Key skills communication
Level 4 – Private Finance Initiative

Monday 14 - Wednesday 16 November 2005

Source Booklet

- This booklet contains source material for the level 4 communication test, June 2004
- The test questions will be based on this material
- You must hand in this source booklet at the end of the test, along with your question paper and answer booklet

---

The level 4 communication test will assess your ability to:

- evaluate and synthesise information from different sources
- communicate relevant information with accuracy, effectively using a form, structure and style that suits your purpose
- organise and clearly present relevant information, illustrating what you say in ways that suit your purpose, subject and audience
- vary your use of vocabulary and grammatical expression to convey particular effects, enable fine distinctions to be made, achieve emphasis and engage the audience

First published in 2005.

Printed in Great Britain.
The Qualifications and Curriculum Authority is an exempt charity under Schedule 2 of the Charities Act 1993.
Qualifications and Curriculum Authority, 83 Piccadilly, London W1J 8QA. www.qca.org.uk
Ref: ComSB/L4/3.2/P34/URN:435

The UNISON response to PFI

UNISON is Britain's biggest trade union with over 1.3 million members. Its members work in the public services, for private contractors providing public services and the essential utilities.

What are PPP and PFI?
Public Private Partnerships (PPP) is the umbrella name given to a range of initiatives which involve the private sector in the operation of public services. The Private Finance Initiative (PFI) is the most frequently used initiative. The key difference between PFI and conventional ways of providing public services is that the public does not own the asset. The authority makes an annual payment to the private company who provides the building and associated services, rather like a mortgage.

Positively Public
'Positively Public' is UNISON's campaign to keep our public services public. Years of privatisation and underfunding have left many areas of public provision in a poor state. We welcome better funding of these vital services, but we don't believe that more privatisation is the answer.

All our evidence and experience shows that once services are run for private profit, the quality of care is reduced and the public service ethos is replaced by a hard-nosed profit motive. It is about who makes the decisions about caring for your elderly relatives or your children's education or housing the homeless – someone with their heart in the right place, or someone with an eye on the balance sheet.

We all need high quality, responsive, modern public services. Let's work together to create them – that's what Positively Public means.

PFI–PPP
There is a growing use of Public Private Partnerships (including PFI) to allow private companies to raise money for major public service projects. However, it costs more for private companies to raise money than it would for the government or local government. The only way private companies will make their money back is to cut either services or staffing costs. That means public service workers and users pay the real costs.

The case against PFI
UNISON believes there are a number of reasons for opposing PFI:

Reason 1: The public service ethos
Public services are not like other commodities. They exist to support the social, economic and environmental well-being of communities and where a community decides that the market alone cannot provide a particular activity. The state then assumes some degree of responsibility for the service, by funding the service or by regulating its quality and delivery. In a post-election Mori poll for UNISON, over 80% of people rejected the use of private companies to run public services.

Reason 2: PFI is driven by public finances, not public services
The current government's desire to keep borrowing off the public sector balance sheet remains the main driver for PFI. Public authorities know that PFI is the only way to obtain finance, which partly explains the unspent millions in the public coffers. The Government can afford to pay for the entire PFI programme from its reserves.

Reason 3: PFI costs more

PFI schemes cost much more than conventionally funded projects. The private sector borrows at higher rates than the public sector since governments can borrow at much lower rates. Audit Scotland have calculated these costs as adding £0.2 – £0.3 million each year for every £10 million invested. They have high set-up costs, due to lengthy negotiations involving expensive city lawyers and consultants employed by both sides. The first 15 NHS trust hospitals spent £45 million on advisers, an average of 4% of the capital value. The private sector demands high returns and despite very low risks, profits from PFI are extremely high.

There is a growing body of evidence that PFI projects escalate both in scale and cost. These are not simple cases of costs going up for a project but reflect the very nature of PFI itself. The higher costs inevitably lead to an affordability gap for the procuring authority that is often met by reductions in services and capacity, subsidies from other parts of public authority budgets and pressures on labour costs. A recent article in the British Medical Journal found that there were 20% cuts in staffing levels in PFI hospitals.

Reason 4: PFI profits from people

UNISON has conducted research into the impact of contracting-out in local government on the terms and conditions of the workforce. UNISON's survey found evidence of a two-tier workforce, something commented on by both the Treasury and Health committees of the House of Commons.

- Over 90% of those contacted said pay levels for new employees were worse than for transferred staff.
- 1 in 5 contracts showed a difference in the standard working week.
- Pensions are a high value item for employees and a high cost item for contractors and public authorities.
- Guidance from government means that successful contractors are obliged to offer a comparable pension scheme to transferred employees. Our research could not find a single comparable scheme open to new employees. There was either no scheme or else it was inferior and often the contractor made no contribution whatever.
- There is inevitably a gender impact with women increasingly bearing the brunt of these new privatisations. PFI contracts are at least 25 years long. As the first tier gradually disappears and only those staff on private sector terms and conditions are left, there will be a whole class of women workers providing public services who will have no occupational pensions and who will be working on inferior terms and conditions.

Reason 5: PFI goes wrong

There have been many claims that the private sector is more efficient than the public sector but there is no evidence offered to support this. Now that PFI schemes are coming on stream there is growing evidence that they are not producing the anticipated improvements in delivery to time or cost, nor are they meeting the quality standards expected. After all, many of the same companies that were involved in pre-PFI cost and time overruns are also building PFI schemes.

Reason 6: PFI does not give 'value for money'

For many PFI projects, it is only the transferred risks that make the project value for money. Research for UNISON by Professor Allyson Pollock, looking at schools and hospitals, shows that the calculations of risk are arbitrary and unreliable. The National Audit Office has called the value for money calculation "pseudo-scientific mumbo jumbo where the financial modelling takes over from thinking".

Reason 7: Private companies make unacceptable profits

As well as the huge returns made by private companies, they are refinancing their deals and yielding huge profits at the expense of the public sector. At Fazakerley Prison the National Audit Office reported that the rate of return for the initial shareholders has tripled from 12.8% at the start to 39%.

There is a growing use of the Private Finance Initiative or Public Private Partnerships to allow private companies to raise money for major public service projects, but it costs more for private companies to raise money than it would for the government or local government. The only way private companies will make their money is to cut either services or staffing costs. That means public service workers and users pay the real costs.

Source: Extract from www.unison.org.uk, 2003

Document 2

summary

"BUILDING BETTER PARTNERSHIPS"

A report from The Commission on Public Private Partnerships, a group of leading public and private sector managers, academics and trade unionists set up by the Institute for Public Policy Research, a UK independent think tank (June 2001).

This report argues that getting public private partnerships (PPPs) right is vital if the quality of the UK's public services is to meet the expectations of the British public over the next decade. Delivering this will require significant changes in the direction of policy as many PPPs have performed poorly over recent years.

Being open-minded about the contribution that partnerships could make to public services means challenging two intransigent perspectives on public–private relations. On the one hand we totally reject the privatisers' vision of public services: their aim is always and everywhere to increase the role of the private sector in the provision and funding of public services. Their desired outcome is smaller government and residualised public services. On the other, we distance ourselves from a public monopoly perspective which holds that as a matter of principle public services should always and everywhere be provided by the public sector.

Both approaches view PPPs as a form of privatisation by stealth. We take a different view. For too long there has been a lack of diversity in the way in which public services are provided and projects are procured. This has resulted in public services missing out on the skills, creativity, and areas of expertise that reside in a wide range of private and voluntary organisations. This means less choice for public authorities, less innovation than may otherwise be the case, and less scope for learning within public service organisations.

There are several rationales for considering the use of this type of arrangement:

- improving service quality through greater diversity and contestability
- focusing on outcomes
- getting more from public assets over their life cycle
- accessing private sector management skills and expertise
- engaging citizens and civic groups in the governance and monitoring.

Making a success of partnerships is difficult. We argue that if PPPs are to make a significant improvement to the quality of public services a number of conditions need to be in place:

- adequate funding for public services
- a consistent rationale for using PPPs
- a strong public sector partner
- responsible private and third-sector providers willing to embrace high standards of transparency and accountability
- legitimacy among the general public and the public services workforce. If partnerships are to endure, citizens and employees need to feel they have a stake in them
- an evidence-based approach to policy. A commitment is necessary to pilot, monitor and systematically evaluate a spectrum of partnership arrangements. Depending on the evidence that emerges PPPs could be rolled out or rolled back.

In the right circumstances PPPs can offer significant value-for-money gains and generate improvements in service quality. At the moment the evidence on value-for-money is variable across sectors. PFI seems to be offering significant gains in roads and prisons but not in hospitals and schools.

Source: www.ippr.org.uk, June 2001

‘Dramatic improvements’ in PFI performance

Staff and agencies
Wednesday February 5, 2003
The Guardian

The controversial private finance initiative was given a qualified boost today when a National Audit Office (NAO) survey showed that hospitals, schools and prisons built under the scheme had fewer delays and cost overruns than conventionally built projects. But critics were quick to point out that the findings fall far short of proving that PFI is preferable or offers value for money – which is the NAO’s ultimate test.

“Greater certainty is not the same as better value for money. In our many examinations of PFI deals we continue to find mixed results,” said Tory MP Edward Leigh, the chairman of the Public Accounts Committee.

In a report released last month, the NAO said that many schools built under PFI had poor quality light, space, heating and acoustics – and were neither cheaper nor faster to build.

In today’s report, the spending watchdog looked at 37 central government building projects in England under PFI and found that only 22% exceeded the expected costs, compared with 73% before the introduction of PFI.

Delays were also down sharply, with only 24% finished late under PFI, and just 8% which were more than two months late – as against 70% which were late before PFI.

The auditor general, Sir John Bourn, said that the findings represented a “dramatic improvement” in performance.

“The theory is that PFI should incentivise the private sector to deliver good quality buildings on time and to the price agreed with the public sector. The results of our census show that this is being achieved in central government,” he said.

Sir John acknowledged that it was impossible for the NAO to say whether the improved results could have been achieved using traditional procurement methods and he urged Whitehall departments to conduct their own assessments.

Source: *The Guardian*, 5 February 2003

PFI: the issue explained

Matt Weaver

The Private Finance Initiative (PFI) is one of the most controversial domestic issues of Labour's second term.

It has exposed deep divisions between ministers and Labour activists; it prompted a rare and embarrassing defeat for the party's leadership at the Labour Party conference in 2002; and threatens to finally sever the traditional ties between the party and some of its trade union paymasters. There are also signs that while the public may be enjoying the new schools, hospitals and roads provided under PFI, the method itself is increasingly unpopular.

In the last election a government minister in the safe Labour seat of Wyre Forest was defeated by Dr Richard Taylor, an independent candidate who stood as a protest against a new PFI hospital.

A Guardian/ICM poll in the autumn of 2002 showed that almost two thirds of voters supported a moratorium on any new PFI projects – although the government has refused to grant one.

Its notoriety is such that Labour ministers prefer to refer to the PFI using the more generic and less politically charged term "public-private partnership", or PPP.

The term PPP describes any private sector involvement in public services, including the transfer of council homes to housing associations using private loans and contracting out services, like rubbish collection or hospital cleaning, to private companies.

Public service trade unions oppose PPPs, and especially the PFI, because they see them as creeping privatisation of public services.

The government has said it does not favour privatisation but it does favour efficient services, however they are run (it could be public, private or voluntary). But ministers are keen to introduce what they see as innovative, entrepreneurial business values into public services.

The PFI, the most well-known form of PPP, refers to a strictly defined legal contract for involving private companies in the provision of public services, particularly public buildings.

It was introduced under the Tories in 1992 but did not take off until Labour took office. According to the NHS plan, more than 100 new hospitals will be provided using the PFI by 2010. In 2001–02 the PFI accounted for 9% of public investment.

The attraction of PFI for the government is that it avoids making expensive one-off payments to build large-scale projects that would involve unpopular tax rises.

Since the risk of PFI projects is technically transferred to the private consortium, it does not show up in the government's accounts as increased public borrowing. However, critics claim that, as with any form of hire purchase, buying a product over a long period of time is more expensive than buying it with cash up front. They point out that governments can borrow cash at a cheaper rate than the private sector.

There is also a question mark over how much risk is genuinely transferred to the private sector, given the government's record of bailing out private companies managing troubled public services.

Growing concern has recently been expressed amongst experts about the cost of PFI. Public sector accountants claim that hospitals and schools would be cheaper to build using traditional funding methods.

Source: *The Guardian*, 15 January 2003