

Petitioner submission of 30 March 2023

PE2004/B: Abolish the use of Public Private Partnerships in Scotland

Thank you to the Scottish Government for the response to our petition. We have the following comments to the response:

- The Government response states that: “A key feature of NPD projects was profit-capping and the model also transferred risk but without the excessive private sector profits associated with previous PFI projects.”

Jubilee Scotland’s comment: Audit Scotland’s 2020 report ‘Privately financed infrastructure investment: The Non-Profit Distributing (NPD) and hub models’ concludes that this profit-capping may have been ineffective, and uncertainty exists since the Government is not closely monitoring private sector activity on this: *“The structure of NPD removes the ability of the companies involved to obtain dividends. Nevertheless, companies can generate returns by selling their rights to future contract payments. The Scottish Government does not monitor the extent to which this is happening, making it more difficult to know how effective its policy of profit capping has been in limiting overall private sector returns.”*

Furthermore research has revealed that profit is hidden away in tax havens by Hub and PPP project companies (see [briefing paper](#) by Scottish think tank Common Weal). That companies based in tax secrecy jurisdictions can be involved with managing public infrastructure is unacceptable, and yet another problematic feature of PPPs.

- The Government response states that: “Audit Scotland reported in 2020, that NPD had supported £3.3 billion of additional investment in Scotland’s infrastructure”

Jubilee Scotland’s comment: The same Audit Scotland report also points out that (1) Private finance costs more than traditional forms of financing, affecting future budgets for many years; (2) it is not clear enough how decisions have been taken about which projects will use private finance, or (3) how well this is achieving the best balance of cost and benefits in practice.

Audit Scotland's 2020 report furthermore points out that *"by focusing on affordability, it is not clear how public sector organisations have assessed the value for money of using private finance, or whether the implications of entering into these contracts have been fully considered."*

The Government should also note that an article in The Herald on the 26th of February revealed that Public Private Partnerships will lead to Scotland paying £8.5bn for £2.9bn of infrastructure projects.

- The Government response states that: "The MIM model will help secure investment and the best value for the taxpayer by sharing profits between the public and private sector"

Jubilee Scotland's comment: Audit Scotland's 2020 report 'Privately financed infrastructure investment: The Non-Profit Distributing (NPD) and hub models' makes several important points about the MIM model and how challenging it will be for this model to deliver good value for the Scottish taxpayer: (1) *"MIM is designed to maintain additionality, but exposes the public sector to a greater risk of project losses than NPD"*; (2) *"The financing costs associated with MIM are likely to be more expensive than alternative options for capital investment, such as capital grants, borrowing and some forms of innovative financing"*; (3) *"The MIM scheme reintroduces some features of the PFI scheme that were removed under NPD. This is required to achieve a private sector classification and additionality. The public sector will be unable to veto decisions made by the SPV, including those around refinancing. It will not provide the public sector with as much control over the level of profit that the private sector can make as the NPD model does. Instead, through the shared equity structure, the public sector will share any profits generated and, equally, any losses suffered"*; and (4) *"The Scottish Government needs to learn from the use of NPD and hub programmes when introducing these new financing and funding models. It should also further develop its public reporting on the use of public finance. Better information would enhance transparency and scrutiny of how value for money is considered as part of decision making, the costs and benefits of using private finance, and the management of risks and outcomes delivered."*

It is essential that the Government acts on the recommendations from Audit Scotland, and learns from past mistakes.

The Government response states that: “If additional capital borrowing powers become available, we will examine all options to ensure the lowest-cost financing route is utilised.”

Jubilee Scotland’s comment: Additional capital borrowing powers will not become available unless pursued. We urge the Scottish Government to actively seek to expand capital borrowing powers. We also urge the Scottish Government to examine what alternatives to private finance are currently available and would recommend that the Government engages in a meaningful way with the [proposal](#) for an alternative to Public Private Partnerships put forward by the Scotland Against PPPs task force (headed by Jubilee Scotland).

Concluding comments

Jubilee Scotland has found that there is a remarkable degree of cross-party support for finding an alternative to PPPs in Scotland. There is also an appetite amongst trade unions, civil society and the public to address the problems around PPPs.

In December 2022, a poll showed significant support among the Scottish population for the PPP issue to be addressed (full set of polling data available on request):

- 62% of Scots believe that public buildings such as schools and hospitals should be fully publicly owned.
- 67% think that it is important to address that the Government uses a scheme where private companies can make large profits from designing, building and managing public infrastructure.

The poll also showed that there is a lack of trust in the private sector among respondents:

- Only 13% trust the private sector more than the public sector to provide good services to users.
- Only 16% trust the private sector more than the public sector to provide good value for money.
- Only 15% trust the private sector more than the public sector to offer fair working conditions and salaries to maintenance staff and cleaners.

- Only 15% trust the private sector more than the public sector to offer accountability and transparency.
- Only 12% believe that private companies should be responsible for financing infrastructure if that means higher overall costs.

The Government should take the public opinion into account. It is time for a new approach, and a break with the mistakes of the past. The Government needs to rethink the way infrastructure is managed and financed in Scotland.

Jubilee Scotland suggests that the issue of Public Private Partnerships could be meaningfully addressed in the Local Government, Housing and Planning Committee or the Public Audit Committee, with the involvement of a broad range of stakeholders on the issue including civil society and trade unions.