UK company collapse and damning official report expose true cost of privatisation

(18 January 2018) The collapse of the outsourcing company Carillion earlier this week and the publication on 16 January of an official report on public-private partnerships have exposed the risks and inefficiencies of privatisation.

With 20000 employees in the UK, Carillion had become one of the biggest providers of services to the public sector and a major player in many public-private partnerships (PPPs). Following three profit warnings last year and despite the government awarding it new contracts after these profit warnings, the company was unable to manage its mountain of debt. Following unsuccessful negotiations with its main bankers, the company was declared insolvent.

The government and various public sector organisations, such as National Health Service Trusts, with contracts with Carillion said that they would ensure that services would be guaranteed and Carillion employees paid. EPSU general secretary Jan Willem Goudriaan commented: *"This gives the lie to the idea that the private sector takes on the risk when ultimately it is the public sector that has to step in to maintain services and workers' rights when the private sector fails*."

Shortly following the Carillion scandal, the whole basis of the PPP system was starkly exposed in a report by the National Audit Office (NAO), the government-appointed public spending watchdog. The report raises serious questions about the financial benefit of PPPs, indicating that many projects are more expensive – in some cases up to 40% more – than directly publicly-financed projects.

The NAO says, in fact, that there has been effectively no measurement of value for money of PPPs and that "there is still a lack of data available on the benefits of private finance procurement."

This is an issue that both EPSU and its global sister organisation PSI have been raising for years. An EPSU briefing published in 2014 highlights the high cost of PPPs and other factors calling into question their use to deliver public services. A PSI report from 2015 goes into more detail with evidence from the past 30 years exposing how PPPs have failed to live up to their promise. In most cases, they are an expensive and inefficient way of financing infrastructure and services,

Jan Willem Goudriaan said: “*Although particularly favoured by UK governments over the past 25 years, PPPs have been spreading across Europe. The question of their real costs has to be addressed by the European institutions, not least because one of Carillion's major projects is the Midland Metropolitan Hospital in Birmingham. This is one of a number of PPP projects that have received support from the European Fund for Strategic Investments (EFSI) – the so-called Juncker plan.*”

He added: “*We need transparency on this question. With public investment in decline in recent years across Europe but with interest rates at historic lows, what is the justification for PPPs and, above all, why are such projects getting the backing of the EFSI?*”

EPSU has raised similar concerns with Commissioner Mimica responsible for International Cooperation and Development who seeks to promote such finance schemes in the EU’s development strategy. EPSU further supports a major international campaign.

- The view of our Canadian colleagues of CUPE
- For this article in Russian
- For a report on the collapse of Carillion, the links with PFI and outsourcing an article in the UK magazine Red Pepper