Scottish Government submission of 23 February 2023

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

In 2007, the Scottish Government moved away from the Private Finance Initiative (PFI) funding model and made clear that this approach used in the past had not delivered best value for the taxpayer and was no longer a feasible option for revenue-based finance. Instead, the Non-Profit Distributing (NPD) investment programme was announced in 2010 in response to the reduction in traditional capital budgets and to maximise funding for infrastructure and provide support for the wider capital programme.

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. NPD projects attracted strong competition and achieved favourable financing rates and any future operational surpluses will be reinvested back into the public sector. NPD contracts provide greater transparency and are more flexible than PFI contracts and the associated payments are much less sensitive to inflation than PFI as most of the contracted payments are not indexed linked. The NPD programme allowed us to deliver much-needed new infrastructure such as schools, new NHS facilities, new colleges and other key infrastructure that would otherwise not have been possible. Audit Scotland reported in 2020, that NPD had supported £3.3 billion of additional investment in Scotland's infrastructure.

In 2019, the Scottish Government signalled a new approach to revenue finance due to the implication of classification changes to NPD projects and the NPD model has not been used since then. As part of the Scottish Government's National Infrastructure Mission commitment, a new approach to revenue finance was announced. This approach included the Mutual Investment Model (MIM) which will be used alongside financial innovations (e.g. Growth Accelerators) and capital borrowing to continue to support investment in infrastructure. The MIM model will help secure investment and the best value for the taxpayer by sharing profits between the public and private sector and will be reserved for central government and Non-Departmental Public Bodies where access to borrowing is more restricted.

The Scottish Government acknowledges the use of private finance is more expensive than conventional public borrowing but the Scottish Government's current borrowing powers are limited and insufficient to deliver the ambitions of our National Infrastructure Mission. If additional capital borrowing powers become available, we will examine all options to ensure the lowest-cost financing route is utilised.

The Scottish Government shares concerns around the flexibility and value for money offered by historic PFI contracts which are often complex and need active management by the public sector. The termination of a PFI contract is, however, a matter for the public sector body that awarded it. As a government, we are committed to ensuring that PFI contractual obligations are delivered and that contracts are affordable. That is why we have asked the Scottish Futures Trust to work with public bodies to realise PFI contract management improvements including re-scoping services, sharing in insurance cost savings, and optimising the risk transfer in contracts.