after the attack on the World Trade Centre in September 2001. Air traffic revenue dropped and NATS could not meet its financial obligations. The NAO prepared two reports on the outcome.<sup>93</sup>

The first report shows that the financial crisis was partly the result of NATS' considerable debts. NATS' debts rose from £330 million to £733 million to cover the sale proceeds it had to pay to government and further bank lending of £690 million was negotiated to fund future capital investment and working capital.<sup>94</sup> At the same time, the drop in air traffic reduced the value of its main business by 20% and instead of turning in an expected profit of £60M, NATS lost £50M. In October 2001, it announced a 20% cut in its support staff and management. It also cancelled its plans to build a new control centre at Prestwick and asked the regulator to allow it to raise its prices. Meanwhile, its bankers were becoming restive about the £1.4 billion loan they had underwritten and were demanding a change in terms.

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<sup>90</sup> National Audit Office. *Refinancing the Public Private Partnership for National Air Traffic Services*. HC 157.

With the company in serious trouble the government accepted deferred payment of £50 million of the purchase price and injected £30 million cash and a £30 million short-term loan. But this rescue package proved insufficient when AG shareholders refused to stump up the extra cash they had originally promised and a financial restructuring was negotiated between the government and AG.

In basic terms, the PPP had failed to meet its primary objective of facilitating new investment through private finance. This was an outcome, as the NAO put it, of “tensions between levels of proceeds on one hand and capital structure and financial risks borne by the business on the other.”<sup>95</sup> The revenue failure would lead to a change in the PPP contract to allow a financial restructuring that substantially reduced the risks faced by NATS, thereby securing for it cheaper finance with annual charges it could meet. At the heart of the restructuring was a refinancing involving replacement with a bond issue of £600 million of bank debt. The bond issue, a cheaper form of debt, could be introduced because NATS’ risks were reduced.

The second NAO inquiry shows how the restructuring transferred risk back to the government, to staff, and to airline companies and their passengers. Risks for which AG shareholders (via their NATS interest) had originally been liable were transferred to the public sector or to another business through government and the British Airports Authority

2004.

<sup>91</sup> National Audit Office. The Public Private Partnership for NATS Ltd. HC 1096, July 2002.

<sup>92</sup> The government set the standard regulated utility conditions under which prices are set to cover operating costs, depreciation and “a reasonable return on its investment in assets.” Bespoke performance standards and penalties were also agreed under the regulatory framework. National Audit Office. The Public Private Partnership for NATS Ltd. HC 1096, July 2002, p.32.

<sup>93</sup> National Audit Office. The Public Private Partnership for NATS Ltd. HC 1096, July 2002.

<sup>94</sup> Report 1, p.5. The increased debt arising from paying the sale price was a financial sleight of hand. AG, NATS’ parent company, had agreed to pay £800 million for a part share in NATS; now NATS itself was paying the purchase price in the form of a long-term debt liability. In effect, NATS was paying for historical investment for a second time just as it was seeking to undertake new investment: it was in fact “buying itself”. See Jean Shaoul, ‘A financial analysis of the National air Traffic Services PPP’, Public Money and Management, July 2003, pp.185-94.

<sup>95</sup> National Audit Office. The Public Private Partnership for NATS Ltd. HC 1096, July 2002, p.7.

<sup>96</sup> This was described as a “risk-sharing mechanism”. It allowed NATS to raise prices automatically to recover half of lost revenue attributable to traffic falls below the level forecast by the company in November 2001, rising to 80 per cent of lost revenue “in extreme circumstances”. (National Audit Office. Refinancing the Public Private Partnership for National Air Traffic Services. HC 157, 2004.).

<sup>97</sup> Subordination means AG shareholders have a lesser claim on NATS cash.

<sup>98</sup> National Audit Office. Refinancing the Public Private Partnership for National Air Traffic Services. HC 157, 2004, p.26.

<sup>99</sup> Jean Shaoul, ‘A financial analysis of the National air Traffic Services PPP’, Public Money and Management, July 2003..



plc providing £130 million of additional equity and loan notes. Risk was transferred from shareholders to fare payers under an arrangement whereby the Civil Aviation Authority, the industry regulator, agreed to relax the cap on charges to airlines and their passengers.<sup>96</sup> And the workforce bore risks in the form of support staff and management cuts of 20%. The general public assumed risk through the cancellation of half of the investment plan. These risk transfers improved NATS' creditworthiness, reducing the cost of its finance.

In exchange for this risk transfer AG accepted subordination<sup>97</sup> of their equity stake to the new investments by government and BAA plc, and the banks accepted a drop in their margins and fees.<sup>98</sup>

The main risks in the original NATS PPP were demand, credit and insolvency risk. There is no baseline data to show the monetary value and allocation of these risks. Indeed, no risk assessment of the original deal has ever been published. The NAO do not comment on its absence.<sup>99</sup> Neither the risk premium paid to banks or the premium projected for equity holders is published, although the NAO provides extensive data on the fees charged by advisors both to the original deal and the refinancing (£70 million in fees was paid for public sector advisors alone). However, there is no contracted risk premium or annual charge for shareholders in a profit-making business such as a PPP; shareholders simply divide among themselves the cash left over after all other financial obligations have been met. Therefore the premiums paid to private finance in the NATS deal has to be evaluated differently from a PFI and PPPs were excluded from our study of NAO inquiries.

## *Resources*

<b>Title</b>	<b>Stock No.</b>
Not so Great: <i>Voices from the front-line at the Great Western PFI Hospital</i> (Oct 2003)	2255
What is Wrong with PFI in Schools (Sep 2003)	2251
LIFT: <i>Local improvement Finance Trust</i>	2235
The PFI Experience: <i>Voices from the front line</i> (March 2003)	2187
* Foundation Hospitals and the NHS Plan (March 2003)	2162
Profiting from PFI (February 2003)	2158
Stitched Up: how the Big Four Accountancy Firms have PFI Under their thumbs (January 2003)	2147
PFI: Failing our future: A UNISON Audit of the Private Finance Initiative (September 2002)	2108
* A web of Private Interest: <i>how the Big Five accountancy firms Influence and profit from privatisation policy</i> (June 2002)	2092
*What's Good about the NHS: <i>and why it matters who provides the service</i> (April 2002)	2053
* Debts, Deficits and Service Reductions: <i>Wakefield Health Authority's legacy to primary care trusts</i> (April 2002)	2034
* Understanding the Private Finance Initiative: <i>the school Governor's essential guide to PFI</i> (January 2002)	1967
Challenging The Private Finance Initiative <i>Guidelines for UNISON Branches and Stewards</i> (May 2000)	1763
Contracting culture: from CCT to PPPs: <i>The private Provision of public services and its impact on employment Relations.</i> by Sanjiv Sachdev, Kingston University (November 2001)	1964
* Public Service, Private Finance: <i>Accountability, affordability and the two-tier workforce.</i> PFI in Local Government (March 2001)	1858
*The Only Game in Town? <i>A Report on the Cumberland Infirmary Carlisle PFI Scheme</i>	1704
*Downsizing for the 21 <sup>st</sup> Century (2 <sup>nd</sup> Edition) <i>A Report on the North Durham Acute Hospitals PFI Scheme</i>	1604

## Articles written by the School of Public Policy

Dunnigan MG, Pollock AM, Downsizing of acute patient inbeds associated with private finance initiative, Scotland's case study BMJ 2003; 326:905-8

Pollock AM, Shaoul J, Vickers N, PFI in hospitals: a policy in search of a rationale? BMJ 2002; 324; 1205-9

\* reports written by Allyson Pollock and colleagues

## Websites

UNISON has a special page on its website devoted to PFI [www.unison.org.uk/pfi](http://www.unison.org.uk/pfi)

as part of UNISON's Positively Public campaign [www.unison.org.uk/positivelypublic](http://www.unison.org.uk/positivelypublic)

School of Public Policy Website: [http://www.ucl.ac.uk/spp/about/health\\_policy/index.php](http://www.ucl.ac.uk/spp/about/health_policy/index.php)