

UNISON

‘Who Owns UK Public Services Plc?’

Capital Matters Conference 2009



Purpose of the research

- Privatisation is a very controversial issue in the UK especially for UNISON – PFI (Private Finance Initiative) in particular
- Part of the union's capital stewardship programme
- To understand what has happened to the ownership of some of the UK's public services and utilities, in particular where we organise
- To develop a database to assist the union to deal with privatisation from the investment side of the equation
- To create links and relationships with internal and external investors
- To develop investment policies for our members funds when investing in public sector markets

What is the research and outputs?

- Research is jointly carried out with the Public Services International Research Unit – University of Greenwich, London
- Data collected from Local Government Pension Funds, Higher Education Funds and others – seeking support from sister union organisations
- The database will aim to cover investments in: privatised utilities: water, electricity, gas, PFI projects, companies in strategic service-delivery partnerships with local government, the NHS, Education Services.
- Major contractors involved in outsourced services such as cleaning, catering, security.
- A database will be designed specifically for the project, and contain all the data gathered in the course of the project. It will be available in any format specified for Unison to use.
- Written reports on all the above sectors

What have we done so far?

- Study covers 98 Local Government Pension Funds
- On LGPF investments in companies employing Unison members - As result of contracting-out, PFI or privatisation
- Matched Contractors with the Unison database on contractors: companies with largest number of contracts
- Private Finance Initiative
 - Government data on owners of PFI schemes: companies with largest number of stakes. Banks, construction companies
- Water and energy
 - Current owners of privatised water and electricity and gas companies

What have we found?

Scale of LGPS Investments

Estimated holding of all LGPS funds 1/5th of total scheme assets in privatisation

Four banks	£2500-£3000 million
Service providers	£1500-£2000 million
Total	£4000-£5000 million

Share holdings of LGPS in comparison to LSE

Companies	Share value as % of LSE stock market total value (March 2009)	LGPF holdings as % of total LGPF holdings in UK equities (March 2009)
Banks	4.7%	7.1%
Others	2.4%	3.0%
TOTAL	7.1%	10.1%

Most frequently held shares (out of 98 LGPFs)

Company	Number of funds
HSBC	61
Barclays	55
HBOS	54
RBS	35
Balfour Beatty	42
Compass	40
Capita Group	38
National Grid	38
AMEC	30
Veolia	30
Serco	30
Suez	26
Land Securities	25
Rentokil	25
Bouygues	24
Carillion	24

What about North American Investment?

Investor	Number of companies (11)	Country
BLACKROCK	11	US
CAPITAL GROUP COMPANIES	11	US
JP MORGAN CHASE	11	US
NORTHERN TRUST CORPORATION	11	US
STATE STREET	11	US
VANGUARD GROUP, INC.	10	US
FMR CORP. VIA ITS FUNDS	9	US
GOLDMAN SACHS	9	US
VANGUARD GROUP	9	US
INVESCO, LTD	8	US
GRANTHAM, MAYO, VAN OTTERLOO	8	US
MORGAN STANLEY	8	US
TEACHERS INSURANCE & ANNUITY ASSOCIATION	8	US
AMERIPRISE FINANCIAL	7	US
BANK OF NEW YORK MELLON CORPORATION	7	US
EATON VANCE CORP	7	US
FRANKLIN RESOURCES	7	US
CANADA PENSION PLAN	5	US
POWER FINANCIAL	5	CA
TORONTO DOMINION BANK	5	CA
ONTARIO TEACHERS' PENSION	4	CA
STATE OF TEXAS	2	US

USA pension fund holdings in major contractors and PFI investors

Company	Role	Fund	%
Amec	PFI	CALPERS	0.10
Amec	PFI	State Of Washington	0.14
Balfour Beatty	PFI	State of Texas	0.16
Barclays	PFI	CALPERS	0.14
Capita	Contractor	CALPERS	0.15
Capita	Contractor	State Of Washington	0.19
Compass	Contractor	State of Texas	0.24
Ferrovial	PFI	Texas Teacher Retirement Fund	0.20
Iberdrola	Electricity	State of New jersey	0.19
Land Securities	PFI	CALPERS	0.38
Land Securities	PFI	State of Texas	0.16
Mouchel Group	Contractor	CALPERS	0.11
National Grid	Electricity	State of New jersey	0.16
Rentokil Initial	Contract	State of Texas	0.31

UK Problems with PFI/PPP

- Slowdown of the Private Finance Initiative (PFI) down
- Closure of bond market; reliance on banking market
- No capital for PFI deals
- Significant issues with high transaction costs
- Poor value for money and risk transfer back on public sector – projects completed without use
- UK public service programmes which currently rely on PFI/PPPs may suffer

UK Government Response

- Government commitment of additional £2b of public money for PFIs - to be found from other departmental savings
- The Treasury inquiry into the future of PFIs
- National audit office: value for money test used to justify PFI projects is "pseudo-scientific mumbo jumbo"

Devolved government

- Scottish executive abandons PFI – but no alternative worked up yet - “one of the worst excesses of the age of financial irresponsibility”. The cost of servicing existing PFI/public private partnership (PPP) in Scotland will soar to £867m per annum in 2011-12, up from £501m in 2007-8. John Swinney Finance Minister, April 2009
- “The Scottish Government, the Welsh Assembly Government and the Northern Ireland Government are committed to ensuring that the NHS remains a public service of which our citizens can be justifiably proud.”

Workforce and trade union issues

- PFI/PPP/Privatisation results in lower labour costs for the contractors – pensions reduced – employment declines
- Trade union membership declines
- High litigation costs for breaches of consultation and other employment laws
- PFI without the people in the NHS
- Government reform on contract compliance, includes pay and conditions must be no worse than transferring staff – monitoring and enforcement is weak
- Equality duties – no pay discrimination allowed – but monitoring and enforcement is weak
- Responsible contractor policies for adoption by investors next stage

Conclusions

- PFI and other infrastructure models relied on cheap credit expansion
- Political support of Labour government for 'free market' and efficiency of private sector – was the 'only game in town'
- Crisis in banking sector has slowed the programme almost to a halt - reliance on European Bank and additional public sector support props up projects
- Labour government announces new economic policy of market intervention - does this include public sector?
- Room for change away from PFI curtailed by massive expansion in public debt to rescue the banking sector and cope with recession
- Are there models for public sector infrastructure that can offer protection for employees and value for money for tax payers?
- Could quantitative easing be the way forward?