The Treasury conceived PFI to deliver risk transfer, value for money, innovation, design quality and efficiency. Does PFI provide these apparent benefits?
This study was completed as part of the BA (Hons) Business in Property programme at the University of the West of England. The work is my own. Where
the work of others is used or drawn on, it is attributed to the relevant source. This
dissertation is protected by copyright. Do not copy any part of it for any purpose
other than personal academic study without the permission of the author.

Timothy Cook                                               Date:

.............................  24/03/2010
Acknowledgements

Thank you to Mutale Katyoka, for his motivation and support.

Thank you also to my Mother/Father/Helen and Uncle David who have listened to my ideas and offered me supreme advice throughout.

I would also like to take this opportunity to thank the organisations and authors whose academic literature I have used.
**Contents**

1.0 Abstract  ...5

2.0 Introduction  ...6

3.0 Literature Review  ...9

4.0 Research Methodology  ...25

5.0 Discussion of Findings  ...27

6.0 Conclusions  ...30

7.0 Personal Reflection  ...33

8.0 References  ...34

9.0 Ethical Review Checklist  ...37
1.0 Abstract

The Treasury conceived PFI to deliver risk transfer, value for money, innovation, design quality and efficiency. Does PFI provide these apparent benefits?

Timothy Cook
BSc (Hons) Business in Property
University of the West of England 2010

The Private Finance Initiative is a policy created about two decades ago and developed scrupulously, ever since. It was originally brought about as there was a general consensus that tax payer’s money was not efficiently used when government was procuring buildings to provide public services. Thus PFI was conceived to enhance public service delivery through private finance and as an enhancement, providing greater VFM through the transfer of risk to the private sector.

This study looks at each PFI apparent benefit and analyses whether they provide what the UK Government promised they would. PFI plays a considerable role in the provision of public service delivery. PFI has been a very controversial policy and has been audited and reviewed many times. The Treasury has been under immense pressure to develop PFI so the policy can provide VFM. A review of the relevant literature is undertaken, with reference to PFI projects specifically.

PFI does not appear to deliver any of these benefits at present. This can contributed towards the European Procurement directive which brought about barriers to the bidding stage and thus made the PFI market uncompetitive.
2.0 Introduction

2.1 Acronym’s

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>PFI</td>
<td>Private Finance Initiative</td>
</tr>
<tr>
<td>PPP</td>
<td>Public Private Partnership</td>
</tr>
<tr>
<td>PSC</td>
<td>Public Sector Comparator</td>
</tr>
<tr>
<td>NPV</td>
<td>Net Present Value</td>
</tr>
<tr>
<td>FBP</td>
<td>Fallback Position</td>
</tr>
<tr>
<td>FM</td>
<td>Facilities management</td>
</tr>
<tr>
<td>OBC</td>
<td>Outline Business Case</td>
</tr>
<tr>
<td>ITN</td>
<td>Invitation To Negotiate</td>
</tr>
<tr>
<td>DfT</td>
<td>Department for Transport</td>
</tr>
<tr>
<td>VFM</td>
<td>Value For Money</td>
</tr>
<tr>
<td>CCT</td>
<td>Compulsory Competitive Tendering</td>
</tr>
<tr>
<td>CSI</td>
<td>Cost Saving Innovations</td>
</tr>
<tr>
<td>PVC</td>
<td>Present Value Cost</td>
</tr>
<tr>
<td>SQ</td>
<td>Status Quo</td>
</tr>
<tr>
<td>OJEU</td>
<td>the Official Journal of the European Union</td>
</tr>
<tr>
<td>ITT</td>
<td>Invitation To Tender</td>
</tr>
<tr>
<td>SPV</td>
<td>Special Purpose Vehicle</td>
</tr>
<tr>
<td>SoPC</td>
<td>Standardization of PFI Contracts</td>
</tr>
</tbody>
</table>

2.2 The introduction of PPP to government public service delivery and its affect on the provision of services

This is a scheme designed to deliver new schools, new and improved hospitals and improved infrastructure for the benefit of today’s and future generations. The International Financial Services (2003) identify that with PFI accounting for some 15% of public sector capital investment since 1996 under the policy of PFI and Public Private Partnerships (PPP) what cannot be argued is that significant levels of capital expenditure are being pumped into public services through this policy.

2.2.1 Use of Private Finance in Public Services - Pre 1992

In 1979 with the conservatives coming into power many policy and legislation changes were introduced within rafts of policy reform aiming to reduce public expenditure. Within public services the introduction of Compulsory Competitive Tendering (CCT) was introduced to expose all “blue collar” defined activities e.g. ground maintenance, refuse collection etc to private sector competition and this changed the landscape of public sector provision irrevocably with major private sector companies borne from this era.

This quest for cost effectiveness in public service revenues was allied by the continuing policy debate on capital projects. In 1981 the National Economic Development Council (NEDC) formulated the “Ryrie Rules” which stated that “decisions to provide funds for investment should be taken under conditions of fair competition with private sector
borrowers” with HM Treasury (1988) stating that “such projects should yield benefits in terms of improved efficiency and profit from the additional investment”.

In 1989 the Ryrie Rules were abolished. John Major then the general secretary to the treasury in a speech to the Institute of Directors (1989) commenting that they had “outlived their usefulness were seen as incomprehensible and set impossible hurdles” this major shift in policy was intended to further the conservative party belief that further private sector involvement was required to deliver public service reform. Importantly the government was looking to stimulate private sector interest to “bring forward schemes that are privately financed which offer value for money for the user and the taxpayer”.

The Ryrie Rules were subsequently amended so that contracting out, mixed funding and partnership schemes could be used as governance models and that private finance could only be introduced where they offered “cost effectiveness”. Significantly HM Treasury (1992) instructed that privately financed projects “had to be taken into account by the government in the public expenditure planning”. This fundamentally brought the position on policy back to that of the labour government in 1977 with capital expenditure contributing to PSBR.

Within the 1992 Budget Statement which set out PFI guidelines the then chancellor of the Exchequer, Norman Lamont, articulated the transfer of risk as an integral part of PFI projects and where this risk stayed with private sector “public organisations will be able to enter into operating lease agreements, with only these lease agreements counting as expenditure”.

It is important to contextualise this time in public service financing with other public policy reform that was occurring at the time. Prior to the conservative government in 1978 the public sector could be considered as fully vertical integrated providers from setting policy (or translating national policy) specifying services and actual delivery. The conservatives set about changing this programme to one of Public Management and through deregulation, policy reform and government reorganisation sought to introduce market principles into public services. Within this the public sector became the enabler whereby it specified the outcomes required using procurement instruments provided through legislation e.g. CCT for revenue based activities and PFI for capital schemes.

2.22 The Development of PFI - Post 1992

The 1993 budget statement sought to stimulate greater involvement from the private sector following little interest being expressed. Yet nearly a decade later the
controversy still rages over the policy with Stefanou, Chair of Local Government Procurement Panel, cited by Hirst (2002) commenting that “the city had been getting much too starry eyed over support services investments with everyone chasing that pot of gold”.

A significant change to PFI came within the election of Labour in 1997 who re-badged the scheme as Public Private Partnerships. Government reforms were introduced into procurement to meet the efficiency, value and modernisation agenda, led by Sir Peter Gershon, identified weaknesses in procurement and led to the standardisation of PFI contracts. This new standardised contract had the aim to “enable public sector procures to meet their requirements and deliver best value for money”. Subsequent revisions to the SoPC in 2002 and 2004 have not altered the original requirement to achieve and deliver value for money.
3.0 Literature Review

Chapter 3 reviews UK literature on public service delivery. The first step is to establish the history and definition of PFI. As PFI was not the original procurement process, next section provides an overview of traditional and PFI processes to clarify both. This will be followed by highlighting the main issues surrounding PFI; one of these issues is PFI consortia’s attempts to increase profits and this will be explored in more depth, gathering literature on the significance and implications of this issue. Finally, a summary of government policy and regulation - towards mediating this main issue completes the review.

3.1 What is PFI

PFI was officially announced by the Chancellor (Norman Lamont) in 1992: ‘with the aim of increasing the private sector in the provision of public services’. PFI is considered a form of PPP; PPP is a generic term for the relationship formed between private sector and public bodies. The function of PPP is stated by Treasury (2000) as introducing private sector assets and services to public bodies.

PFI is also defined by the Treasury (2000) as only a service provider from the private sector, not an asset.

The Private Finance Panel (1995) defined PFI as being a new procurement process, that it ‘enables value for money’ and ‘through competition enables innovation’.

The NAO (1999a &2001) definition again mentions the perceived benefits and goes onto say ‘PFI can enable departments to undertake projects which they would be unable to finance conventionally’. Interestingly this means the reduction of risk for public bodies is due to private finance being used instead. It also gives the impression the UK Government’s ‘other’ reason for using PFI which is due to accounting purposes – which may mean not all PFI is awarded due to VFM but because they can be financed by somebody else.

From the above definitions we can summarise the key perceived benefits of PFI are: introducing resources, expertise, risk transfer, innovation and better management – all of which lead to VFM and thus on budget and on time.

3.2 PFI Procurement Process v Traditional Procurement Process

Table 1.1 shows the differences between the procurement processes of traditional and PFI Dixon et al (2003)
Sussex (2001) describes the traditional procurement process as "...financed by the Exchequer, designed by external consultants in conjunction with the public sector client and constructed by private sector contractors following a process of competitive tendering. On completion, the infrastructure is operated and maintained by the public sector client, either directly by in-house staff or indirectly using private sector contractors. The public sector client owns the infrastructure and uses it to provide services direct to the public".

Treasury Taskforce (2000) explains the method used in deciding on which route is best value for money. The Treasury uses the Green Book guidance to decide, developed by Treasury Taskforce (2000), which states there must be a comparison of the PSC to the PFI bidder estimates. Boussabaine (2007) defines PSC as ‘the notional annual costs were the scheme to be conventionally publicly financed, as a means of assessing VFM’. If the PFI cost scheme is less than the PSC then the PFI route is chosen. However the lowest bidder for the contract is not necessarily the chosen winner; as the awarding authority may also decide on design quality and potential innovation as stated by Allen (2001). Unison (2005) mentions the PSC is an original adjusted figure from a similar project and then increased by 2-23% as required by the Green Book guidance. The justification behind the increase is ‘demonstrated, systematic, tendency for project appraisers to be overly optimistic about risks’ (Treasury design – green book).

From this Unison (2005) says that bias is thus likely to occur, when deciding on which procurement route to choose from; bias can occur in three different instances.
1. Non comparable population, where the source says before 2003 like was not compared with like; so the PSC would be invalid as a comparator as for example some case projects would be compared from refurbishment to potential new builds.
2. Sample bias is the second bias mentioned, when choosing costs for PSC. The source goes on to say the low sample sizes of previous projects can also lead to less accuracy when forecasting procurement costs.
3. Measurement bias is the third stated reason for bias occurring. "It occurs when different baselines are used to compare the two groups".

Dixon et al (2003) shows us PFI are not awarded projects so simply, there are many processes to go through before the contract can be awarded. Housing Corporation (2005) explains the PFI procurement process, as shown in table 1. 2;
<table>
<thead>
<tr>
<th><strong>PROCURING AUTHORITY TASKS</strong></th>
<th><strong>PROCUREMENT TASK</strong></th>
<th><strong>BIDDER/ASSOCIATION TASKS</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Prepare Expression of Interest and seek ODPM support</td>
<td>• Expression of Interest (EOI)</td>
<td>• Informal registration of interest</td>
</tr>
<tr>
<td>• Prepare business case for ODPM and Project Review Group (PRG) support</td>
<td>• Outline Business Case (OBC)</td>
<td>• Involvement in soft marketing testing</td>
</tr>
<tr>
<td>• Shortlist potential bidders • Request initial proposals</td>
<td>• Pre-Qualification Questionnaire (PQQ)</td>
<td>• Decide role</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Identify partners/sub-contractors</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Formally consider participation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Assessment of risks</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Consider information requirements from authority</td>
</tr>
<tr>
<td></td>
<td>• Invitation to Submit Outline Proposals (EOP)</td>
<td>• Draft proposals • Seek Board approval</td>
</tr>
<tr>
<td>• Invitations to Negotiate (NT)</td>
<td>• Create bid team and appoint advisers • Respond to consultation • Identify funders and funding requirements • Negotiate contract contents and risk allocation • Evaluate output specification and payment mechanism • Price contract documents • Seek Board approval • Submit priced proposals and financial models</td>
<td></td>
</tr>
<tr>
<td>• Commence negotiations</td>
<td></td>
<td>• Further consideration of risk • Refine Price</td>
</tr>
<tr>
<td><strong>PROCURING AUTHORITY TASKS</strong></td>
<td><strong>PROCUREMENT TASK</strong></td>
<td><strong>BIDDER/ASSOCIATION TASKS</strong></td>
</tr>
<tr>
<td>• Select preferred bidder • Final Business Case (FBC) accepted by OCPM</td>
<td>• Contract sign/financial close</td>
<td>• Funding terms secured • Financial model updated and price confirmed • Contracts signed</td>
</tr>
<tr>
<td></td>
<td>• Contract Management and Monitoring</td>
<td></td>
</tr>
</tbody>
</table>
this shows the tasks of the Government, bidders and the winning PFI consortium. An awarded authority must produce an OBC (as shown in table 1.1) to again justify the reason behind using PFI, which allows the Treasury to analyse whether PFI is truly the ‘best’ VFM option. The Official Journal of the European Union (OJEU) is required to be given a notice of invitation to tender (ITT) by the awarding authority (as shown in table 1.2). This provides a short list of candidates for the tender process Fox and Tott (1999).

Dixon et al (2003) shows the process of the auction allows the awarding authority to refine the OBC and PSC as part of the Treasury taskforce guidelines. Treasury Taskforce guidelines then obliges the awarding authority to issue and invitation to negotiate (ITN) through the OJEU. Dixon et al (2003) says the guidelines are very strict on committing to attaining VFM – the awarding authority must then establish the most economically advantageous option. The (NAO, 1999a) reports that, the awarding body “must identify the optimum combination of risk transfer, innovation, price and quality” (as shown in table 1.2). Within this process however (Fox and Tott, 1999) mention the awarding authority has ‘considerable latitude’ in deciding as there is no method for evaluating PFI bids. Finally the (treasury 2003) expresses the government will reform the PSC to make sure there is ‘rigorous appraisal’ so they can identify other routes if they are better VFM. This statement proves that the Treasury does believe the current method of appraising the PSC is not properly assessed and so VFM decisions cannot be best made. Ball et al 2003a (Been sourced)tells us the PSC should include: ‘an overview of the project, basis procurement costs, approaches taken in relation to third party revenues, approaches taken on asset values and transfer, and a risk matrix’.

Treasury (2003) presents the reason for using PFI over traditional procurement is when PFI offers better value for money than traditional procurement; this means the ability to meet requirements of efficiency, equity and accountability. Dixon et al (2003) states PFI on average has comprised of 14% of the total capital expenditure for public infrastructure. PFI has also displaced the costs on future tax payers.

Treasury 2003 emphasises that there is no bias towards PFI due to its (UK Government) commitment to securing best value for money. Stating that - traditional procurement could be greater value for money than PFI for some projects.

Construction Industry Council (2000) analyses PFI v traditional through looking at CSI uptakes (cost-saving innovations) it begins by stating that PFI has less inefficiencies than traditional procurement – because of greater amount of generated innovations, improving the procurement process for PFI. (Treasury Design) mentions that good
innovative design will naturally lead to savings in cost. However the statistical validity of examining CSI is very low because it was done by a small sample size using clients.

The source also illustrates the results from a questionnaire of PFI consortiums. In almost all fields of costing they are shown to be lower than the PSC. Unison (2005) goes onto say the PSC is not a fair comparison for PFI v traditional process analysis. They conclude that - the median of reported savings is in the range of 5-10%. This again is a biased sample as no public sector official dealing with PFI was questioned. The results of savings are varied by sector due to generated innovations, and whether they are non-technologically rooted innovations or technologically rooted innovations. Leading us to believe that, PFI may only be suitable for certain projects – this is also mentioned by the Allen (2001). Non-technologically rooted innovations are apparently ‘most significant’ due to new briefs for designers, determination of innovative operation regimes and new FM schemes. The source then concludes that PFI projects are essentially improving on the design and construction technical aspects and are incrementally improving over existing practices. (Treasury Design) mentions how design is measured: “design quality is measured by the extent to which an asset successfully combines a high standard of space, light and sensory comfort with essential functional requirements”. However ACCA (2004) asserts innovation does occur for some projects, but for the majority there is little innovation. (The Public service 2002 –in ref list) reiterates the point and concludes by saying “The claim that PFI brings additional innovation to that which can be achieved by the public sector remains unsubstantiated, in particular, there is little evidence of innovation in the design of PFI buildings. Dixon et al (2003) points out that, due to the shifting of responsibilities for operations and maintenance to the private sector, there is a disincentive to introducing innovative design solutions. CABE (2005) believes that gaining high quality design from PFI is difficult, due to the bidding process – whereby the design team are given a short period of time, usually 10 weeks - thus, limiting their ability to find better design solutions for the awarding authority’s requirements. The case CABE made is not agreed with by Treasury (2000) the source provides guidance on how to achieve design quality: “In order to achieve good design, it is necessary to have strong PFI bidders, an end-user that knows exactly what is needed, a thorough brief and designers who can engage in a challenging constructive dialogue”. Telling us the bidding period is sufficient for designers to make innovative design features as long as there is a “thorough” brief. However the source is from 2000 whereas CABE is from 2005 possibly meaning the CABE is the more relevant argument for today PFI projects.
Table 1.3 (Dixon et al. 2003) - adapted from Arthur Anderson and Enterprise LSE, 2000; p.17), shows initial comparison of PFI cost saving to traditional procurement process.

<table>
<thead>
<tr>
<th>Project</th>
<th>PV of PSC (Em)</th>
<th>PV of winning bid (Em)</th>
<th>Cost saving (Em)</th>
<th>% saving</th>
</tr>
</thead>
<tbody>
<tr>
<td>4 DBFO road schemes</td>
<td>797.0</td>
<td>698.0</td>
<td>99.0</td>
<td>12</td>
</tr>
<tr>
<td>Bridgend &amp; Fazakerley prisons</td>
<td>567.0</td>
<td>513.0</td>
<td>54.0</td>
<td>10</td>
</tr>
<tr>
<td>A74(M) / M74 road schemes</td>
<td>210.0</td>
<td>193.0</td>
<td>17.0</td>
<td>8</td>
</tr>
<tr>
<td>Dartford &amp; Gravesham hospital</td>
<td>181.6</td>
<td>176.5</td>
<td>5.1</td>
<td>3</td>
</tr>
<tr>
<td>Newcastle estate</td>
<td>339.0</td>
<td>241.0</td>
<td>97.0</td>
<td>29</td>
</tr>
<tr>
<td>West Middlesex University hospital</td>
<td>130.0</td>
<td>125.0</td>
<td>5.0</td>
<td>4</td>
</tr>
<tr>
<td>MOD main building</td>
<td>746.2</td>
<td>746.1</td>
<td>0.1</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>2501.8</td>
<td>2326.6</td>
<td>175.2</td>
<td>7</td>
</tr>
</tbody>
</table>

Stewart and Butler (1996) believe these results are due to lower design, construction and operating costs. This is contradictory to the Treasury’s statement (Treasury 2003): in which it says “...due to the expertise of the private sector there is greater design in the PFI projects”.

(Mott McDonald report 2002) was a study commissioned by the Treasury to gather evidence for a review on the Green Book (the PFI process method). The report concludes that PFI has fewer cost overruns and less time overruns then traditional procurement: table 1.4 of the survey shows this:

Time and cost overruns as percentage of original estimates by type of procurement and project reported by Mott MacDonald

<table>
<thead>
<tr>
<th>Description of projects</th>
<th>Number of schemes</th>
<th>% of total</th>
<th>Time overrun optimism bias %</th>
<th>Cost overrun optimism bias %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-standard buildings</td>
<td>PFI 0</td>
<td>(18)</td>
<td>39</td>
<td>51</td>
</tr>
<tr>
<td></td>
<td>trad 7</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-standard engineering</td>
<td>PFI 0</td>
<td>(33)</td>
<td>15</td>
<td>66</td>
</tr>
<tr>
<td></td>
<td>trad 13</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Standard buildings</td>
<td>PFI 3</td>
<td>(30)</td>
<td>-16</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>trad 14</td>
<td>(36)</td>
<td>4</td>
<td>24</td>
</tr>
<tr>
<td>Standard engineering</td>
<td>PFI 4</td>
<td>(40)</td>
<td>no info</td>
<td>no info</td>
</tr>
<tr>
<td></td>
<td>trad 3</td>
<td>(8)</td>
<td>34</td>
<td>44</td>
</tr>
<tr>
<td>Other</td>
<td>PFI 4</td>
<td>(40)</td>
<td>28</td>
<td>no info</td>
</tr>
<tr>
<td></td>
<td>trad 2</td>
<td>(5)</td>
<td>54</td>
<td>214</td>
</tr>
<tr>
<td>Total</td>
<td>PFI 11</td>
<td>(100)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>trad 39</td>
<td>(100)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Mott MacDonald report
Hence the process of PFI procurement is efficient and does not need to be changed as the results show positives. However Unison (2005) argues that the sampling methodology in carrying out the survey by Mott MacDonald was not fair. It explains “the appropriate study would have been a randomised or retrospective case control study. Mott MacDonald did not do either”.

Audit commission (2002b) argues there are incentives to produce buildings that do not cost much to maintain or where the floors are easy to clean – which is a ‘higher design feature’. This is another form of design uptake on providing greater value for money. This would be an incentive for PFI consortiums that are contracted to do the maintenance; as part of the payment on performance mechanism - this is only during the concession period, which is usually of 20-30 years. The payment on performance mechanism is an expressed term in the PFI contract whereby, usually, a monthly payment will not be paid if the performance (cleaning/maintenance etc.) has not reached a certain benchmark level (PFI contracts 2004).

Treasury (1988) from an early Treasury report “...many of the assumed benefits of PFI would appear to be available for better-managed and controlled conventional procurement”. This is a significant quote from the Treasury as the Treasury has always been backing the use of PFI. Audit Commission (2003) describes “Negotiating a PFI deal is one of the most demanding jobs that public sector project managers will ever have to undertake. To get stakeholders on-board and committed to the aims of the scheme, and to keep them focused on this regardless of the complications and distractions along the route, is the over-riding demand on project leaders”. These two quotes have large implications and lead us to question whether traditional procurement should be reviewed in order to find solutions to better manage the traditional method, instead of using radical procurement processes such as PFI.

3.3 Main Issues
3.31 Value for Money
PFI has been promoted in the UK, mainly on the grounds of VFM, states Heald (2002). However there have been many issues surrounding this such as: methods in accounting VFM, if VFM is the main purpose for using PFI and valuing VFM.

Edwards and Shaoul (2003) questions the validity of the VFM methodology. The source voices “it [PSC] serves as a mechanism for legitimising the higher cost of PFI”. The (NAO 1999) on the Dartford and Gravesham Hospital found the PSC to be an overstated estimate by £12.1m, meaning PFI was the more expensive option, however the report attempts to absolve this by stating the non-financial benefits were likely to be
greater than under traditional procurement. This report also showed us how uncritical the NAO is of PFI projects due to not drawing any conclusions on the VFM of the project. (The NAO 2002) examined the redevelopment of the West Middlesex University Hospital. This choice to use PFI followed the official guidelines including the SoPC 2002. It concluded though that the deal was affordable provided that running cost savings were achieved. This is questioned by ACCA (2004) that the PSC v PFI is not applicable for analysing VFM and thus choosing which is the best procurement route, the source concluded that it should be replaced.

The source mentions the overall PFI analysis on its ability to reach VFM. It articulates there is little empirical financial research into the cost and effectiveness of private finance. Also that the NAO has not exercised its “right to roam” to ascertain the full cost of PFI, leading them to conclude that due to such poor transparency and openness from both the public and private sectors on the projects key data, that PFI in general is not worth the extra cost for risk transfer and on time/on budget results. The SoPC (2004) tells us The “Code of Practice on Access to Government Information” (published by the Cabinet Office). It is also goes onto say the requirements of Open Government suggest that PFI Contracts should be placed in the public domain as far as possible. Only “commercially sensitive” information, information the dissemination of which is contrary to the public interest or information which is personally private, should be withheld.

PFI also has the added benefit of not always being shown on the UK balance sheet. This potentially means less accountability for the projects and could mean other reasons apart from VFM are used to assess PFI. Unison (2008) tells us this ability of (non-balance sheet projects) is of high significance to the Treasury as it helps in hiding the true levels of debt, to comply with Treasury’s fiscal rules; not borrowing in excess of 40% of GDP, and to abide by European rules on fiscal deficits. Heald (2002) agrees with Unison (2008) and states PFI contracts are being awarded for accounting purposes – it suggests contracts are signed as they do not show on the balance sheet and so it would not appear in the public debt calculations. However Treasury Taskforce, (1999a) categorically states “It is value for money, and not the accounting treatment, which is the key determinant of whether a project should go ahead or not”. It also goes on to say it is important to achieve risk transfer but the transfer must not be at the expense of VFM.

Treasury (2002) tells us it may not only be the private sector which reduces VFM. The public sector could poorly manage the PFI contract which may lead to poor risk transfer and thus the project may not be VFM. It also goes onto say there may be certain
projects better suited for the PFI than others. The source explains a single central government agency (e.g. home office/DfT) acting as the purchaser can result in less problems occurring within the project as compared to a multi-agency dimension, (e.g. schools/ hospitals) which can lead to communication difficulties and having to come to unanimous agreements.

Audit Commission (2003) mentions regulation for the purchaser, that after construction works are complete the awarding authority must show the longer term VFM. They must show specifically that PFI continues to be competitive when compared to similar contracts operated by other public sector bodies. The SoPC (2004) tells us VFM can be held during the whole life of the concession period by the performance payment mechanism. This is down to direct and in-direct incentives. A direct incentive is if the performance did not deliver the planned performance, then payment would be reduced. An in-direct incentive is how the awarding authority calculates performance points. If the performance points are low then a formal warning can be given, or in extreme cases, eventual termination for a breach of the Contract – however if the performance points are high then there are financial rewards. This model gives the Treasury a strong sense that the concession period of the contract will provide high quality public service delivery.

The Construction Industry Council (2000) gives us quantitative data showing us construction costs are lower through PFI. It stated “It is possible to conclude that the median of reported savings lies in the range of 5-10%”. (Treasury Design) tells us design quality is at the ‘heart’ of PFI, as it value thus VFM. The source clarifies the reason behind this statement is due to design qualities ability to:

1. Design a facility to work well by optimizing the operational cost of core services through functionality
2. Reduce whole life costs
3. Service enhancement; by providing an environment that is pleasing to work in can improve staff motivation and thus productivity.

Audit commission (2003a) mentions debates arising on measuring PFI performance and VFM “...measures of the quality of education provided, such as truancy rates, or how well children perform in exams, is extending the current definition of VFM”. This is then believed for future PFI projects to improve design features fit for educational purpose. (PFI school report, p44) states this leads to greater confusion and more variables to be evaluated in order to decide whether a certain PFI project was VFM.
3.32 Risk Transfer

Dixon et al (2003) defines risk transfer as a fundamental component in the PFI process; ‘by leaving the private sector to deliver infrastructure and services, the awarding authority is transferring to the private sector, risks that it would have otherwise have borne itself’. The source then goes into detail on the all the risks being transferred, - which are: planning risk, design risk, completion risk, operational risk, residual value risk and insolvency risk. Allen (2001) categorically states VFM is achieved through the transfer of risk to the private sector. It goes on to say the main benefit of risk transfer is that the private sector is perceived to be better than the public sector dealing with the handling of financial risk. Pretorius et al (2008) states the PFI consortium will naturally take the two ‘risk laden’ endeavours: construction and project finance. However Allen (2001) also clarifies “an efficiently designed PFI project contract should involve the optimum transfer of all types of risk. Where the financial risks of a public service project cannot be transferred to the private sector” and concludes by saying “the main argument put forward by proponents of the PFI, that it provides value for money through the transfer of risk, would be better defined as value for money through the ‘optimal allocation of risk’.

Boussabaine (2007) States risk management is important to properly transfer the appropriate risks to the private sector. The risk management process is aimed at achieving the following objectives, the source shows:

- To demonstrate value for money for decision-makers;
- To identify all major risks relevant to PFI procurement systems;
- To increase understanding of risk allocation in PFI contracting systems
- To deliver a robust financial and contractual structure for the project;
- To create a risk management process during procurement and operation of the concession agreement.

Table 1.5 shows us the life cycle of risk management in PFI projects, Boussabaine (2007)
Boussabaine (2007) explains the process of pricing risk. It states the cost analysts have to take into consideration the balance between the cost of risk transfer and the cost of losses. The analysts will then decide on the level of risk transfer. As, for example, all risk is transferred then there is likely to be no VFM, making the project unattractive to the public sector client. The UK government advice is to only transfer risk when it can obtain VFM. Thus analysts must then use sensitivity tests or simulation methods to come to equilibrium of risk price and risk transfer. The analyst then has three options in pricing these risks:

- Single point estimate – to estimate the price of each risk, then the probability of the occurrence of risk is estimated; then the price can be analysed as a percentage excess or base cost.
- Three point estimate – the analyst must estimate a lower and upper limit to the risk price for each risk. The analyst must then consider all possibilities of risk (extreme conditions etc). The analyst must then decide on the probability of these risks, as three point estimates, and then a decision must be made on whether to use average or weighted average of the three point estimates.
- Mathematical functions – similar to the above however risk analysts may use more sophisticated functions to model the variation in the risk costs.

Allen (2001) demonstrates "however, risk and reward go hand in hand: the higher the perceived risk that is being transferred to the private sector, the greater the risk premium that will be required by the contractor from the public sector to compensate
them for their exposure. Given that some risks are difficult to quantify it is difficult to determine whether a private sector contractor, for accepting a particular risk, is charging a suitable risk premium for either party”. Leading us to believe the current system in place to price risk could be erroneous, due to the uncertainty of what would be deemed by the public sector as accurate. [Blackwell (2004, p10)] comments that, the PFI consortium takes advantage of the risk transfer by pricing the risks considerably higher than traditional procurement - consequently not offering ‘best’ VFM.

“There must be focus on how procurement can achieve risk transfer, in a way that gives best VFM and by doing so does not put the risks at a high cost resulting in poor VFM” Heald (2002). Clearly this summary tells us the value of risk transfer to the Treasury in order to achieve VFM and for PFI to exist. Unison (2008) complies with the previous summary but asserts - that the risk transfer should provide ‘financial certainty’ to the public sector which justifies the higher cost of borrowing involved.

Unison (2008) brings about another interesting point which is whether all risk should be accounted for and priced by the PFI consortiums. (The Mott McDonald report) suggests all risks must be considered to ensure long-term VFM. Unison (2008) continues by saying many contracts which failed, were ‘rescued’ by the public sector meeting additional costs to the tax payer. The terms of the contract do say the public sector will not be obliged to ‘bail out’ the consortium if it fails SoPC (2002). However Unison (2008) argues that the UK government remains a guarantor at last resort, apparently based on the history of PFI. ACCA (2004) illustrates ‘bail outs’ have occurred a lot when projects fail, such as; Channel Tunnel, Royal Armouries and National Air Traffic Services.

Unison (2008) observes that risk varies during the life of a project. The highest risk comes during the construction phase and subsequently the service delivery has a low risk. The PFI consortiums do not change the price of the risk when the service delivery phase begins, leading to more inefficiencies occurring from PFI and providing less VFM.

Unison (2008) declares the consortiums are secret with the project finances, making it difficult to decide whether value for money has been achieved. From this secrecy the source describes there has been a general absence of analysis of actual risk transfer. Unison (2003) questions who takes the risk of poor design and school closures. The greatest risk is said to be the number of pupil places required over 25 years; however this stays firmly with the awarding authority. The source gives an example of this; the case of Balmoral High School in Northern Ireland which cost £17m to build in 2002 and in 2007 was closed due to a lack of pupils. NAO (2002) says there is evidence that a
large proportion of PFI schemes do transfer construction risk to the operator. However it goes onto say the property is an asset of the purchaser (awarding authority) which means the property risks are not transferred to the operator (PFI consortium). Thus the operator can unlikely be held accountable for the design risk. ACCA (2004) makes a point that public sector ultimately bears responsibility for public service delivery.

ACCA (2004) brings about new arguments regarding risk transfer. It says PFI consortia are not the best agents to handle risk. It also believes that, by the actual transfer of risks, additional risks are created which consequently increases costs. This increase in costs to the project and thus the taxpayer is apparently a ‘travesty’ of risk transfer. The SoPC (2004) finds that risk transfer can be easily achieved if the authority expresses the service requirements as an output specification.

3.33 Cost of Borrowing

The Allen (2001) does clarify the cost of borrowing is far lower for Central Government than a public firm. (Allen (2001, p32) reiterates this point “The [financing costs] difference on the average PFI project is now typically in the range of only 1 -3 percentage points”. Unison (2003) again suggests VFM may not be the primary reason in using PFI as it suggests that VFM to be attained from a PFI perspective is difficult, in comparison to traditional procurement. The source says this is due to the Government’s ability to borrow at much lower interest rates as they are seen as a more reliable investment. The Treasury recognises there is a higher cost of borrowing, Audit Commission (2003b) recognises this too, but mentions the private sector more than redeem themselves through being “Better equipped with project management skills and therefore more capable of keeping to planned schedules; More imaginative than the public sector and better able to manage services”. Unison (2008) illustrates risk transfer should provide ‘financial certainty’ to the public sector which justifies the higher cost of borrowing involved.

3.34 Bidding

Audit Commission (2003b) mentions “the purchasers must demonstrate that services are competitive, and they may do this by the awarding authority subjecting the purchasers to a competitive tendering”. This is allowed under the European Union public procurement rules. The process apparently provides significant competition up to the selection of the preferred bidder.

Allen (2001) explains the importance of competition for not only reducing costs but helps in guarding against corruption. Dixon et al (2003) gathered primary research from a questionnaire, of which the main remarks were; that the bidding stage of projects was
beginning to impact on the competitiveness of the PFI market. The survey was summarised explaining the reason behind this was due to the high bidding costs to enter the auction. This leads to firms opting out of the bidding process. Thus this tells us that it becomes harder for public sector to achieve VFM from PFI as there is less competition. Unison (2008) concurs with the above but goes on to say the market numbers will ‘thin out’, so the few companies left will have very large market shares – “essentially the PFI market is becoming an oligopoly”. This situation has become worse as Allen (2001)said European commission’s proposed directive which will require three bidders to produce completed schemes to reduce ‘anti -competitive behaviour’ - the directive is now in effect and was passed by the European Parliament in 2006. However this will lead to even higher bidding costs for PFI consortiums. Construction Industry Council (2000) previously mentioned the higher occurrence of innovation from PFI to traditional, the source later concludes the reason behind higher levels of innovation is predominately from the role of competition. It explains that innovation occurs more in response to pressure to improve the bidder’s chances of winning the bid. As the new European Policy is in effect, we can resume then, that there will be fewer bidders leading to less competition; likely leading to poor VFM. Audit Commission (2003) also tells us another reason for the importance of having many bidders for a project; “Purchasers should compare several bids to obtain the best possible understanding of the assumptions that are critical to the affordability of individual schemes”. Edwards and Shaoul (2003) report that the procurers and suppliers form ‘locked’ relationships because the cost of closing down a project was too high.

3.35 Over Budget/Over Time

Unison (2003) finds many PFI projects to go over budget and this is said to be due to; higher construction costs and operating costs under the PFI option. The source says this does not only affect VFM, which is PFI’s highest justification, but the higher costs lead to an affordability gap. The affordability gap is said by the source to cause a financial squeeze – which results in overall design being worse and/or does not finish on time. Audit Commission (2003) tells us private sector providers are “better equipped with project management skills and therefore more capable of keeping to planned schedules and budgets”.

Allen (2001) mentions the incentive for PFI consortiums to finish on time as they only start when they receive service payments once public delivery actually starts. (The SoPC 2004) explains the contract expressed terms to protect against late service. It begins by mentioning that it is in the contractor’s best interest to begin works on time.
due to ‘significant financial pressures’. It also gives guidance towards the contract including bonus payments for early service in the hope it encourages the private sector to complete the project before schedule and thus possibly lead to being under budget.

Boussabaine (2007) shows budgeting for a proposed project is done by both the public and private sectors. However they are done for different motives by either sector. For the Public sector it is to look at the affordability and effectiveness of a proposed project. The Private sector is said to evaluate the rate of return they must earn on their capital investment in order to maintain their market value and to attain more funds. ACCA (2004) believes PFI is neither transparent nor quantifiable. Thus, it is inadequate to demonstrate whether or not VFM has been achieved hence difficult to see if PFI projects on average are on budget or on time.

Allen (2001) shows from table 1.5 examples of PFI cost over runs.

<table>
<thead>
<tr>
<th>Comparison of increases in public procurement and PFI project costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>f million</td>
</tr>
<tr>
<td>PFI projects</td>
</tr>
<tr>
<td>Norfolk and Norwich NHS Trust</td>
</tr>
<tr>
<td>Greenwich Healthcare NHS Trust</td>
</tr>
<tr>
<td>Benefits Agency-Computers</td>
</tr>
</tbody>
</table>

[Treasury Committee, The Private Finance Initiative, Supplementary memorandum from TUC, HC 147 1999/2000, pp66]. Explains a reason behind PFI cost overruns is down to the public sector procurers changing their mind on what should be in the contract. Thus the rise in cost is most likely from the added services to the contract. ACCA (2004) concludes “The additional costs relating to changes in the design and contract changes indicate a need for careful monitoring of the affordability of projects, since the payments will have to be made for the duration of the contract”. ACCA (2004) states however from the data available of project outcomes, where there is little to no changes in the contracts, then PFI in general does complete projects on time and on budget. But this also leads to the question of whether these reasons are worth the extra cost to use PFI.
4.0 Research Methodology

Identification of research aims and explanation and justification of research method chosen

To enable the study to be worthwhile it is important to define and understand the research methods to collect the data relevant objectives listed. The research methods that have been used are described below. Primary data, in the form of interviews was considered - but was opted against as the questions could be answered through the analysis of secondary information.

As there is no primary research, secondary research has had to be increased in order to obtain a sufficient amount of data to:

- Clarify and focus the research question
- To find gaps in the field of PFI of what has not been researched or analysed
- To highlight key issues and theoretical controversy for investigation
- To provide this study with knowledge to help conclude logical/empirical support

All sources obtained are of relevant having up to date information, to bring about current understanding of the field. Through the wide range of sources gathered, it has allowed this study to effectively be critical in summarising and assessing the current knowledge and understanding of the PFI field.

Walliman (2004) recommends a list of places to search that contain sources of secondary research:

- Libraries – Including university libraries, specialist libraries, private libraries and local libraries.
- Information services – Government departments, research establishments, professional organisations and trade bodies.
- Museums and galleries – contain printed/electronic information.

Information from internet articles and newspapers were not used as they are not academic literature, which is what this study is limited to using, as well as primary research.
The Secondary research areas used are:

4.1 Government Reports – These reports have been necessary in understanding the PFI process. Many reports have been made due to controversy surrounding PFI and many government departments, especially the Treasury, have had to produce reports to justify the use of PFI. The reports have been very helpful in finding out the perceived benefits of PFI. It also provided the much needed information of protocols and guidance for deciding whether to use PFI and how to manage a PFI concession, this information has mainly come from the Treasury’s Taskforce Green book guidance and SoPC. However, I have found the reports not to be entirely critical of PFI procurement and that includes reports from the NAO and audit commission. This had led to confusions in concluding on the issues surrounding PFI.

4.2 Books – Books have had limited use in this study as they tend to contain the least current information. However they have provided good background information on the subject and often provide useful definitions and descriptions of specific terms. They are also a more critical source of the PFI procurement process, providing arguments on both sides and helping to come to more valid conclusions.

4.3 Professional Publications – Professional bodies such as UNISON and the Construction Industry Council publish relevant and current data on a wide range of subjects relating to the construction industry. These publications have been very critical towards PFI and have provided rare but important quantitative data from PFI.

4.4 Journal articles – The journals used provide up to date literature on the PFI field. The journals have brought up issues that have not arisen from reports or professional, providing this study with a wide birth of issues to summarise. Journals have given professional opinion on certain matters, helping this study to make conclusions that can be backed by professional opinions.
5.0 Discussion of Findings

The main body of the study will be looking through the apparent key benefits of PFI as expressed by the UK Government.

5.1 Design Quality

(Treasury Design) mentions how design is measured: “design quality is measured by the extent to which an asset successfully combines a high standard of space, light and sensory comfort with essential functional requirements”. OPDM (2004) says the government departments state one of the reasons to use PFI is for its design, being of a higher level than traditional. This is apparently occurs from the private sector having greater efficiency in managing and has more innovative design features - from competition. There is evidence from Construction Industry Council. (2000) that PFI has provided a greater amount of innovative design. Also the process in the bidding stage was mentioned to be more design focused then VFM. . Treasury (2000) tells us that good design features will attain cost saving. This tells us the bidding stage encourages greater design through competition of winning the auction. This source affirms this is Allen (2001) and says “that PFI projects are essentially improving on the design and construction technical aspects and are incrementally improving over existing practices”. If the other benefits do not occur but innovation and design quality does, these features alone are likely to secure the future of PFI.

ACCA (2004) illustrates there is little evidence of innovation in the design of PFI buildings. CABE (2005) argues against the process of the bidding period to encourage design quality – it says given a short period of time, usually 10 weeks - thus, limiting their ability to find better design solutions for the awarding authority’s requirements. This is important as it tells us with reason; one of the perceived main benefits (design quality) will struggle to occur from time constraints. The Allen (2001) due to the new implementation of the European Procurement Directive, a new issue have arisen – bidding stage makes it difficult to enter. Which produces less competition within the PFI market and thus one of the main sources for harbouring design quality has now been affected.

5.2 Risk Transfer

Allen (2001) and many other sources categorically state VFM can only be achieved if there is risk transfer. Pretorius (2008) does tell us that the consortium will naturally be transferred the construction and project finance risk. Unison (2008) tells us risk transfer is also important to justify the high cost of borrowing for SPV’s.
The SoPC 2004 tells us the contract includes the fact that the government is not obliged to 'bail out' the SPV if it runs into financial problems. However Unison (2008) tells us that history has shown Central Government ‘is likely’ to help a failing contract. This is an important finding as the risk of contract failure is priced and so essentially VFM is lost as the UK government is paying for risk that, in reality does not exist. The reason behind this government ‘bail out’ is not all risk is transferred; the UK government still has to provide public service delivery.

Given that some risks are difficult to quantify it is difficult to determine whether a private sector contractor, for accepting a particular risk, is charging a suitable risk premium for either party”. Leading us to believe the current system in place to price risk could be erroneous, due to the uncertainty of what would be deemed by the public sector as accurate Boussabaine (2007) tells us the PFI consortiums are given much the ability to price the risks accordingly, during the bidding stage. The method is seen to be very laissez-faire and is very likely PFI consortiums could take advantage of over pricing the risk. This is of course limited, as VFM must be obtained by the client; however PFI consortiums could transfer only a small amount of risk but inflate the price. The competition has reduced giving greater ability to win a contract even with risk price is being inflated.

From the lack of transparency and openness from both sectors, the information regarding PFI projects are essentially unavailable. Making it extremely difficult to discover whether risk transfer has been achieved and how much was transferred.

5.3 Innovation /efficiency/ on time/on budget
CSI promotes the importance of innovation for PFI, as this is an important benefit in distinguishing between the uses of PFI over traditional. Innovation helps in reducing costs and making PFI cheaper than traditional, as innovation is occurs more often in PFI (CSI). ACCA (2004) claims the occurrence of innovation happening more in PFI remains unsubstantiated. Both arguments are difficult to conclude upon as CIS’s claim of apparent substantial innovation in PFI is based on a biased sample and there is little available evidence of innovations produced by the non transparent sectors.

The Private Finance Panel 1995 said ‘through competition enables innovation’. There is now a lack of competition from the new European Procurement Directive in place. Questioning if a substantial amount of innovation can occur from an oligopoly market; in comparison to traditional. (CSI)The results of savings are varied by sector due to generated innovations, leading us to believe that, PFI may only be suitable for certain
projects. This is reiterated that PFI should only do work with single agency public sector (highways agency) as schools and hospitals have a group of awarding authorities which slows down the process of procurement and many changes are usually made to contract during the concession period.

For the on time/on budget benefit of PFI there is a great amount of third parties arguing certain cases that PFI is not on budget or not completed on time. But the Treasury has shown us the methods used and incentives provided to encourage PFI projects to be completed on time/on budget. There are clearly great rewards provided in the contract if the PFI consortium begins work on the project earlier than expected and there are severe penalties if contracted obligations were not provided. These, incentives I believe to be a positive method in harbouring efficiency with PFI. However this is little quantitative evidence to show us this is occurring.
6.0 Conclusions

The Treasury conceived PFI to deliver risk transfer, value for money, innovation, design quality and efficiency. Does PFI provide these apparent benefits?

The European procurement directive effectively destroyed any possibility of future PFI’s ability to provide its promised benefits. The European procurement directive reduced the amount of competitors; hence we can only conclude that future PFI projects will become less innovative. As competition was the sole agent which provided innovation. Innovation was the single most important aspect to make PFI greater than traditional – by innovation providing greater design quality and thus fewer costs – which PFI needed as its high cost to borrow put it at a disadvantage. Design and innovation also improved the accountability for using PFI by increasing the value of the project; through design quality could provide better service enhancement through staff working in pleasing environments. However innovation is likely to not be substantial in comparison to traditional, due to the changes in the bidding process making the PFI market not competitive. Having said that, due to the lack of transparency we have been unable to witness whether this issue is causing a lack of innovation; it can only be assumed, as competition in Free Market theory is greatly produced through competition.

VFM and PSC analysis is very detailed and confusing process with many different guidelines on how to analyse them. Which produces wide ranges of variable results making it extremely difficult for the public sector to decide which procurement route to take and for the private sector to show how it can provide VFM. Methods in analysing PSC, is considerably different from project to project. (treasury 2003) states the Government will reform the PSC to make sure there is ‘rigorous appraisal’ so they can identify other routes if they are better VFM. This statement proves that the treasury does believe the current method of appraising the PSC is not properly assessed and so VFM decisions cannot be best made. As many sources mention VFM is just interpreted through financial figures but can also be analysed through looking at service enhancement; by providing an environment that is pleasing to work in can improve staff motivation and thus productivity;(PFI school report, p44) “…measures of the quality of education provided, such as truancy rates, or how well children perform in exams, is extending the current definition of VFM”. The Treasury Taskforce, in particular, the green book needs to identify the processes of analyzing VFM in each sector. This is not a PFI requirement this should be required for all procurement completed by UK Government’s service delivery.
The SoPC (2004) clearly states the need for openness from both private and public sector, “PFI Contracts should be placed in the public domain as far as possible” and this has not been changed by version 4 SoPC (2007), in fact quite the contrary, it has been explained in further detail the need for greater transparency on both sides. This occurrence leads us to conclude that PFI is likely hiding something of negative results, in general.

The Awarding Authority is one of the main causes for preventing PFI to provide some of its benefits. Through being too bureaucratic – having too many awarding authorities managing one scheme for say a hospital or school. The awarding authority as mentioned before comes from a position of power in the contract and so can usually exercise changes in the contract. Reducing the ability for projects to be completed on time/on budget.

If the bidding stage of PFI significantly reduced the barriers and encouraged more SPV’s to enter the market, then some of the PFI benefits will likely occur. Competition is the key detriment to providing innovation and thus cost savings and on time/on budget results. To reduce the barriers would be difficult to achieve as the UK joined the EU it has to implement and follow any new legislation and regulation into effect. From the information gathered all the study can ascertain to achieve low barriers in the bidding stage, would be for the UK Government to produce a new procurement directive or to leave the EU.

If the PFI market became structured as ‘perfect competition’ than I believe PFI can still have a place in providing procurement but only procure projects such as roads and offices and for non-joint schemes.

Treasury (OLD) states many of the assumed benefits of PFI would appear to be available for better-managed and controlled conventional procurement. This is a significant quote from the Treasury as the Treasury has always been backing the use of PFI. Audit Commission (2003) describes “Negotiating a PFI deal is one of the most demanding jobs that public sector project managers will ever have to undertake.” These two sets of information have large implications and lead us to question the actual reason behind PFI. Many sources have argued the true reason behind PFI is it’s off balance sheet benefits, to the treasury. This is one of the only reasons the study can find that is causing the Treasury to still use the PFI process, all other perceived benefits do not or are unsubstantial in occurrence. Either the Treasury is unsure that the perceived qualities are not occurring (as they have done little in terms of analyzing
post projects) or they are aware but are using PFI as its providing great amounts of leverage for public service delivery.

6.1. Recommendations

There should be a portal where all future completed projects should summarise the important cost, design and innovations. So the public can see if it was successful, giving greater transparency for schemes. I suggest there be an accessible database of all schemes completed. This database would be invaluable to both the private and public sector. This would likely lead to more companies entering into the PFI market due to the availability of information, thus making the market more competitive. A competitive market will improve VFM through greater risk transfer. This should be achieved for the taxpayers, to provide accountability for using PFI since PFI creates implicit debt for governments.

Less risk transfer implies a lower rate of return for the private sector, and that the project will be on-balance sheet in the public sector. I believe there should be a financial analysis of on and off-balance sheet projects to compare the two.

Traditional procurement should be reviewed in order to find solutions to better manage the traditional method and become efficient, instead of using radical procurement processes such as PFI.
8.0 Personal Reflection

8.1 Limitations of the study

I found there is a lack of journals and text books on PFI. The majority of information I could use was from reports. The PFI policy itself is highly controversial and so reports were produced from unions arguing the issues against PFI and the government departments defending the reasons behind using PFI – also internal and external auditors reviewed PFI greatly, through reports. Thus the majority of the literature was reports, and as there were a small amount of journals it was difficult to find professional opinions on the contexts of PFI. The reports themselves did not express opinions but only expressed the facts, leading to difficulties in justifying my conclusion.

Difficulties will also occur in distinguishing projects which have gone over budget due to manipulations by the PFI firms or through poor management etc. Balmoral High school was a school built for £17 million but was closed 3 years later due to lack of students. This is an important area when discussing methods already used by PFI to exploit a contract. Although the state was at fault there is no mention of how future contracts will be written to avoid this mistake making it difficult to find and discuss within my dissertation.

8.2 Recommendations for further study

To look further into how CSI studies innovation and how it values it. To gain more information on the European Procurement directive 2006, on the reasons behind its controversial regulations. To find further information of comparisons between PFI projects been on and off balance sheet for the UK Government. This will lead to better conclusions of whether PFI is used for the off balance sheet benefit.

It would be helpful to ask a sample of PFI analysts pricing the risk as to which method they use and which variables they take into account. This would be extremely beneficial to evaluate the issue.
9.0 References


Centre for Public Services (2002), Privatising Justice: *The Impact of the Private Finance Initiative in the Criminal Justice System* (Sheffield).


Dissertation A UB1LF3-20-3


UNISON. (2005) *A Policy Built on Sand* [online]. Available at:

UNISON. (2008) *PFI: Against the Public Interest* [online]. Available at:

### 9.1 Bibliography


Appendix a – Ethical Review Checklist

Ethical Review Checklist

<table>
<thead>
<tr>
<th>QUESTION</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Are participants clearly asked to give consent to take part in the research?</td>
<td>Yes</td>
</tr>
<tr>
<td>2. Can participants withdraw at any time if they choose?</td>
<td>Yes</td>
</tr>
<tr>
<td>3. Are measures in place to provide confidentiality for participants and respect the confidentiality of data?</td>
<td>Yes</td>
</tr>
</tbody>
</table>

If you answered NO to any of the above questions, you should indicate below, or overleaf, how you intend to address these ethical concerns.

<table>
<thead>
<tr>
<th>QUESTION</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>4. Does the study involve people who are particularly vulnerable or unable to give informed consent (eg children; people with learning difficulties)?</td>
<td>No</td>
</tr>
<tr>
<td>5. Is the research strategy likely to lead participants to breach confidentiality or otherwise engage in deceit?</td>
<td>No</td>
</tr>
<tr>
<td>6. Will your participants be in a position where they might feel coerced into taking part in the research?</td>
<td>No</td>
</tr>
<tr>
<td>7. Will the data be used in ways not fully explained to the participants or respondents?</td>
<td>No</td>
</tr>
<tr>
<td>8. Is your research at all likely to cause physical or psychological harm or stress to participants, or damage to the environment?</td>
<td>No</td>
</tr>
<tr>
<td>9. Is the independence of the research at risk of being compromised by reliance on the support of a particular sponsor or organisation?</td>
<td>No</td>
</tr>
</tbody>
</table>

If you answered YES to any of the above questions, you should indicate below, or overleaf, how you intend to address these ethical concerns.

Name of researcher/applicant: Timothy Cook
Course or programme: BSc (Hons) Business in Property

The Treasury conceived PFI to deliver risk transfer, value for money, innovation, design quality and efficiency. Does PFI provide these apparent benefits?

Signature of researcher/applicant: .................................................................

Date: 12/03/2010

Supervisor’s name: .........................................................................................

Supervisor’s comments: ..................................................................................

........................................................................................................ Date: ......................

Does this need to be referred to an Ethics Committee? Yes / No