



NEWSLETTER 80

1 MARCH 2009

Scotland for information only

LOCAL GOVERNMENT PENSION SCHEME – INVESTMENTS IN PFI/PPP

The union has become very concerned that the Local Government Pension Scheme (LGPS) has been approached by Partnership for Schools (PfS) to provide financing for its Building Schools for the Future PFI programme.

An unknown number of local authority pension funds have been approached as possible sources of capital to rebuild and renovate school buildings, Partnership for Schools (PfS) has confirmed. Owing to the financial crisis, many local authorities and schools have been unable to obtain funding or to complete Private Finance Initiative (PFI) deals for the government-backed school renewal programme. This is forcing PfS to seek alternative sources of capital.

A PfS spokeswoman has said: "We're in very early discussions. We're just starting to make approaches, and we're not involved in in-depth discussions as of yet, but all it's part of a very proactive strategy by PfS to ensure that the delivery of schools is not affected by the current economic climate."

PfS said it had already closed three deals so far this year, including a £50m PFI deal in the Tameside area, but would explore other options to secure funding for the programme. The projects are supposed to draw on finance from banks in a consortium with a construction company and service delivery company.

However, the economic crisis is causing banks and finance companies to withdraw from the programmes. In fact, press reports have suggested that the Government's entire programme of new PFI projects, which requires funding of some £9.4billion, is under threat. It is likely that LGPS advisors could be suggesting funding these as well.

The funding and risk arrangements for these PFI investments are at present very unclear. But UNISON is concerned about the nature of the financing arrangements, and the potential risk that may be placed on UNISON members' pension schemes.

Given that companies across the whole economy are finding it almost impossible to obtain capital funding from the banks, coupled with the fact that most large companies have their own debt problems, it is possible that many PFI projects could fail, placing the LGPS investments in PFI at risk.

The LGPS schemes are under the control of local authorities, which means there are potential conflicts of interest between the needs of authorities for finance for schools, and the proper investment of pension assets. Councillors are likely to come under considerable pressure to close PFI deals within their authorities and that pressure could be placed ahead of the interests of scheme members.

What is the national union doing?

We have taken urgent steps to find out as much as possible about approaches by PFS to local authorities and the implications of LGPS investments in PFI projects. We have also:

- Asked questions to the Public Accounts Committee
- Sent a request for an urgent meeting to Hazel Blears, Secretary of State, Department for Communities and Local Government
- Prepared questions to be laid in Parliament about LGPS investments in PFI
- Commissioned research into LGPS investments in PFI/PPP and other aspects of privatisation last autumn. The first analysis will be presented at the national LGPS seminar on 26 March. This research will continue through out 2009

What can branches do?

- We have attached a letter to this Campaign News. Please send it to the Leader of your council and your LGPS administration authority. (Contact your branch if you are not sure where to send it.)
- Circulate this Campaign News – and the letter – to Pension Contacts and stewards in your branch
- Get members to write too!

Please send replies back to c.meech@unison.co.uk or

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LGPS Investments in PFI – QA

Why might my LGPS fund be investing in PFI?

The Government stopped funding public infrastructure projects, such as hospitals and schools, by issuing Government bonds and replaced direct funding with PFI and PPPs – this meant that pension schemes could not buy the bonds that were used to raise government finance – pension schemes, including the LGPS, have had to buy into PFI as an ‘alternative’ investment product.

Can my LGPS scheme buy into PFI?

Under the current rules of the LGPS, the councillors make all of the decisions. There is nothing to stop them making the investments in PFI. But they should be placed under pressure by branches to make their decisions transparent.

What can the union do about this?

Under European legislation, the LGPS should invest in the best interests of scheme members and if there is a conflict of interest, the sole interest of scheme members. The national union will be meeting the Secretary of State to press home the requirement for the LGPS to be bought into line.