

THE PRIVATE FINANCE INITIATIVE

Saviour, Villain or irrelevance?

By

Peter Robinson

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Since 1992, the Private Finance Initiative has involved the private sector in the financing and building of public infrastructure such as hospitals and in the delivery of public services. The argument put forward in this work is that it is misleading to suggest that greater public investment may take place as a result of PFI. The Treasury's fiscal rules could be easily satisfied even if the PFI were abolished altogether. However we suggest that under the right circumstances the PFI could yield efficiency savings and better value-for-money in the delivery of public services. The public sector financial framework should provide a level playing field within which to make these value-for-money judgements on a case-by-case basis. A case is made for the discretionary granting of additional financial freedoms to public sector bodies such as 'beacon councils', which might be allowed direct access to capital markets outside normal Treasury controls.

The Commission on Public Private Partnerships

The Commission on Public Private Partnerships, chaired by Martin Taylor, was launched in September 1999 and will report in Spring 2001. Its brief is to consider when and how public private partnerships should be used in the modernisation of public services and the delivery of key public policy objectives. There is currently no widely agreed set of principles used to determine the appropriate use of partnerships between the public, private and not-for-profit sectors in the delivery of public services. The aim of the Commission is to produce a set of authoritative guidelines which will inform the use of partnership in future.

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John Hawksworth is an economist with over ten years' experience as a consultant working with leading public and private sector organisations in the UK and overseas. He is currently head of macroeconomics at PricewaterhouseCoopers, but is writing here in a personal capacity.

Jane Broadbent and Richard Laughlin are of Professors of Accounting at Royal Holloway University of London and Kings College, University of London respectively. They are particularly interested in the role of accounting in change in the public sector and have researched and published extensively in this area. They are currently researching the PFI.

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Preface

The Private Finance Initiative involves the private sector in the financing and building of public infrastructure such as hospitals and in the delivery of public services. This collection of papers addresses the two arguments which have been put forward for using the PFI.

The papers by Robinson and Hawksworth agree that the argument that private financing allows more public investment to take place is misleading. Robinson shows that the Treasury's fiscal rules could be easily satisfied even if the PFI was abolished altogether. He also shows that the real contribution of the PFI to the public finances is very modest.

As an alternative way of allowing more public investment, Hawksworth argues the case for the discretionary granting of additional financial freedoms to public sector bodies such as 'beacon councils', which might be allowed direct access to capital markets outside normal Treasury controls.

Although the public finance argument for the PFI is misleading, under the right circumstances the PFI could yield efficiency savings and better value-for-money in the delivery of public services. In their paper Broadbent, Haslam and Laughlin explore the ways value-for-money is determined, including the issues of risk transfer and the importance of constructing a proper Public Sector Comparator against which to compare a PFI project. They also look at a number of value-for-money audits of PFI projects.

All three papers accept that PFI schemes have the potential to deliver value-for-money in certain circumstances, but argue that the public sector financial framework should provide a level playing field within which to make these value-for-money judgements on a case-by-case basis.

This working paper is the first in a series from the Commission and is available from the IPPR. Other areas of research will be covered in a variety of working papers and issue papers over the period of the Commission.

This publication represents the views of the authors and not necessarily those of either the members of the CPPP or the IPPR.

PFI and the public finances

By Peter Robinson

Implications of the public sector financial control framework for PPPs

By John Hawksworth

The Origins and operation of the PFI

By Jane Broadbent, Colin Haslam and Richard Laughlin

PFI and the public finances

by Peter Robinson

The PFI is not about borrowing money from the private sector...(it) is all about creating a structure in which improved value-for-money is achieved through private sector innovation and management skills delivering significant performance improvement and efficiency savings. (Treasury Taskforce 1999)

Labour inherited the PFI from the previous government. Two arguments have traditionally been put forward for the initiative. The first refers to the PFI as an improved form of public procurement, which under the right circumstances could yield efficiency savings and value-for-money. This argument is addressed in Broadbent *et al's* paper in this collection. The second major argument offered for the PFI is that it helps government overcome a perceived fiscal dilemma. In securing new financing for public investment the PFI appears to allow government to reconcile the desire for higher capital spending with the commitment to maintaining a tight fiscal stance. Lying behind this macro-fiscal argument is a longstanding debate over the role of 'Treasury rules' in limiting public spending and borrowing.

Lately the Treasury has been downplaying the importance of this macro-fiscal argument, as the above quote makes clear. However, in his speech launching the CPPP, Alan Milburn continued to refer to both arguments for the PFI, stating categorically that PPPs were necessary because they 'make possible more investment in our key public services'. It appears that this speech was intended to clarify that it was the value-for-money argument which was paramount in explaining the Treasury's enthusiasm for the PFI. However, the extent to which both supporters and opponents of the PFI refer to the perceived public finance justification for the initiative makes it clear that the Treasury has not yet succeeded in its aim.

This paper puts in perspective the importance of PFI in the context of total public spending and reflects on the macro-fiscal argument for PFI. It sets out some basic data, which we hope to enhance over time by obtaining more detailed information from the Treasury. It points out that the macro-fiscal argument for the PFI was always weak and that the Treasury's current fiscal regime offers no justification in itself for the existence of the PFI. It suggests that the importance of the PFI to the public finances is significantly exaggerated. The paper hopes to clear this ground so that the Commission on Public Private Partnerships can concentrate on the value-for-money argument for PFI where the real, and complex, debate lies.

The scale of the PFI

Table 1 shows how the PFI has evolved since its launch in 1992 and how under Labour it has become relatively more important. Over the whole period of the current parliament, the PFI will account for 12 per cent of total publicly sponsored capital spending. For the period covered by the Comprehensive Spending Review (1999-2002) it will account for 14 per cent of total publicly

sponsored capital spending. Table 1 could be read as showing that the relative importance of the PFI is increasing over time. However, it also shows that current projections have PFI capital spending falling to just 11 per cent of total publicly sponsored capital spending by the last year covered by the Comprehensive Spending Review.

Table 2 shows that PFI spending is heavily concentrated in certain areas of the public sector, including transport, health and increasingly local government. It is striking that local government is forecast to be delivering one-third of all PFI spending by the last year of the current Spending Review. Indeed a comparison of the 1999 Treasury Red Book with the 1998 Red Book reveals a very large increase in the contribution expected from local government matched by a significant decrease in the contribution from central government. Without this contribution from the local authorities, the government would not be able to claim that the PFI was making the apparent contribution to public sector capital spending that it is.

An important point to emphasise of course is that the Private *Finance* Initiative still leaves the public sector to *fund* the assets and services being provided (if there is no dedicated stream of user charges to fund the provision, as with a toll bridge for example). A stream of payments will have to be set aside to meet the commitments entered into under PFI contracts.

Table 3 shows the stream of current payments which is dedicated to servicing PFI contracts over the next 28 years. For the first six of these years we can express these current payments as a proportion of Total Managed Expenditure (the global figure for total public spending). Currently, the PFI is forecast to be no more than 0.8 per cent of Total Managed Expenditure in the middle of the next decade.

The National Audit Office has issued a number of value-for-money audits of PFI projects. A review of these audits would provide evidence of possible future savings in the order of 20 per cent on average when compared with the public sector option. However, excluding two IT based PFI schemes may give a more typical sample, with the estimated savings then in the order of 10 per cent. This was also the conclusion reached by Arthur Andersen in their report for the Treasury Task Force¹. In addition Arthur Anderson investigated a larger sample of schemes, and argued that an average saving of 17 per cent might be achieved.

We thus have a range of estimates of the future cost savings from a sample of PFI projects ranging from 10-20 per cent. From this we can calculate the 'true' contribution of PFI to the public finances. In the first half of the next decade the stream of payments under PFI will amount to around 0.7-0.8 per cent of total public spending. If conventional public financing had been used then the estimates suggest that the total claim on current public spending would have been 10-20 per cent higher. So the PFI may be saving 10-20 per cent of the income streams outlined in Table 3. This produces the result that the PFI may yield savings in the order of £360-720m annually by the middle of the next decade. This of course is very much the 'small beer' of public spending.

¹ Arthur Andersen (2000) *Value for Money Drivers in the Private Finance Initiative*, A report by Arthur Andersen and Enterprise LSE, Commissioned by the Treasury Taskforce. January 2000.

So even if the PFI does deliver value-for-money, its contribution to the public finances will be modest indeed.

TABLE 1. The PFI and total public capital spending

	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02
Total public sector capital expenditure (£bn)	21.6	19.9	20.6	20.0	17.3	17.0	18.6	20.2	22.0	25.0
Real terms, 1998-99 prices (£bn)	25.2	22.6	23.1	21.8	18.2	17.4	18.6	19.7	20.9	23.2
Estimated capital expenditure under P.F.I. (£bn)	-	0.1	0.2	0.4	1.1	1.5	2.2	3.8	4.1	3.0
Real terms, 1998-99 prices (£bn)	-	0.1	0.2	0.4	1.2	1.5	2.2	3.7	3.9	2.8
Total publicly sponsored capital expenditure (£bn)	21.6	20.0	20.8	20.4	18.4	18.5	20.8	24.0	26.1	28.0
P.F.I. as % of total	-	0.5	1.0	2.0	6.0	8.0	11.0	16.0	16.0	11.0

TABLE 2. Private Finance Initiative: estimated capital spending by the private sector.

Private Finance Initiative: estimated capital spending by the private sector	1998-99 (£ m)	1999-00 (£ m)	2000-01 (£ m)	2001-02 (£ m)
Defence	320	105	405	150
Foreign Office and Overseas Development	24	29	4	2
Agriculture ¹	18	56	21	8
Trade and Industry	51	88	21	7
Environment, Transport and the Regions ²	686	986	886	735
Education and Employment ³	11	23	28	9
Home Office	67	257	331	266
Legal Departments	18	37	15	9
Culture, Media, Sport	1	18	11	2
Health	310	610	740	690
Social Security	87	264	166	20
Scotland	263	557	371	60
Wales	24	89	50	19
Northern Ireland	17	48	62	21
Chancellor's Departments	38	36	22	20
Local authorities	38	36	22	20
TOTAL	2185	3803	4133	3018

TABLE 3. Private Finance Initiative: estimated payments under PFI contracts

	£ million	% of T.M.E. ⁴		£ million
1999-00	1456	0.4	2013-14	3423
2000-01	1947	0.5	2014-15	3373
2001-02	2532	0.7	2015-16	3139
2002-03	3019	0.7	2016-17	3159
2003-04	3338	0.8	2017-18	3188
2004-05	3608	0.8	2018-19	2722
2005-06	3548		2019-20	2696
2006-07	3659		2020-21	2692
2007-08	3714		2021-22	2624
2008-09	3641		2022-23	2556

¹ Includes Forestry Commission.

² In June 1998 the Deputy Prime Minister announce that the CTRL deal was being restructured. The figures above reflect the current most likely profile for private sector investment although the profile may change as a result of on-going negotiations.

³ Excludes PFI/PPP activity in the further and higher education sectors which are classified to the private sector. For further and higher education, the total estimated capital value of major PFI/PPP projects which have signed or are expecting to sign is £24 million in 1998-99 and £129 million in 1999-2000.

⁴ Total Managed Expenditure.

2009-10	3539		2023-24	2592
2010-11	3511		2024-25	2545
2011-12	3569		2025-26	2363
2012-13	3562		2026-27	2091

The PFI and the Treasury rules

The results presented above may seem surprising given the extent of public debate over the PFI. The problem of perception may stem from the mistaken belief held by both supporters and opponents of the initiative that PFI allows the public sector to obtain assets and services which the private sector 'pays for', so allowing the public sector to concentrate on paying for other priorities with conventional funding. Arguably, the Treasury has in the past contributed to this confusion by not making clear that the crude public finance arguments usually presented for the PFI were in fact bogus, though they would claim that they are now trying to make amends. They would wish to claim that the PFI is not about getting capital spending 'off the balance sheet'.

In June 1998 the Treasury published a new set of rules in a revised fiscal framework (Treasury 1998). The main features included:

two key rules of thumb to guide fiscal policy over the economic cycle, *the golden rule* and *the sustainable investment rule*

new ways of presenting the current and capital budgets which consigned to oblivion the infamous PSBR and emphasised Public Sector Net Borrowing (PSNB) as a key variable for fiscal policy

a system of Resource Accounting and Budgeting which will inform Departmental capital plans from 2000-01

additional flexibility for large public corporations and new arrangements for student loans

A key issue is how far this new fiscal framework actually helps resolve the perceived fiscal dilemma which led to the PFI in the first place, by making clear that the dilemma does not in fact exist.

The 1999 Budget document highlighted the 'two strict fiscal rules' designed to deliver 'sound public finances':

'the golden rule - on average over the economic cycle, the Government will borrow only to invest and not to fund current spending; and

the sustainable investment rule - public sector net debt as a proportion of GDP will be held over the economic cycle at a stable and prudent level.'

The Budget document went on to point out that the golden rule meant that '...borrowing is permitted to finance public investment'. In other words the golden rule automatically allows,

for example, a hospital to be built using funds raised through conventional public borrowing rather than through the PFI.

The sustainable investment rule is more problematic because it depends on the definition of what is a 'prudent' level of debt. Clearly a debt-GDP ratio which is *rising* remorselessly will rightly sound alarm bells, but there is no strict economic 'rule' as to what *level* of debt-to-GDP could be regarded as sustainable. In practice authorities tend to set *rules of thumb* for acceptable debt-GDP ratios. The Maastricht criteria included a requirement that countries which wanted to join EMU had to have gross debt-GDP ratios of less than 60 per cent, and is the best known example of such an officially sanctioned rule of thumb. The UK has comfortably satisfied this rule for many years. Indeed one has to go back to 1977-78 to find the last year in which the UK would not have satisfied the Maastricht debt criterion.

The 1999 Budget document acknowledged that the current level of net public debt was not high by historical or international standards. However, it argued that a further modest reduction was desirable and, other things equal, suggested as a rule of thumb that the debt-GDP ratio should be below 40 per cent of GDP over the economic cycle. The main pragmatic argument advanced was that this would provide the government with a buffer to react to major economic shocks. So in the event of a major recession, for example, the government could use expansionary fiscal policy to offset that recession without worrying that the public finances would then be set on an unsustainable course.

All of this is strikingly sensible and pragmatic. What are the implications of this rule of thumb for the PFI?

One way to approach this is to undertake the thought exercise: what would have been the implications for the sustainable investment rule of abolishing PFI as part of the Comprehensive Spending Review in 1999 (bearing in mind that the government had committed itself to the previous government's spending plans for its first two years in office)? In other words what would have been the implications for the public finances if the £11bn of PFI capital spending over the period 1999-2002 had been replaced by normal public sector capital spending financed through the traditional method of selling government bonds or gilts?

TABLE 4. The sustainable investment rule with and without PFI

	1999-00	2000-01	2001-02
Public Sector net debt (end year, £bn)	349	352	353
Debt as % of G.D.P.	38.2	36.9	35.3
PFI capital spending (financial year, £bn)	3.8	4.1	3.0
Debt assuming all capital spending by public sector (£bn)	353	360	364
Debt as % of G.D.P.	38.6	37.7	36.4

Note: Ignores any savings from reductions in payments of interest and capital to private sector, and additional interest payments resulting from higher levels of government debt.

Source: Basic data from HM Treasury. Author's own calculations.

Table 4 sets out the results of this thought exercise. The upper part of the table sets out the Government's fiscal plans and shows how the net debt-GDP ratio is due to fall below 40 per cent in the fiscal year 1999-2000 and to continue to decline to 35.3 per cent by the end of the parliament. The lower half of the table sets out the amount of capital spending which is due to be undertaken under PFI and shows what will happen to the net debt-GDP ratio if this spending was instead simply added to the public accounts. The net debt-GDP ratio would still fall below 40 per cent in 1999-2000 and would end the parliament at 36.6 per cent.

So if PFI had been abolished at the time of the Comprehensive Spending Review and the same capital spending had been undertaken through normal public spending channels, the *sustainable investment rule* would have been satisfied, and by definition so would the *golden rule*. So the Treasury's new fiscal framework is entirely compatible with not having the PFI at all - the initiative is not necessary to secure prudent public finances.

Of course even if it was the case that the net debt-GDP ratio was rising sharply this would still not make a case for the PFI. In the end we are worried about the sustainability of the public debt because if it rises sharply this imposes a burden on future generations who will have to service the interest on that debt. The cost of incurring public debt is the stream of interest payments required to service that debt. But the PFI also sets up a future set of obligations to service the payments which are due to honour PFI contracts. The burden is the same in principle. If the PFI delivers value-for-money, so that the stream of repayments is less under the initiative than would have been the case under conventional financing then the PFI saves the taxpayer something. However, we have seen that under plausible assumptions and given the current scale of the PFI the savings involved are marginal when set alongside the totality of public spending.

If PFI spending was replaced by conventional forms of public funding, the selling of an extra £3-4 billion of gilts annually in current circumstances would seem to pose no problems. Indeed financial institutions and particularly the pension funds are complaining about the relative dearth of long-dated government bonds. The textbook spectre of 'financial crowding out' is not a serious issue at the moment.

The other textbook concern is that government financed capital spending might be inflationary by pushing the economy beyond its capacity limits. But of course a given set of capital projects involving essentially the same set of demands for labour and for other inputs would have the same implications for the economy regardless of whether the financing came from the private sector or from the public sector.

So why all the fuss?

If it is true that the usual public finance argument put forward for the PFI was never really sound; that the Treasury's current fiscal rules could easily be satisfied even if the PFI was completely abolished; and that the PFI will make a marginal contribution to the public finances; the question arises: why is it so contentious?

A related question is why does the Treasury not make all of this crystal clear, say with a statement from the Chancellor, explicitly saying that the PFI is not about getting capital spending off the books, but is about securing value-for-money, as part of a wider agenda for modernising the delivery of public services?

The answer may be that the PFI is embroiled in the ongoing game between the Treasury and the spending departments. The Chancellor could say to the DETR or Department of Health that of course they could finance all worthwhile capital projects through conventional means if they wanted to. But he might fear that this would give the spending departments a psychological edge in negotiations, which the Treasury would find unacceptable.

The current confusion around the public finances could actually be damaging the true aim of the PFI in securing better value-for-money. It is quite clear that most if not all public sector managers believe that the PFI really is the only game in town and that the conventional financing route is closed to them by Treasury fiat. But surely this means that when they construct the Public Sector Comparator in order to demonstrate value-for-money, they must be doing so half-heartedly, because they believe that the public financing option is not in fact open to them. And the private sector bidders must be in a more powerful position because they too know that the PSC is a mere formality and the project will go ahead under the PFI. However, this would seem to make it less likely that value-for-money will be achieved.

By making it absolutely explicit that the PFI is not about off balance sheet financing, the Treasury might make it more likely that the initiative can achieve its true aim of securing better value-for-money.

Implications of the public sector financial control framework for PPPs⁵

by

John Hawksworth

Introduction

This paper reviews the changes in the public sector financial control framework under the current Government and considers the possible implications for Public Private Partnerships (PPPs). It does not consider in any detail the value-for-money arguments for PPPs, which will often be strong, independent of the financial framework adopted. This paper complements those by the others in this collection as well as earlier papers by the present author and others that reviewed the PSBR-based regime of the previous Government (see, for example, Hawksworth and Wilcox, 1995). The discussion is divided into the following sections:

Section 1 outlines the new public sector financial control framework introduced by the Labour Government, highlighting the key changes from the previous Government's regime;

Section 2 discusses the implications of this new regime for public sector investment and for PPPs;

Section 3 discusses how the planned introduction of Resource Accounting and Budgeting (RAB) over the next few years may influence PPPs;

Section 4 reviews some possible alternatives to the present public sector financial control framework and discusses their potential implications for PPPs; and

Section 5 summarises and concludes.

1. The new public sector financial control framework

The Labour Government's new public sector financial control framework, which was introduced in full in June 1998⁶, has potentially important implications for public investment and PPPs. As the changes to the previous regime are somewhat complex, with much use of new or revised definitions and acronyms, it is quite common to come across misunderstandings and misinterpretations of the changes and their likely effects. It is therefore worth describing the key features of the new control framework in some detail,

⁵ This paper was prepared by John Hawksworth. The views expressed are his own and not those of PriceWaterhouseCoopers.

⁶ HM Treasury, *Stability and Investment for the Long Term*, Economic and Fiscal Strategy Report (EFSR) (Cm 3978), June 1998. Elements of the new fiscal policy regime had been set out in earlier documents, but this report brought it all together and contained, for the first time, details of the new public spending control aggregates to be used from 1999/2000 onwards.

although readers who are already familiar with these details may want to skim the next few pages and move directly to the implications for capital spending and PPPs in Section 2 below.

First, the previously dominant measure of the fiscal stance, the Public Sector Borrowing Requirement (PSBR), was not only renamed as the Public Sector Net Cash Requirement (PSNCR), but more importantly was also greatly downgraded in significance. Notably, the PSNCR does not even feature in a list of 12 key indicators in the Pre-Budget Report (PBR) of November 1999⁷ and also no longer appears in the monthly ONS press release on the public finances.

Second, the Government adopted Public Sector Net Borrowing (PSNB), previously known as the Public Sector Financial Deficit (PSFD), as its preferred new measure of the overall fiscal stance (i.e. the overall impact of fiscal policy on the economy). PSNB is similar to the PSBR in covering the whole of the public sector and taking account of both current and capital spending, but differs from the PSBR in three key respects:

It is consistent with the latest internationally accepted national accounting standards (SNA93 and ESA95);

It measures receipts and spending on an accruals basis rather than a cash basis (this payments are accounted for in the period when they are due rather than when they are actually paid); and

PSNB excludes financial transactions, such as sales of shares in public corporations (although not sales of physical assets such as council houses), which are now treated as helping to finance the government deficit in the same way as bond issues.

Third, the Government's medium term fiscal objectives of fairness, prudence and sustainability have been expressed, not in terms of PSNB, but rather in terms of two new rules:

- **the Golden Rule** of borrowing only to invest on average over the economic cycle; in practice, this is defined in terms of the current budget balance (that is, before deducting net public investment⁸) being non-negative either on average over an estimated full economic cycle, or in cyclically-adjusted terms (using Treasury estimates of the output gap and the relationship between this and the ratio of government receipts and current spending to GDP); and
- **the sustainable investment rule**, which is defined in terms of keeping the ratio of net public debt to GDP on average over the economic cycle at a 'stable and prudent level', currently defined as being no more than 40%⁹; this is notable in that net public debt is

⁷ Table 2.3 of the PBR does include the Central Government Net Cash Requirement (CGNCR) as an indicator of the annual cash amount that central government needs to finance through net gilt issues and other means. However, the CGNCR has no direct role in the new fiscal control framework, which also covers local government and public corporations and is moving increasingly towards an accruals basis.

⁸ Net public investment is defined as total (gross) investment *less* fixed asset sales *less* depreciation of existing public assets, but excludes publicly sponsored but privately financed investment under the PFI and other PPPs.

⁹ The Treasury does not give any specific justification for the 40% figure, although the EFSR notes that this was only achieved in one previous period (the late 1980s boom) over the past 30 years. It is also below the net debt level in most other G7 countries.

measured in cash terms and so is the stock counterpart¹⁰ of the PSNCR rather than the PSNB; as such the old PSBR constraint potentially re-enters the frame, but only in terms of the cumulative impact on net public debt over a number of years, rather than in terms of annual borrowing.

Fourth, the practical mechanism for delivering these fiscal objectives was to be through tax policy and, on the spending side, the control of a new aggregate, Total Managed Expenditure (TME). This is equal to the sum of public sector current expenditure and net public investment and is defined on an accruals basis consistent with national accounting standards. Critically, by setting TME first in line with overall fiscal objectives in June 1998, and only then specifying individual departmental and other spending allocations within this total in the CSR report in July 1998, the new system preserves the ‘top-down’ approach to public spending control that had generally proved successful in bearing down on spending under the previous Government since 1993. TME is divided into two broadly equal components:

- **Departmental Expenditure Limits (DEL)**, which set firm three-year limits for *cash* spending by government departments (with certain exceptions such as social security where only administrative costs were included), with only a relatively modest contingency reserve (£2 billion in 1999/2000 according to the PBR) and a separate small ‘capital modernisation fund’ to be allocated by the Treasury to particular projects over the period from 1999/2000 to 2001/02. The DELs were further split down into separate current and capital spending budgets, with a view to avoiding the previous tendency for capital budgets to be cut back at the expense of current spending¹¹; and
- **Annually Managed Expenditure (AME)**, which includes a variety of spending items that would continue to be managed on a year-by-year basis, the largest of which were social security benefits, central government debt interest, locally financed expenditure and various accounting adjustments¹². AME also includes the external financing requirements of the nationalised industries and certain other public corporations, with a view to giving at least some of these organisations (such as the Post Office and local authority airports that meet certain financial strength tests) greater financial flexibility by moving them outside the DELs, while keeping them within the overall public sector financial control framework. The AME total includes a margin (currently £3.5 billion for 1999/2000) intended to absorb variations in other elements of AME that are volatile and/or outside the Government’s direct control (for example, interest rates, unemployment rates and EC contributions).

Fifth, the Government has reaffirmed the intention of its predecessor to introduce a system of published Resource Accounts for departments from 1999-2000, with a move to full Resource Budgeting from 2001-02 onwards. The implications of RAB are discussed further in Section 3.

¹⁰ In other words, aside from debt valuation changes caused by foreign exchange movements and similar factors, the change in the net public debt stock from year end to year end will equal the PSBR/PSNCR during that financial year.

¹¹ In practice, there is still some scope for Departments to move funds between the current and capital budgets within “an agreed margin which allows for some managerial flexibility or to finance private-public partnerships” (p. 26, HM Treasury, EFSR, June 1998).

¹² These adjustments, which totalled £9.3 billion in 1998/99, include accruals adjustments and items such as the Working Families’ Tax Credit that are classified as public spending under national accounting rules but which the Treasury has, rather controversially, classified as a reduction in income tax in its own figures.

Sixth, the Government has given more prominence to estimates of total public sector net worth as a fiscal indicator, but has not adopted a formal objective for this variable (in contrast to net public debt) because of difficulties in measuring the value of public assets accurately. The feasibility of publishing Whole of Government Accounts, including a full government or public sector balance sheet, has been discussed as a possible future next step.

Finally, the Government has stated its commitment to achieving the fiscal convergence criteria in the Maastricht Treaty and the Stability and Growth Pact (SGP). As such, the two Maastricht measures, General Government Net Borrowing (GGNB)¹³ and General Government Gross Debt (GGGD), are included in the list of fiscal indicators regularly published by the Treasury (under the sub-heading 'European commitments'), but have no particular operational significance under the new regime. In particular, the Treasury explicitly rejected in June 1998 the suggestion, made previously by the present author as well as several other experts and organisations including the CBI and the TUC, that GGNB rather than PSBR or PSNB should be the primary fiscal control measure. The GGNB tends now to be the major fiscal indicator of concern in European countries that are within the Euro zone, where failure to keep the GGNB below 3% of GDP would potentially incur substantial fines under the terms of the SGP. However, as a non-participant in EMU, these fines would not apply to the UK, which in any case is comfortably within the Maastricht limits at present (and indeed for the foreseeable future).

2. Implications for public sector investment and PPPs

One of the key objectives of the new framework is to provide a more conducive regime for public investment, which in net terms had fallen to only 0.6% of GDP in 1997/98 and 1998/99 under the spending plans set out by the previous Government and carried through by Labour in their first two years in office. This was to be achieved through:

- the application of the Golden Rule, which allowed for an increase in borrowing to fund extra public investment up to the level at which the 40% net debt rule might be threatened; this provides the back-drop to the plans in the first CSR for net public investment to rise from £5 billion in 1998/99 to around £10 billion in 2001/02, with indicative figures in the latest PBR suggesting a further increase to around £17 billion by 2004/05 (although these will be subject to revision following the second CSR as well, of course, as the result of the next General Election);
- the specification of separate current and capital budgets within the DELs, although as noted above there was some flexibility to adjust these, notably in order to finance PPPs that might involve substituting a flow of future current spending commitments for up-front public sector capital spending;
- greater freedom, at the discretion of the Treasury, for financially self-standing public corporations, which has since been applied to the Post Office and certain local authority airports (for example, Manchester, Newcastle and Leeds and Bradford airports); and

¹³ GGNB was previously called the General Government Financial Deficit (GGFD) and is equal to the PSNB excluding the net borrowing of public corporations.

- plans to move to resource budgeting from 2001-02 (at least for those departments that are ready); under RAB, departments will account for capital spending over the lifetime of the asset created, rather than in the year when the spending is incurred.

As Peter Robinson points out in the first paper of this collection, the sustainable investment rule would not at present appear to provide any reason why planned spending under the PFI could not be funded through traditional gilt-financed public sector capital spending if desired. The net debt to GDP ratio is already below 40% and is set to fall to only around 32.5% by 2004-05 according to the latest Treasury projections (see Tables B5 and B6 in the November 1999 PBR). Based on the Treasury's estimate that nominal GDP will be around £1124 billion in 2004/05, the allowable net public debt stock would be around £450 billion in that year, compared to the Treasury projection of around £375 billion. If we assume for simplicity that PFI spending generates interest charges (passed on to the Government via service payments) not very different from those under traditional gilt-financed public procurement¹⁴, then we can say that total PFI spending of the order of around £75 billion over the next five years (around £15 billion per annum) could be afforded without breaching the 40% debt limit. In practice, planned PFI spending is only running at around £4 billion per annum (less than 0.5% of GDP), so there would clearly have been scope for all of this PFI investment and more to have been financed 'on balance sheet' had the Government wished to do so. Certainly, pension funds are crying out for gilts at the moment, forcing yields on long-dated government bonds to very low levels.

The above points imply that value-for-money is really the only good argument for adopting PFI/PPP deals at present. It should be noted, however, that the increasingly stringent application of value-for-money tests using a detailed Public Sector Comparator (PSC) gives support to the Government's view that PPPs will indeed deliver the best value-for-money. This was also the conclusion of a recent Arthur Andersen report¹⁵, commissioned by the Treasury Taskforce (TTF), which suggests an average saving of 17% against the PSC for a sample of 29 PFI projects (although the report notes that this result is heavily dependent on risk transfer valuations that are subject to significant uncertainty). Earlier National Audit Office (NAO) reports had found value for money savings on PFI projects varying from 3% to 12%¹⁶, based on the estimates of the relevant Departments, corrected for any major errors identified by the NAO.

Of course, the Treasury's public finance projections, which look reasonable enough at present, are subject to a wide margin of error. If they turn out to be highly over-optimistic, for example because of an unforeseen future recession or, say, a material loss of indirect tax revenue from increased Internet trading, then the net debt ratio could move back up towards 40% and could again become a real constraint on public sector capital spending. If nominal GDP growth is, say, 5% per annum, then (to a first approximation) this would allow a total budget deficit of around 2% of GDP on average over the economic cycle. If the Government

¹⁴ Note that PFI service payments related to the cost of capital (which can be estimated hypothetically, although they will not be directly observable within a unitary charging mechanism) are likely to be higher than debt interest payments and will also include a depreciation charge. This should be offset to some degree by greater efficiency on both capital and operating costs under the PFI option.

¹⁵ 'Value for Money Drivers in the Private Finance Initiative', A Report by Arthur Andersen and Enterprise LSE, January 2000. This report is available on the Treasury Taskforce website.

¹⁶ The 12% estimate is an aggregate for the first four DBFO road projects, one of which was shown by the NAO to have a PFI NPV cost above the PSC, based on a 6% discount rate. In general, we understand that the NAO did not attempt to produce independent cost estimates for its PFI reports, but rather just checked the departmental cost estimates for gross errors.

allows for a margin of error on the Golden Rule of, say, 1% of GDP (which is in line with current projections for the cyclically-adjusted current surplus over the next five years in the PBR, Table B3), then this might allow for net public investment of up to around 3% of GDP. If a margin of error is also desired in relation to the net debt rule, then the maximum allowed level of public sector capital investment might be restricted to around 2% of GDP. In any event, however, this would allow for an increase (of around 0.5-1.5% of GDP) from the planned net public investment level of 1.5% of GDP in 2004-05 (PBR, Table B6). This is enough to at least cover currently planned levels of PFI spending, although it would not allow much room for additional manoeuvre if the lower bound estimate is adopted.

In summary, in relation to the Government's two key fiscal rules, there is no obvious **macro level** constraint on public sector investment that is driving the use of PPPs. This is true now and for the foreseeable future. Although it is possible to construct scenarios where the net debt ratio could eventually become a constraint again, this does not seem very likely on a five-year time horizon. In any event, as discussed further in Section 4 below, any such future constraint could be seen as the result of a flaw in the definition of the sustainable investment rule, with its focus on only 'on balance sheet' debt. 'Off balance sheet' commitments are arguably just as relevant in terms of the future requirements to service the PPP deal that a Government enters in to at the start of the project. These commitments are already reported to Parliament, but this is not the relevant point from the perspective of defining the sustainable investment rule in an appropriate manner. The 40% target for net debt is also essentially arbitrary and provides a significant margin of error relative to the (equally arbitrary) 60% Maastricht reference value for gross government debt, which translates to a net public debt ratio of around 53% for the UK based on the 1998/99 data.

All of this raises a question as to why PFI/PPP deals are still sometimes justified, as in some recent ministerial statements, as being the only way to get much needed investment in public sector infrastructure. This may just reflect the fact that ministers want to stress the increased success of the PFI in terms of the value of deals completed in recent years. Certainly, all recently published Treasury Taskforce guidelines and NAO reports are very clear on the primacy of value-for-money tests, as was the Chief Secretary to the Treasury in his evidence to the Treasury Select Committee on PFI in January 2000. It could also, however, indicate a partial reversion to the pre-1997 Treasury orthodoxy, where the PSBR was the dominant fiscal indicator, there was a strong macroeconomic imperative to bring down the unsustainably large budget deficit that built up in the early 1990s, and the PFI was seen as offering good value-for-money as a matter of general principle.

This line of argument also raises a possible puzzle as to why so much attention has been paid to the debate between the Treasury and the Accounting Standards Board (ASB) about the criteria for judging whether PFI deals were on or off the public sector balance sheet. Although this was partly just a matter of providing clarity on accounting procedures to potential private sector partners, it was clearly also the case, as discussed in Broadbent *et al's* paper in this collection, that the Treasury was keen to have PFI deals classified as off the public sector balance sheet. From a value-for-money perspective, which is based in large part¹⁷ on comparing the net present value of projected cash flows for the PFI option(s) and public sector comparator, the accounting treatment of the transaction is, strictly speaking, irrelevant. In practice, however, many of the same risk assessment issues may well have an

¹⁷ There may well be some additional considerations that are not readily quantifiable in financial terms (for example, dynamic benefits from the encouragement of innovation in design and operation in PFI/PPP projects).

impact on both the public sector comparator estimates and the accounting treatment, so in the past there may have been seen to be an approximate equivalence between whether a PFI project was off balance sheet and whether it offered good value-for-money. However, it is now recognised that there is no particular reason why, for example, it will necessarily be optimal in value-for-money terms to transfer the amount of risk to the private sector partner that is necessary for the transaction to be assessed as being off the public sector balance sheet according to the agreed Treasury/ASB rules. PPPs with lesser degrees of risk transfer may well still offer good value-for-money in some circumstances. In this sense, the accounting test of whether a project is on or off balance sheet should now be redundant given that detailed value-for-money testing against a PSC is now required.

The most plausible explanation for the continued perceived significance of the ‘off balance sheet’ test is that, **at the micro level**, the new financial control regime is still a top-down, Treasury-controlled system that leaves public sector managers highly constrained in relation to capital budgets in particular (and DELs more generally). Notably, while the CSR allowed for a total increase in annual public spending of around £56 billion between 1998/99 (year 0) and 2001/02 (year 3), only around £67 billion of this total was in the form of higher investment. Although net investment is set to double over the period, what managers will be more interested in is the increase in gross investment (before deducting asset sales and depreciation), which will only be around 26% in total over the three years (or from 2.7% of GDP in 1998/99 to 3% of GDP in 2001/02 according to Table B6 in the PBR). There is certainly no bonanza planned for public sector investment over this period, but rather just a gradual return towards the levels seen in the first half of the 1990s¹⁸, which was itself a period when complaints about an undue squeeze on public investment were not uncommon.

The fact that the Chancellor could, on his own projections, afford much greater increases in public investment without breaching the 40% net debt limit is of little consolation to public sector managers, who are generally still having to live within very tight Treasury-imposed annual capital spending budgets (within overall DELs that set ceilings on total spending). In these circumstances, PFI/PPP deals that have a deferred impact, and then only on current budgets, may remain attractive for reasons other than strict value-for-money considerations. This does not mean that deals would go ahead that do not represent good value-for-money, but it does mean that:

- there is still an incentive for PFI/PPP options to be put forward for consideration in inappropriate cases, although the procedures for approving projects both within departments and by the Treasury (both as regards public expenditure teams and the Treasury Taskforce) mean that this is unlikely to be the case in practice; and
- managers may have incentives to give the benefit of the doubt to PFI/PPP options in marginal cases, given the subjectivity of the risk transfer valuations in particular.

Of course, many private sector managers might make the same complaint, since annual capital budgeting, based on a top-down assessment and prioritisation of bottom-up proposals, is also the norm in the private sector. Indeed, it could be argued that private sector managers face even greater constraints, because the government has easier access to capital markets to

¹⁸ Comparisons are distorted here by privatisations and asset sales, but Table B21 in the PBR shows that the level of net public investment averaged around 1.75% of GDP between 1990/91 and 1994/95, compared to a projected increase back to 1.5% of GDP in 2003/04 and 2004/05.

fund additional investment than all but the largest companies. Nonetheless, the perception remains in public sector organisations that they are relatively tightly constrained on capital spending, even under the new control regime. In contrast, capital has generally been available to competent private sector management teams leading PPP bids both in areas such as transport, where there is an actual or shadow revenue stream, and in traditionally non-market sectors such as the NHS, prisons and state education, where the security for the lender is the contract with the Government that underpins projected cash flows from the project itself.

3. Implications for PPPs of Resource Accounting and Budgeting (RAB)

The full implications of RAB will only become apparent once the new regime has been up and running for several years, but some tentative conclusions can be drawn based on the information currently available¹⁹.

First, the move to RAB should have no impact on value-for-money judgements related to PPPs, since the latter should be based on discounted cash flow analysis not accounting practices. In principle, therefore, the PPPs that government departments go ahead with should be the same whether or not RAB is introduced.

Second, however, the move to RAB will focus more attention on how government departments (and other executive agencies and public bodies that are classified as being within the departmental boundary for resource accounting purposes) use their existing assets. This is because the cost of these existing assets will now be reflected explicitly in resource accounts and budgets through depreciation and cost of capital charges. In contrast, the focus in the current regime is on minimising the up-front capital cost of the asset, with little incentive to make best use of the asset once it has been created. Partnerships with the private sector may play a major role in making better use of these existing assets, particularly where they have some revenue-generating capability (for example, in the case of excess land or buildings in departments like the MOD in particular). RAB will therefore reinforce existing trends towards more commercial management of public sector assets.

Third, although RAB will introduce a more commercial approach to accounting for capital spending at the micro level, departments will still have overall limits set on their net cash financing requirements in addition to their resource budgets. As such, the up-front cash costs of major capital projects will still be subject to important practical budgetary constraints at departmental level. The attractiveness of PPPs as a way to avoid these constraints may therefore still remain in the new regime, even if this is counterbalanced to some degree by a method of accounting that spreads the capital cost over the lifetime of the asset.

Though it is too early to say how RAB will operate in practice, it seems reasonable to conclude that it is being introduced by the Treasury as a way to tighten up financial controls, not to loosen them. RAB does represent a more rational approach to capital accounting, but it provides no new resources and should certainly not be seen as a 'magic bullet' that will solve problems of public sector under-investment. Indeed, the potential additional financial constraints that RAB may impose by charging for existing capital for the first time (in addition to retaining overall departmental cash limits) could pose significant challenges to

¹⁹ A good summary is provided in a recent House of Commons library research paper on RAB (no.97, November 1999).

public sector managers. This may, however, have the benefit of stimulating more imaginative use of PPPs in some departments where they are not yet widely used.

4. Implications for PPPs of possible alternative public sector financial control frameworks

In the past, the debate on the appropriate public sector control framework has often tended to focus on the merits of this or that fiscal aggregate (for example, PSBR vs GGFD). The key issue underlying this debate, however, is where the dividing line should be drawn between:

- those elements of public spending and borrowing (or publicly-sponsored spending and borrowing) that the Treasury should control; and
- those areas where local managers (and politicians in the case of local government) should be free to take their own spending and financing decisions without Treasury constraint, but subject instead to the normal constraints of private sector capital markets.

The traditional Treasury position is that it needs to be able to control the spending and borrowing of *all* public sector bodies, defined as those organisations where the public sector has effective control (generally, although not exclusively, through majority share ownership or the right to appoint the majority of board members). Since 1998, as noted above, some relaxation of this rule has been allowed for certain self-financing public corporations (i.e. the Post Office and selected local authority airports). These exceptions have, however, always been at the discretion of the Treasury and are subject to meeting a number of prudential tests of financial strength and demonstrating a track record of financial responsibility over a significant period of time. There are also some upper limits to these financial freedoms beyond which the Treasury (and/or the responsible Minister) would still need to be consulted prior to making major investments and borrowings.

It seems perfectly possible that this discretionary granting of additional financial freedoms could be extended on a case-by-case basis to other public sector bodies, such as 'beacon councils' and other high performing public sector organisations. Subject to continued good financial performance, these bodies might be allowed direct access to capital markets outside normal Treasury controls, possibly up to some pre-set maximum limit or subject to prudential controls on key financial ratios (for example, gearing or interest cover). Managers would need to be held strictly accountable for performance to give the right incentives to deliver results²⁰. Resource accounting, to the extent that it is eventually rolled out across the public sector, may facilitate this process by making it easier to set and monitor these financial performance measures. These additional freedoms could affect PPPs in two ways:

- they would remove (or at least significantly reduce) any possible incentive to pursue PPP options purely as a way to evade Treasury controls, since these bodies would have the freedom to go direct to the capital markets to fund investment (up to certain limits); instead the focus would be on value-for-money considerations, where PPPs have already shown they can deliver real benefits in appropriate circumstances; and

²⁰ In practice, of course, this is not straightforward to achieve, but detailed discussion of possible mechanisms for creating the right incentives for public sector managers is beyond the scope of this paper.

- they might allow greater freedom to pursue innovative forms of PPPs that, for example, allowed the public sector to retain ultimate control while giving minority equity stakes to private sector investors/contractors, without these projects falling foul of Treasury rules; housing and transport would be two obvious areas where this might be possible in the case of local authorities.

A much more radical step would be for the Treasury to allow whole classes of public sector bodies (such as all revenue-generating public corporations and agencies or all local authorities) to ‘opt out’²¹ of Treasury control, in return perhaps for explicitly giving up any possibility of a central government guarantee on their borrowings. At present, this seems extremely unlikely for the simple reason that, rightly or wrongly, the Treasury does not trust many of these bodies to run their finances prudently without central oversight. Any such reform would also require an effective form of ‘public sector bankruptcy’ to be introduced that allowed failing management teams to be replaced without threatening continuity of provision of essential public services. Although there are practical examples (for example, housing associations, although these are not classified as being within the public sector, despite being heavily reliant on government funding) where this kind of regime has been successfully developed, it would represent a major shift in the way in which the public sector operates if it was to be introduced on a broader scale. Even if this proved possible, which the Treasury is sceptical of, it would also increase the cost of finance to these bodies through the addition of a default risk premium.

This suggests that we may continue to see a gradual, case-by-case approach where additional financial freedoms are granted at the discretion of the Treasury to particular bodies. In these cases, a tailored regulatory regime will need to be designed that both minimises the risk of financial default and provides a mechanism for dealing with default in the unlikely event that it does occur. As a consequence, however, liberalisation is likely to be a relatively slow process and there is still a risk that there could be some cases where PPPs are pursued for the ‘wrong’ reasons (to escape Treasury controls rather than to maximise value-for-money and where some innovative forms of PPPs may be stymied by Treasury rules. The benefits of liberalisation need to be set against the potential costs of any misuse of freedoms by a (probably very small) minority of the public sector bodies that might be granted these freedoms under a more liberal regime. These risks should be manageable, however, and there should be scope for progressive moves towards a more liberal approach in relation to both public corporations and local authorities²². Although it seems unlikely that we will see radical reforms in this area in the near future, it is important that recent progress in this direction is maintained and, where possible and appropriate, accelerated.

One specific additional area where reform of the public sector financial control framework might be considered relates to ‘off balance sheet’ liabilities²³. As noted in Robinson’s paper,

²¹ An alternative might be to move all such bodies outside Treasury controls, but it may be that some such bodies would not want to have to rely on private sector capital markets before building up a strong financial track record and appropriate managerial expertise. An opt-out system would allow for a more gradual transition, although the expectation would be that a high proportion of nationalised industries and large local authorities would be more than happy to take up this challenge.

²² It is more difficult to see how this could apply to central government departments, although it may be possible to spin off certain of their operations into new arms-length agencies or public corporations that might be granted greater freedom. See, for example, the proposal by David Newbery and Georgina Santos on road finance (1999).

²³ This could also mirror possible future changes in private sector accounting principles, which may well require companies to account for a broader range of actual and potential future liabilities in their balance sheets, although these changes are still at the discussion stage within the accounting profession.

there is no obvious reason why the future liabilities incurred under a PFI scheme should be regarded any differently from the future liabilities incurred via traditional gilt-financed public procurement. This might suggest that the Chancellor's debt-to-GDP ratio target should be redefined to include not just conventional public sector debt, but also the estimated present value of the (notional) cost of capital element within future PPP/PFI liabilities. This raises some potentially tricky measurement issues, but it seems worthy of further consideration.

5. Summary and conclusions

The new public sector financial control framework introduced by the Labour Government over the past few years has removed some of the most serious constraints on public sector investment imposed by the old PSBR-based regime. At the macroeconomic level, this paper confirms the conclusion in Robinson's paper that there is no good reason why planned PPP spending could not just as well be financed through additional public borrowing without breaching the Chancellor's two key fiscal rules. As past experience shows, PPP schemes have the potential to deliver good value-for-money in many circumstances, but the public sector financial framework should provide a level playing field within which to make these value-for-money judgements on a case-by-case basis.

Redefining the sustainable investment rule to include the present value of 'off balance sheet commitments' from PPP schemes as well as conventional government debt would reinforce this conclusion. It would also be desirable for the Government to issue a policy statement making it absolutely clear that accounting tests of whether a PPP project is on or off the public sector balance sheet are not relevant to assessing whether or not such a project should go ahead, which would rather be determined on the basis of a rigorous value-for-money test, as specified in Treasury Taskforce best practice guidelines and as advocated by the NAO.

At the micro level, however, current government spending plans still impose tight budgetary constraints on public investment, which is set to remain at relatively low levels over the next few years despite some planned increases. In general, the introduction of RAB is to be welcomed as it should encourage public sector managers to make more effective use of existing assets, which in many cases may involve making more use of PPPs. RAB will not ease existing budgetary constraints on new public sector investment, however, and in some cases could even tighten financial controls by imposing both micro-level resource budget constraints and departmental-level net cash financing limits.

In these circumstances, there may still be some incentives for PPPs to be pursued in some cases as a way to circumvent these budgetary constraints. To the extent that this allows worthwhile investment to go ahead, this is not necessarily a bad thing, but it would be preferable to have a level playing field in the first place. The proposal in this paper is that this should be achieved through the gradual case-by-case extension of additional commercial freedoms to selected public sector bodies to manage their own borrowing and investment, as have already granted to the Post Office and certain local authority airports. The immediate candidates for such treatment, which would be subject to development of appropriate regulatory regimes for the bodies concerned to ensure that risks of abuse of these freedoms were minimised, would include:

- other existing public corporations that meet reasonable tests of financial strength (such as Scottish water authorities);

- local authority activities (for example, housing and local transport) that can be transferred into arms-length companies, whether or not this involves the local authority having majority control on the boards of these new companies; and
- ‘beacon’ councils, whose record of financial performance and service delivery was such as to justify granting greater financial freedom, subject to normal processes of audit and review by the Audit Commission.

It is clear that, in practice, any such liberalisation will need to be a gradual process, with freedoms only granted to those public sector bodies that ‘earn’ them through a track record of strong financial performance and responsible behaviour. It is important, however, that recent progress in this direction should be maintained and, where possible, accelerated. Only when local public sector managers are trusted enough to be allowed to run their own finances will it be possible to reap the full benefits of the PPP initiative.

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The Origins and Operation of the Private Finance Initiative

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Executive Summary

The Private Finance Initiative (PFI) is one of the most developed forms of Public Private Partnership (PPP) that both the Conservative and Labour Governments have fostered

PFI is primarily about encouraging the private sector to supply public services, often involving the provision of property, usually over a very long time span, in return for an ongoing annual charge. At the heart of PFI is a dilemma as to whether it is a procurement device for the public sector that is:

Either intended to avoid public sector expenditure controls

Or intended for the provision of services that can bring about risk transfer and yield value-for-money.

Whether it is one or both of these remains uncertain. More recently attention has been focussed on the latter justification and this provides the focus for this paper. We nevertheless argue that the two elements remain inter-related.

The origins of PFI are traceable to the Ryrie Rules for securing private sector finance for the public sector. In practice these rules largely prevented the introduction of private finance and they were finally replaced in 1992 with the introduction of the PFI. Despite a number of developments in the remaining years of the Conservative Government few contracts were signed. After some uncertainty before they reached power, the incoming Labour Government adopted PFI with considerable enthusiasm. Within 7 days of taking office they undertook a comprehensive analysis of the PFI - the Bates Review.

The Bates Review made a number of recommendations notably the introduction of a new Taskforce to steer through the development of PFI to be located within HM Treasury. This was the start toward an increasing impetus to the centralisation and standardisation of the PFI. This has included:

the debate and final resolution of how to account for PFI;

the introduction of standard procurement and contracting arrangements and training and education packages;

the emergence of a Project Review Group to sign off all local authority PFI deals and, maybe in the future, all departmental deals;

following the second Bates Review in 1999, the introduction of Partnerships UK to offer advice on all PFI proposals.

attention to the increasing standardisation of employees rights when transferring employment in PFI projects.

Key, in a large part of these developments, has been the role of the Treasury Taskforce and the National Audit Office – the latter having issued a number of value-for-money audits of PFI projects. A review of these audits would provide evidence of future savings in the order of 20% on average. However, excluding two IT based PFI schemes may give a more typical sample, with the estimated savings then in the order of 10%. This was also the conclusion reached by Arthur Andersen in their report for the Treasury Task Force. In addition Arthur Anderson investigated a larger sample of schemes, and argued that an average saving of 17% might be achieved.

Value-for-money is considered in the context of some of the technical matters arising from the links between the macro fiscal and micro value-for-money issues surrounding all PFI projects. First we discuss the accounting rules for PFI which led to major disagreements between the Treasury and the Accounting Standards Board as to whether PFI transactions should be ‘on’ or ‘off’ public sector balance sheets. The link of this seemingly innocuous question to value-for-money issues is that a perception has been formed that if an ‘on’ balance sheet treatment is the outcome then risk transfer has not occurred to an adequate degree and therefore value-for-money has not been achieved. An ‘on’ balance sheet treatment could also have an effect on public borrowing but this is less clear. It might also count against the new departmental expenditure limits. The introduction of Resource Accounting and Budgeting (RAB) is also a seeming neutral accounting process, yet also has links into value-for-money concerns. This abandonment of cash accounting and the introduction of balance sheets and asset recognition would have an effect if a PFI transaction is deemed to be ‘on’ balance sheet. RAB not only recognises assets but also introduces a new concern with asset utilisation and return on capital.

The paper explores the current ways value-for-money is determined. Key in determining value-for-money is the matter of risk transfer. Put simply there is a cost to carrying risk and the higher the risk the higher the cost. To ensure value-for-money is achieved it is necessary to be able to compare how much a PFI transaction would cost over time relative to the Public Sector Comparator (PSC). If the PFI deal is less than the PSC then value-for-money has been achieved. The paper traces some of the important technical problems involved in defining the cost values of both the PFI and the PSC. Notable amongst these is the choice of the discount rate to be used to compare future cash flows at to-days prices. The effect of choosing a ‘wrong’ discount rate is to distort the comparison. The question of how to decide the appropriate rate remains open.

Finally, the paper, drawing from this wide-ranging somewhat complicated picture, poses a range of unanswered questions and research issues that still need to be addressed.

What is the nature of PFI? Is PFI merely a device to reduce public sector borrowing or is it a technique to secure value-for-money in procurement?

Who is regulating the application of PFI? Is it the Treasury Taskforce, the NAO or both or some other agency?

How are definitions of PFI in terms of value-for-money and risk transfer derived and operationised?

How are PFI decisions made in different areas of the public sector and what are the *long term* repercussions for the public sector services offered?

What is the merit and worth of PFI? How can the short term value-for-money studies currently being undertaken by the NAO fit with the important long term evaluation that is required?

Introduction

The Private Finance Initiative (PFI) is one of the most significant forms of Public Private Partnership (PPP) being undertaken by the present Government. A simple understanding of the PFI is that it allows private sector involvement in the public sector particularly in the provision of long term asset-based services. PFI is part of a much wider agenda to increase the efficiency of the public sector through the introduction of managerial change and expertise drawn from the private sector.

Arguably, until the introduction of PFI, more effort had been directed towards maintaining current expenditure in the public sector, with a relative neglect of capital spending and consideration of different approaches to the financing of investment in infrastructure. Capital expenditure tends to have a lower political priority. It does not have the immediate political and social impact that follows from not fulfilling current spending commitments. However, the cumulative effect of under-investment on the capital stock inevitably increases through time. It was the reality of this pressing infrastructure need, alongside the equally pressing requirement to keep public expenditure under control, which, when coupled with an ideological commitment to involve the private sector in the public sector, led the Conservative Government to launch PFI in 1992.

The Labour Government has advanced the cause of PFI. There are three possible reasons why PPPs (and, by implication, PFI) have been taken on by the Labour Government with such enthusiasm. First, is the perceived *political* imperative of developing a new relationship between the public and private sectors, in an attempt to show that the centre-left had dropped its historical ambivalence to the private sector and the profit motive'. Second, it is hoped that PPPs will improve *the quality of public services*. Third, it is believed that the use of PPPs will help the government overcome a *perceived fiscal dilemma*, reconciling the desire for investment in public services and infrastructure with its commitment to maintaining a tight fiscal stance and not raising income tax rates.

It is difficult to give a clear and concise definition of PFI and this lack of clarity makes its evaluation equally complex. When launched in the 1992 Autumn Statement by the then Chancellor of the Exchequer, Norman Lamont, it was to 'allow private financing of capital projects'²⁴ in the public sector. As time has passed and a new Government has taken on the Initiative so views have developed. The Treasury Taskforce explains that 'PFI has become one of the Government's main instruments for the delivery of high quality and cost effective public services. It enables value for money and improvements to be obtained by requiring the private sector in competition to be innovative in the design and operation of asset based

²⁴ Norman Lamont, House of Commons Hansard, 12/11/92, © 998

services, manage an appropriate level of risk and adequately maintain assets²⁵ on a long term basis.’

We therefore have two contrasting views of the rationale for PFI:

That PFI is a means by which to avoid public expenditure controls and thereby achieve investment that could not be afforded otherwise.

That PFI is a public procurement approach that can yield value-for-money and risk transfer to the benefit of the public.

Whilst both justifications for PFI have always existed, more recently there has been a move towards emphasising the latter. However, some confusion remains. Alan Milburn’s speech at the launch of the IPPR Commission on PPPs, for example noted that PPPs (and hence PFI) allow ‘more investment in our key public services’ as well as offering a route to greater value-for-money in the provision of those services. Equally, the National Audit Office (NAO) in their 8th report on PFI, examining the issue of value-for-money, commented that PFI ‘can enable departments to undertake projects, which they would be unable to finance conventionally.’²⁶ Frank Dobson described the confusion well. In evidence to the Select Committee on Health he noted the ‘shoals of exaggeration about the PFI’ which came from those on either side of the debate. This paper seeks to present evidence to enable some evaluation of the debates to be made and in doing so will focus more directly on the second set of justifications: that PFI produces value for money for the public sector.

In order to explore all these issues the paper is divided into two substantive sections followed by a reflective conclusion. The first section will provide an overview of the emergence and development of PFI from its inception in 1992 to the present day to give a feel for the many parties involved and changes that have been made over the years. The second section explores some of the micro issues that surround the working of PFI in terms of how actual PFI decisions are made, paying particular attention to value-for-money and risk allocation issues. The concluding section sets out a number of implications and unanswered questions on PFI.

The emergence and development of the private finance initiative

(i) The precursor to PFI

The roots of PFI lie in the Ryrie Rules (named after Sir William Ryrie a former Second Permanent Secretary of the Treasury). These were ostensibly a means of allowing private financing and were developed to try and minimise the impact of government funding restrictions on possibly profitable investment by the nationalised industries. In time these rules came to be seen as relevant to the public sector as a whole. The documentation provided by the Private Finance Panel to promote PFI indicated that the Ryrie Rules: ‘...were regularly criticised for being too restrictive and giving public bodies no incentive to seek privately funded solutions.’²⁷ One interpretation of this is that the Treasury was afraid that without very tight criteria, schemes might be undertaken which would not provide value-for-

²⁵ Maintenance of the assets is clearly crucial. PFI should mitigate against situations such as that in the NHS where it has been estimated that backlog maintenance of £1.6bn exists.

²⁶ Paragraph 1.10 ‘Examining the value for money of deals under the PFI.’ Report by the NAO 13th August 1999.

²⁷ Private Finance Panel (1995), paragraph 2.2, p.6.

money, given tight public sector expenditure controls. The Ryrie Rules were partially retired in 1989 and finally abandoned in 1992 with the launch of the PFI.

(ii) Early PFI

The Autumn Statements of 1992, 1993 and 1994²⁸ gave birth to PFI and shaped and reshaped its design and nature. PFI was launched in the Autumn Statement of 1992 by the Chancellor (Norman Lamont) who stated: '...self-financing projects undertaken by the private sector would no longer need to be compared with the theoretical public sector alternatives; the Government would actively encourage the private sector to take the lead in joint ventures with the public sector; the public sector would have greater opportunity to use leasing where it involved significant transfer of risk to the private sector and offered good value for money'²⁹.

Despite this important launch, interest in PFI by the private sector was somewhat muted. As a result the new Chancellor (Kenneth Clarke) gave the PFI greater impetus by announcing, in the Autumn Statement of 1993, that a new Private Finance Panel should be created. Its role would be: '...to encourage greater participation in the initiative by both private and public sectors, to stimulate new ideas, to identify new areas of public sector activity where the private sector could get involved, and to seek solutions to problems which might impede progress'³⁰.

In the Autumn Statement of 1994 Clarke ensured engagement with the private sector by making it plain that the Treasury would not approve any capital project unless options to secure private finance had been explored. This 'universal testing for private finance' was the culmination of a very determined policy by the previous Conservative Government to ensure not only the survival but also the centrality of the PFI in securing service/building developments in the public sector. 'Universal testing' was implemented without consideration of the transaction costs involved or an exploration of its real value. It was a change based on a belief that the private sector could solve the problems of the public sector and perhaps a belief that otherwise no projects would be forthcoming.

In April 1996 the Local Authority Associations established the Public Private Partnerships Programme (4Ps) in England and Wales. Local Authorities have greater autonomy than any other area within the public sector. The 4Ps was set up: '...with the express aim of bringing about increased investment in local services through PFI and other public/private partnerships'³¹. With the formation of this new body both central and local government had the institutional framework to encourage the growth of PFI, yet PFI fell well short of the targets set for it. In this phase of the evaluation of PFI, competition was seen as the key to securing value-for-money and there was Treasury scepticism about the use of a public sector comparator for the PFI schemes.

(iii) Current Developments in PFI

There was some political debate about the nature of the PFI in the run-up to the General Election in 1997. However, the incoming Labour Government gave its unequivocal support to the idea. Within a week of taking office (in May 1997) the new Paymaster General (Geoffrey Robinson) announced that he had appointed Malcolm Bates (Chairman of the Pearl

²⁸ A list of relevant Government Documents relating to PFI is enclosed in Appendix 3.

²⁹ Private Finance Panel (1995) paragraph 2.4, p.7

³⁰ Private Finance Panel (1995) paragraph 2.5, p.7

³¹ Private Finance Treasury Taskforce (1997) paragraph 2.7, p.6

Group and of Premier Farnell) to conduct a wide-ranging review of the PFI. He was required to produce – by 23 June 1997 - a report to Treasury Ministers with clear recommendations on how PFI should be developed and organised.

In addition, and on the same day, Geoffrey Robinson also announced that the required ‘...universal testing of private sector financing’ for all public sector capital projects, which had been introduced in the 1994 Autumn Statement, would be abandoned immediately. His view was that this universal testing had been: ‘...a recipe for frustration and delay and works against the concept of prioritisation which we want to build. Departments should not spend time and money trying to develop models for private finance where these will not work.’³² However, he then immediately made plain that: ‘...this does not mean departments can expect any increase in their capital budgets and we will expect a high level of suitable projects to be brought forward to achieve the aims of PFI’.³³

The Bates Review made 29 key recommendations, many of which were to do with structural arrangements. The key recommendation was to disband the Private Finance Panel and to control PFI directly from HM Treasury by the formation of a new Private Finance Taskforce. Organisationally the Taskforce was to have separate ‘projects’ and ‘policy’ wings to it, the former having a limited life. The ‘projects’ wing was intended to provide technical advice to Government Departments concerning the design and approval of specific projects and the ‘policy’ wing to help clarify overall policy on PFI. The intention was that different Government Departments would develop their own unique project emphasis and expertise that, over time, would not need the central support of the Taskforce. Central to the Bates Review, therefore, was a mixture (and tension) of centralisation (through the formation of the Treasury Taskforce) and decentralisation (through encouraging Government Departments to build up their own expertise on PFI).

a) centralisation

This standardising and growing central control of practice is evidenced in a number of major developments.

First, is the resolution of how to account for PFI. One of the key recommendations of the 1997 Bates Review was that the accounting for PFI needed to be resolved. Agreement on this issue was only achieved in 1999. The complexity surrounding this seemingly unimportant ‘housekeeping’ issue is considerable and is touched on in the next section.

Second, is the development by the Treasury Taskforce of standard procurement and contracting arrangements and education packages. The ‘Step by Step Guide to the PFI Procurement Process’ issued in April 1998 explored the stages that need to be undertaken in any PFI deal. The important Standard Contract Guidance (14 July 1999) determines what should be in every PFI contract. The news release accompanying it said this guidance ‘... will act as a blueprint for the future development of PFI and ensure that future PFI contracts across different public services will be able to follow a consistent approach by incorporating standard conditions into the contracts’³⁴. It is important to note that it deals with the right of the public sector to attain (not retain³⁵) the asset at the end of the contact period (often 60

³² HM Treasury Press Notice No. 41/97, 8 May 1997

³³ HM Treasury Press Notice No. 41/97, 8 May 1997.

³⁴ HM Treasury Press Notice No. 118/99 14 July 1999

³⁵ Who owns the asset to the property involved in PFI contracts is the central area of disagreement in accounting for PFI debate – see following section for more details. The general assumption is that the private sector has ownership rights over the property. In this sense there is a need for contractual arrangements to attain this right – something which would clearly be irrelevant if the public sector body already owned the asset rights.

years). Alan Milburn, when Chief Secretary to the Treasury, highlighted this since ownership of the asset at the end of the contract has been a contentious issue. Finally, the Treasury Taskforce have, with PriceWaterhouseCoopers, designed 'A Comprehensive Approach to PFI Training' a standard learning package on how to undertake PFI projects. This programme was launched in October 1998.

Third, are the approval arrangements for all PFI contracts and the emergence of the Project Review Group to 'sign off' all local authority PFI projects. This also brings greater standardisation and centralisation into decision-making. Many PFI contracts will have been, at some level and at some time, advised and approved by the Treasury Taskforce.

The fourth development ensuring greater centralisation and standardisation of PFI processes came through the second Bates Review of PFI in 22 July 1999. Three recommendations at the heart of the Review demonstrate the strong moves to centralisation and standardisation that have occurred since the first Bates Review. First, the call for a new high-powered advisory body made up of private sector experts (Partnerships UK) to replace the 'projects' wing of the Treasury Taskforce. It will probably become of even greater significance in determining PFI deals even though it is claimed there '...should be no obligation on any procuring authority to use Partnerships UK's services; on the contrary, it should win business by the strength of its offer' (Recommendation 32). Second, it is made clear that departments '...should only issue their own standard documents if they have been agreed by the Taskforce to be consistent with the general standards laid down by the Treasury's own generic guidance' (Recommendation 2 and 3). Third, the introduction of the Project Review Group should not only continue but '...should extend to other parts of the public sector' (Recommendation 9). Clearly, the original plans for departments to be allowed and encouraged to develop their own way of proceeding on PFI has been reversed and a highly centralised system introduced.

b) Employee rights

Another area of development demonstrating increasing standardisation is in relation to public sector employee rights. This area has given rise to particular concern. Challenges to PFI have come from the Trade Unions, particularly from UNISON.

A first change was the publication of the Treasury Taskforce Policy Statement Number 4 'Disclosure of Information and Consultation with Staff and Other Interested Parties' in October 1998. The TUC and the CBI welcomed this document. It set standards for transparency in Government procurement and offered a framework for consultation with trade unions and other stakeholders.

On the 14th July 1999, Alan Milburn announced a five-point plan entitled 'Better Protection for Pensions in PFI'. As the title suggests this tries to ensure that staff employed by the public sector and transferring to private sector consortia (as often happens in a PFI contract) have all employment rights fully honoured on transfer. This was happening in most but not all agreements, under the 'Transfer of Undertakings Protection of Employment (TUPE) Regulations'.

The third change is that, with the revised accounting arrangements, not all the ancillary staff employed in a PFI arrangement need to be transferred to private sector employment³⁶. It was previously thought that, to ensure risk transfer, all staff would have to be transferred. However, as the Treasury's revised accounting guidelines make plain, it is only the risks associated with the property that may be considered. As a result, ancillary staff involved in

³⁶ Explained by Agnew (1999). Whether such staff should remain in public sector employment depends on a v-f-m assessment.

delivering services, such as cleaners, porters and catering staff, technically may be able to remain employed by the public sector.

These developments suggest that changes to the delivery of services will not simply achieve value-for-money at the expense of the terms of employment of staff in the public services. This has been a fear, given that labour costs are an important component of the cost structure of the public services.

Overall the current developments in PFI are marked not only by standardisation and centralisation, but also by a renewed interest in value-for-money and particularly the role of the Public Sector Comparator in making this judgement. Whilst in the early era of PFI competition was seen to be the key to obtaining value-for-money, the Public Sector Comparator is now seen as key in this respect.

(iv) The role of the National Audit Office

Two bodies have been particularly important in the context of standardisation. Both The Treasury Taskforce and the National Audit Office (NAO) are key figures in defining the nature and workings of PFI and are likely to remain in this position for some time to come.

In December 1995, the NAO announced that they would be undertaking a series of examinations of PFI. Since this time they have issued nine different value-for-money analyses of PFI projects along with a summary report, which indicates, based on their experience of the studies at that time (up to August 1999), what they are looking at in terms of value-for-money studies. It provides both a description of what the NAO is looking for in judging whether the project is 'a good deal' as well as a prescription to those who are pursuing PFI contracts³⁷. Their investigation process falls into four areas concerning 'setting clear objectives', 'proper procurement processes', 'getting the best available deal' and 'ensuring the deal makes sense'. Under each of these headings a number of detailed questions are raised which together determine whether the PFI project is 'a good deal'. This publication is a somewhat unique document for the NAO, in providing rather more detail than in any other area about how they come to judge value-for-money.

The NAO Reports provide the opportunity to consider the cost savings for those PFI projects that the NAO has investigated. Those involving new build are shown below. The Skye Bridge is not included as a saving was not calculated for this scheme and it was noted that the Skye Bridge Project would not have proceeded had it not been a PFI Project. The development of the Newcastle Estate for the Contributions Agency presents a complex picture and relies on efficiency savings to recoup the higher cost of the improved accommodation when compared with the alternative of remaining in the present accommodation. It remains unclear whether a publicly funded re-development of the estate would have provided better value-for-money.

Table 3.1 Value for Money: Estimates of Saving

Scheme	PFI Cost (£M)	Public sector Comparator Cost (£M)	Saving (£M)	Saving on PSC (%)

³⁷ For a full list of the reports see Appendix 1.

First Four Roads*	698	797	99	12
A74/M74	193	210	17	8
Bridgend and Fazakerley Prisons**	513	567	54	10
Dartford and Gravesham Hospital	177	182	5	3
NRS 2	329	134	196	59
Prime	1986	2546	560	22
RAF Vehicles	19	25	6	23

Source : NAO Reports see Appendix 1.

* One project was showing a higher PFI cost than the PSC

** Savings all came from Bridgend prison

The cost savings shown below are the difference between the PFI cost and that of the public sector comparator (PSC). In looking at these figures the difficulties of estimating future costs must be borne in mind: actual costs may well vary from those estimated. In making on-going assessments of the desirability of the schemes it will be necessary to monitor not only the cost elements but also to ask whether the quality of the services is as good or better than those provided directly by the public sector. The variability of the cost savings is clear and the fact that some schemes are not making savings is problematic. The fact that the Skye Bridge would not have proceeded without the PFI is also significant.

Overall the NAO sample provides evidence of possible future savings in the order of 20% on average. However, two schemes (the Department of Social Security (DSS) PRIME project and the Contributions Agency IT system) were IT based PFI schemes and showed considerable savings of £560m and £196m respectively which skew the whole picture. If excluding these two projects gives a more typical sample then the estimated savings are in the order of 10%. This was also the conclusion reached by Arthur Andersen in their report for the Treasury Task Force³⁸.

The NAO reports illustrate various tensions. There is the tension between specifying services tightly enough to ensure that the bids received are comparable and yet allow scope for innovation. In the replacement of the Contributions Agency IT system bidders were concerned that their innovative proposals would be shared with others to ensure the bids were on the same basis. The NAO suggests the need to focus on service outputs rather than the inputs as a way of allowing innovation to be developed.

Competition is clearly seen as an important element in PFI. There is a tension between the need for competition and the need for co-operation. In essence, PFI is seeking to build relationships based on competition, to avoid the alleged 'comfortable' relationships fostered by a bureaucratic approach. Yet in a long-term relationship this competitive element may well decline. The NAO notes that even in a tightly specified contract there should be flexibility in order to maintain contractual relationships in a spirit of partnership. Change could be to the detriment of the public sector if the private sector partner uses this flexibility

³⁸ 'Value for Money Drivers in the Private Finance Initiative' A report by Arthur Andersen and Enterprise LSE, 17th January 2000. Arthur Anderson investigated a larger sample of schemes, and argued that an average saving of 17% might be achieved.

to change the balance of risk or value-for-money in their own favour. For this reason, some element of benchmarking has been suggested by the NAO. However the ongoing costs of such an operation will clearly increase the costs of monitoring PPPs.

The maintenance of competition in the processes of bidding can be difficult to achieve as the costs of bidding for PFI projects by private firms are considerable and at the later stages of the process a firm may not want to commit more resources without some assurance of success. Costs of bidding are something that has been commented upon by the private sector and withdrawal has been a problem. The NAO noted, somewhat unsympathetically, that benchmarking of costs for comparative purposes had to be undertaken when one competitive bidder withdrew at a late stage in the Dartford and Gravesham Hospital PFI scheme. It is always a possibility that in large and complex schemes the costs to a contractor of pursuing a bid may mean there is difficulty in maintaining the level of competition that is desired. It follows that the reliance on competition as a basis for achieving value-for money is somewhat optimistic. This point is increasingly being realised by both the NAO and the Treasury Taskforce in their growing support for the Public Sector Comparator as the key to judging value-for-money.

The NAO overviews illustrate that PFI is a contestable approach to the provision of services and that variability of results has been obtained in the schemes undertaken so far. In making this comment we should recognise that the schemes are all long term ones and that the NAO reports are simply snapshots of the positions so far. Nevertheless, the fact that some schemes do not seem to give value-for-money even at the early stages is worrying. The response to this problem has been the implementation of a series of standardised processes. It remains to be seen whether this is an adequate solution, especially given that one of the justifications for PFI is that it allows innovation and creativity.

The operation of PFI: the macro-micro intersection

Whilst the thrust of this paper is not an examination of the macro-fiscal agenda it is nevertheless important to raise some of these issues where they impinge upon the micro aspects of PFI. This is particularly relevant to the consideration of accounting issues and all the more so given the introduction of Resource Accounting and Budgeting (RAB)³⁹.

The Economic and Fiscal Strategy Report 1998 (Cm3978) laid down two strict fiscal rules. The 'golden rule' stated that over the economic cycle the government would borrow only to invest and not to finance current spending. The 'sustainable investment rule' states that net public debt as a proportion of GDP will be held, over the economic cycle, at a stable and prudent level. These rules maintain the importance of control of public borrowing and provide the context for sustaining the view (laid down in its conception) that PFI will aid this objective. This belief may well be more a perception than reality and indeed is probably a 'bad' argument for PFI. As noted in the introduction, recent Government comments stress that PFI is, above all, about value-for-money. Despite this, the perception that it allows government to do more than it otherwise could⁴⁰, still impacts on the manner in which the Initiative is judged.

³⁹ RAB is a new approach to the collation of accounting statements and will be discussed in more detail below.

⁴⁰ In the context of controlling the amounts counted as public borrowing for capital expenditure.

The fiscal rules are important because of their interaction with two different accounting issues that impact on PFI. The first is the issue of how PFI will be accounted for in government financial statements. The second is the introduction of RAB in government accounts. RAB will reflect the distinction between current and capital expenditure that is embodied in the 'golden rule' and will seek to introduce accounting methods that are adopted in the private sector. Whether PFI is seen as current or capital expenditure is important and it is the accounting rules that formalise how this is determined. The nature of these accounting rules has given rise to a debate and disagreement between Treasury and the Accounting Standards Board (ASB)⁴¹. This debate about how to account for PFI is of central interest because it highlights the centrality of risk transfer and value for money. It also provides the basis for understanding the effects of RAB.

The Accounting Standard

A key accounting question is whether, with PFI, the property and funding arrangements are 'on' or 'off' the public balance sheet. This is resolved by deciding whether PFI transactions are seen as the provision of assets (capital expenditure and 'on' balance sheet) or services (current expenditure and 'off' balance sheet). The debate is a complex and technical one and the aim here is to outline the key argument⁴². In private sector accounting statements, the need to show a 'true and fair'⁴³ view of an entity may lead to assets that are leased to a firm being recognised on the leasee's company's balance sheet⁴⁴. The question has been asked whether PFI is a leasing arrangement and should be accounted for in a similar fashion or whether PFI should be 'on' balance sheet for the public sector. The 'on' and 'off' balance sheet decision affects the macro-fiscal agenda in complex ways. One thing seems to be sure, the Government wants PFI to be 'off' balance sheet, judging by the attention given to this issue over the last few years.

The long debate about the nature of the accounting treatment of PFI was the result of an initial disagreement between Treasury and the Accounting Standards Board (ASB). Key to this was the question as to whether PFI related to the provision of assets or services and whether, if there were elements of both, they were separable. If a payment was being made for the provision of *assets* rather than *services* then PFI could be seen as 'on' balance sheet, as it could then be argued to be procurement of an asset. The full cost of the asset (despite being paid by the private sector) would then be added to Government expenditure as well as borrowing in the year that the PFI was implemented. The Government position has stressed that PFI is about the provision of services thus leading to an 'off' balance sheet treatment. It would not therefore constitute a lump sum charge to government expenditure and borrowing.

Risk allocation is also a key element in the decision as to whether PFI is 'on' or 'off' balance sheet for the public sector purchaser. If the balance of risk remains with the purchaser (the public sector) then this substantiates public ownership and the transaction needs to appear 'on' the public sector balance sheet. Conversely, if the balance of risk is borne by the private sector supplier then the transaction will appear on the balance sheet of this 'operator'.

⁴¹ This group sets the standards to be used in the preparation of accounting statements in the UK.

⁴² More details can be found in Heald and Geaughan (1997) and Broadbent and Laughlin (1999) and see Appendix 2 for the original documents involved.

⁴³ Accounting statements should show a true and fair view of the affairs of a company, under company law requirements.

⁴⁴ This has been to avoid 'creative accounting' being used to transfer risks between entities and advantage creditors and shareholders of one firm at the expense of others.

Arguably, even if PFI is not a way of avoiding increased public borrowing, the nature of the accounting treatment of PFI remains an indicator of the success⁴⁵ or otherwise of this financing arrangement. If a PFI transaction has to feature on the balance sheet of the public sector then, it follows, the balance of risk has not been transferred to the private sector; although it should be recognised that technically value-for-money might still be achieved. If risk allocation and value-for-money are the key reasons for PFI, it can be argued that it remains desirable that the accounting treatment of a successful PFI should remain 'off balance sheet'. Because of this the debate about the nature of the accounting treatment has been difficult and crucial. It must be recognised that not all PFI projects already undertaken before the agreement of the accounting treatment will automatically be 'off' balance sheet. Until this is resolved there remains questions about the 'success' of all the schemes to date.

There is a need for clarification of why the accounting treatment has been so controversial. Despite the claims that the manner of the accounting treatment was irrelevant to PFI and that PFI is not just an accounting 'trick'⁴⁶ final agreement as to the nature of the Treasury Guidance took nearly two years⁴⁷.

Resource Accounting and Budgeting

Questions have been raised as to the impact of RAB on PFI. Its effect is difficult to predict, as, like all accounting, there will be room for interpretation in its operation. Equally, different parts of government and the public sector have all dealt with their accounting in rather diverse ways (Perrin, 1998).

The essence of RAB is that it will both distinguish between capital and current expenditure and introduce 'accruals accounting' to the government sector. In accruals accounting in the private sector the costs of long-term assets, although they may represent an immediate cash transaction, are charged as annual expenses over the life of the asset. Non-cash depreciation charges are made to a number of accounting periods using a variety of (sometimes contested) calculations. It can be seen as 'income smoothing'⁴⁸ and it recognises, in financial terms, the use of an asset in any current accounting period. This is then reflected in the profit reported.

Although RAB brings accruals accounting to the public sector, it has been argued the principles on which it is based are different to those in the private sector⁴⁹. In the public sector RAB is perhaps more associated with the need to manage costs and achieve efficiency. Under the previous cash accounting system the cash flow associated with the purchase of any asset would affect departmental spending limits and was an issue for control of public debt. Whilst there were differences across the public sector there could be no charge for using capital assets in the day-to-day accounting statements at the organisational level. This was argued to provide no incentive for the efficient use of assets at the organisational level. RAB aims to address this. Now the accounting treatment will include a charge for the use of capital assets in a similar (but not identical) fashion to that used in the private sector.

⁴⁵ This narrow understanding of 'success' raises all manner of questions concerning the evaluation of PFI – a point which will be returned to in the concluding section.

⁴⁶ cf Wilson, *The PFI Report*, July/August, 1999, p.7

⁴⁷ It was published in July 1999.

⁴⁸ Perrin, (1998) p.8

⁴⁹ Jones (1998)

As noted above RAB distinguishes between capital and current expenditure and allows the compilation of some accounting statements for the public sector that have not been produced before. Thus, there will be an operating statement, a balance sheet and a cash flow statement, as is the case in the private sector. There will also be a summary of resource out-turn to provide information for Parliamentary control purposes and a statement of resources showing the costs of the department's aims and objectives. A clear element of RAB is that some system of charging for capital will be introduced across the sector. It is not clear how current fiscal controls will mesh with this accounting regime. As noted in the 1998 Economic and Fiscal Strategy Report there are conceptual difficulties in tying them together. Again, this issue needs to be clarified.

In the case of PFI, the interplay between the fiscal and accounting situation becomes more complex. If PFI is the provision of a service and is 'off' balance sheet the annual service charge is current expenditure and will appear as a cost on the operating statement. We can compare this with the way in which exchequer financing is likely to be accounted for under RAB. If exchequer financing were used then there would be a clear separation of the capital and service charge. The asset would be shown on the balance sheet and the cost of the on-going service incurred would be a current charge to the operating statement. There would also be a non-cash charge to the operating statement for the depreciation of the asset. If PFI were 'on' balance sheet a capitalised value would be shown and the service element, an imputed interest charge and depreciation would be charged to the operating statement.

Table 3.2 Interplay between fiscal and accounting situation

	PFI 'off' Balance Sheet	PFI 'on' Balance Sheet	Exchequer Funding
Contract is deemed to be:	All services	Asset and Services split	Asset and Services split
Public Sector Balance Sheet shows:	Nothing unless there is a reversionary interest in the property ⁵⁰	Asset element recognised and recorded	Asset element recognised and recorded
Public Sector Operating Statement shows:	Annual charge by provider	Service element of charge Depreciation of Asset Imputed interest charge	Service element of charge Capital charge

Questions have been raised as to whether RAB changes the arguments for and against PFI. In terms of value-for-money, the initial investment decision will rely on management accounting and not financial accounting issues, so RAB is irrelevant. However, the recording of financial costs on a year by year basis may change and until RAB is implemented we cannot be sure of the interpretations of accounting practice that will be used. If PFI schemes are 'on' balance sheet and an imputed interest charge is made and we also assume that the service element of the cost includes a charge for the cost of borrowing, then PFI may start to

⁵⁰ See paragraph 19.2.7 and 19.4.7 of the Standardisation of PFI Contracts, 1999.

look more expensive than exchequer funding. If PFI is 'off' balance sheet then the accounting treatment is clear and RAB will have no impact at all on the charges made to the operating statement. They will be the same as charges made under the current cash system (assuming there is no indebtedness at the year-end).

If the question is whether RAB changes the way in which PFI might affect public borrowing we again cannot be categorical. It is possible that the capital expenditure, however it is achieved, will be a charge to Departmental Expenditure Limits. Thus, there would still be an impact on departmental spending and it would impact on the fiscal position.

Other structural issues can be raised in the context of the discussion of RAB as it may change the way that people think about capital asset usage, indeed it is intended that it should do this. Likierman argues that RAB would bring: 'improved management on costs and assets...[and] provide the opportunity for better informed decisions on, for example, the allocation of resources, especially capital, and on comparisons between internal and external providers' (Likierman, 1995, p.565).

There remains a question as to whether RAB can have a rather more beneficial impact in relation to PFI. PFI could be argued to be advantageous if it proves to deliver on the Government's claim that it is now buying outputs rather than providing services directly⁵¹. RAB is also tied to this idea through a system of Output and Performance Analysis (OPAs). This in turn is accompanied by a regime of Public Service Agreements (PSAs) that will also be monitored. If OPAs and PSAs are developed in a way that ensures not only the required outputs, but also that they are achieved in effective and equitable ways then RAB will be hugely beneficial. This whole raft of changes remains to be delivered, and it is clearly important to monitor the progress of the OPAs and PSAs to see if they deliver the information to ensure that the potential benefits, including those from PFI are realised.

Value-for-money and risk allocation

The allocation of risk between parties is argued to be one means of achieving the goal of value-for-money. This is based on the notion that there is a cost attached to carrying a risk and the higher the risk the higher the cost. If the private sector is better equipped to deal with a risk then this risk, and its attendant cost, is reduced. Hence, the private sector may be able to provide the service at a lower cost. Other risks are better left with the public sector. The pricing of risk and hence the valuation of overall savings from schemes is problematic.

The Public Sector Comparator and value-for-money

To prove whether a scheme gives value-for-money the case will now often need to be demonstrated by comparison with a detailed Public Sector Comparator (PSC). This assumes that there is a possibility of having public funds to spend and that there is possibility of public service provision being provided. Where that is not the case then a PSC may not be relevant. The Treasury Taskforce has noted that 'Public sector comparators alone are not the basis for assessing value for money.'⁵² This issue was also discussed in the recent Arthur Andersen review of PFI⁵³, which notes that as PPP/PFI procurement becomes more prevalent the traditional procurement route will become less relevant as a benchmark. It has been suggested

⁵¹ Heald and Geaghan (1999)

⁵² Treasury Taskforce News No. 177/99, 29 October 1999

⁵³ 'Value for Money Drivers in the Private Finance Initiative' A report by Arthur Andersen and Enterprise LSE Commissioned by the Treasury Taskforce, 17 January 2000.

that, rather than use a PSC, competition can be an important element in ensuring value-for-money. This seems to return to an earlier approach to assessing value-for-money.

The PSC quantifies what it would cost the public sector to provide the outputs it is requesting from the private sector by a non-PFI route. If PFI is only to be undertaken where it is value-for-money it is essential to have good comparative figures. Copious guidance⁵⁴ has been provided to help the public sector construct this type of information in a technically correct and consistent fashion. Private sector firms have also been anxious to gain such information to help them construct their own bids.

The discount rate

Constructing a PSC involves estimating the future cash inflows and outflows over the life of the project. These are then discounted to provide an estimate of the net cost of the scheme that takes into account their timing. This process recognises that cash received earlier is worth more than that received later and is recognised to be a sensible aspect of investment appraisal whatever the form of financing sought. The discount rate applied affects the size of the net cash flows. The same raw cash flows give different values when discounted using different rates as illustrated below.

Table 3.3 discount rates

Cash flow	6% Discount Rate	10% Discount rate
£ 100 at the end of year 1	£ 100 *0 .9434 = £94.34	£ 100*0.9091 = £ 90.91
£ 200 at the end of year 2	£ 200*0.8900 = £ 178	£ 200*0.8264 = £ 165.28
£ 300 at the end of year 3	£ 300*0.8396 = £ 252.88	£ 300*0.7513 = £ 225.39
£ 400 at the end of year 4	£ 400*0.7921 = £ 316.84	£ 400*0.6830 = £ 273.2
Total	£ 842.06	£ 754.78

This illustrates that not only can wrong estimates of future cash flows distort the comparisons of schemes, but also that using different discount rates can give quite different final figures. This is a well-known problem in private sector capital investment appraisal. It is also acknowledged that those promoting investments are likely to be optimistic. Given that all calculations are based on estimates of what might happen in the future there is always an element of arbitrariness that cannot be avoided. This also means that the aggregation of the savings is at best an arbitrary figure. It should be recognised that even as the planning of a scheme progresses the figures are likely to change.

The question of the appropriate discount rate is made more complex because it reflects both the cost of capital and the risk of the project. In the construction of PSCs the use of the discount rate of 6%, the government discount rate, for discounting both streams, has been criticised as it assumes equal risk for both schemes⁵⁵. This is arguably not the case and neither can it be said that the 6% rate necessarily relates to the risk of either party's involvement, hence there is no guarantee that efficient decisions are made. 'The Green Book' suggests a number of techniques to refine the calculations, such as sensitivity analysis and using probabilities to give a range of possible outcomes. It has been suggested that there may be a role for financial management models to help refine this pricing problem. The Capital Asset

⁵⁴ Treasury Taskforce Policy Statements No. 2 and Technical Note No.5 and the NAO report in 1999 'Examining the v-f-m of deals under the PFI'

⁵⁵ Grout, 1997

Pricing Model (CAPM) has been suggested in this respect (Grout, 1997). This rests on the assumption that a risk measure of the scheme can be assessed and can be used to provide better valuations of cash flows. Given that many PFIs are unique or are part of a wider network of services (such as the case in hospitals or road bridges) it is not immediately apparent that this measure of risk will be less arbitrary than making a qualitative assessment of the cost of risk. What is clear is that further thought on how the discount rate should be set is required⁵⁶.

There are also behavioural issues that affect consideration of value-for-money and appraisal of schemes. For project appraisal to be undertaken a good deal of work is required on the conception and the financial modelling of a project. Indeed, it may not be possible to judge value-for-money until the planning and development of a scheme is well underway. At this stage the momentum for approval will be high⁵⁷ and the personal commitment and reputation of its sponsors may be severely damaged if the scheme does not go ahead. This type of commitment may well militate against the impartiality that is required for rational decision making to be applied.

The achievement of value-for-money relies centrally on the expertise of public sector employees who are not only able to specify the outputs required, but also know how those outputs can be achieved well enough to be able to drive a hard bargain. One problem of moving services to the private sector is that the intellectual capital will also move to that sector and there will be no one with the detailed knowledge to specify services and judge the prices offered for their provision. Often the assumption of PFI is that the intellectual capital lies within the private sector whose employees have the innovation and enterprise to bring efficiency to the public services. A fairer assumption is that both sides have something to bring to the schemes. We need to ensure that this situation is not undermined.

The issue of value-for-money has been the subject of extensive criticism in terms of whether it is possible to achieve sufficient savings to outweigh the basic fact that privately borrowed capital is more expensive than government borrowing. Where there are no third party payers in a scheme (such as toll payers on a bridge project) the Exchequer will have to pay the full cost of the project over time⁵⁸. The efficiency savings from the project must be sufficient, therefore, to cover the extra cost of private-sector financing. These have to arise from changes and innovation in the delivery of services. They may well arise from private sector ingenuity, or from the opportunity to apply new technologies. The assessment of new technologies and ways of organising service delivery may be difficult to incorporate in a PSC if there is no prior history of the approach. 'Real' judgements about value-for-money must take into account both monetary and qualitative costs and benefits and can only be derived once new schemes are in operation. In the case of large projects this can be some years in the future and hence extensive post project evaluations will be required.

⁵⁶ The issue of discount rates was discussed by Arthur Andersen in their report on PFI, but little clarity emerged from this document. A return to the roots of thinking in the 1991 Treasury Working Paper 'Discount Rates and Rates of Return in the Public Sector: Economic Issues' by Michael Spackman is perhaps required.

⁵⁷ It is probable that the momentum will be increased in a situation where there is not other alternative to a PFI as public funds are not available.

⁵⁸ Heald and Geaghan (1999)

Conclusions: implications and unanswered questions

To conclude we highlight a number of key issues and questions about PFI that remain to be addressed. In drawing these conclusions we are alert to the need to look to developments of PFI abroad. We are aware in this respect that the UK has been a key player in the policy transfer of PFI, but that as different nations develop their own agendas, so evidence will emerge. We should also stress that there is a great deal of diversity and we should guard against seeing PFI schemes as all the same.

Is PFI a form of privatisation of the public sector?

PFI has been seen by some to be a means of back-door privatisation of public services. As far as the government is concerned there is a clear distinction between the sale of existing public assets (which they see as privatisation) and PFI (which they do not). The more general answer to this question clearly relates to the extent to which the role of government can be seen as a procurer of services rather than a provider. We are in a time of change and views remain divided on this issue. The extent of transparency and accountability that is provided in PFI schemes will clearly affect the public perception of this issue. In particular, we need to clarify whether PFI affects the flexibility of decision-making for future policy development.

What is the nature of PFI?

The second substantive section of this paper noted the debates as to whether PFI was driven by a macro-fiscal agenda relating to the need to restrict government borrowing or was instead driven by considerations of value-for-money and risk allocation. In reality there is probably a mix of intentions and to seek to impute a 'tidy' intentionality is inappropriate. However, unless the thinking behind the objectives for PFI is tightened it is unlikely that a helpful analysis of the issues around PFI can be developed. The links between the micro and macro levels of analysis will be clarified, as will the nature of PFI, when the ramifications of several issues become clearer. These include: the outcome of the accounting debate and the extent to which the various projects are found to be 'on' or 'off' balance sheet; the implementation of RAB; and the clarification of the effects of PFI on Departmental Expenditure Limits.

Who is regulating the application of PFI?

We have demonstrated the increasing standardisation and centralisation of PFI. We need more clarity in understanding who regulates its interpretation and application in Government Departments and local authorities. Specifically, how do the different parties involved (for example, HM Treasury, the National Audit Office (NAO) and the Accounting Standards Board (ASB)) interact and work through their different perspectives on PFI.

We have already seen the engagement of HM Treasury, and more specifically the Private Finance Taskforce (PFTT), as an important actor in this regard⁵⁹. We have noted the ASB's involvement in this process, actually challenging the accounting treatment that was suggested by the PFTT. Equally we have documented the involvement of the NAO.⁶⁰ The NAO's interest in PFI is confirmed by their overview report on how to conduct value-for-money audit of PFI deals.

⁵⁹ Whether it is even correct to see HM Treasury and the PFTT as one in this regard clearly assumes a unitary view being expressed which may not necessarily be appropriate.

⁶⁰ This is not intended to exclude the role of the Audit Commission whose interest is demonstrated in their publication *Taking the Initiative* (1998).

The future role of Partnerships UK and its links to other bodies is as yet uncertain, but it may prove to be an important influence, as is the projects wing of PFTT at the moment. Other key players may emerge in the future.

How are definitions of PFI in terms of value-for-money and risk allocation derived and operationalised?

There is still considerable uncertainty as to what exactly is meant by value-for-money and risk allocation, despite the work of the PFTT and the NAO. This is an issue for two reasons. First, it affects the accounting treatment of PFI Schemes. If the on-going development of PFI is affected by the extent to which PFI deals are 'on' or 'off' balance sheet then there is a need to be able to understand how to develop schemes with the correct characteristics to achieve the desired objective. Second, there is a need to understand how to calculate value-for-money and risk allocation if sensible comparisons with a PSC are to be possible. Advice has been provided but how it is applied needs to be understood. Third, there is a need to explore how accounting interpretations of value-for-money and risk allocation decisions interact with the macro fiscal issues. Finally, there is an important question about the effects of the eventual definition of value-for-money and risk allocation on the policies of Government Departments and local authorities.

How are PFI decisions made in different areas of the public sector and what are the effects of these decisions?

A large number of PFI projects have been agreed, yet how these decisions were made and what effects they have on services offered are unclear. We can raise a number of questions in this respect that we are not yet able to answer.

How are decisions affected by the perceptions of the decision-makers about the availability of funds from sources other than PFI?

What are the incentives (real and perceived) for managers to choose to develop PFI schemes?

What are the transaction costs of entering into this type of arrangement and can they be reduced by the standardisation processes mentioned earlier, without removing the flexibility to tailor schemes that deliver maximum value-for-money and appropriate risk transfer.

PFI projects involve entering into contracts for an initial period of 25 to 30 years (with an extension to 60 years). We need to understand what these time factors mean prior to decisions being taken as well as the real effects of these decisions. One result of undertaking long-term commitments may be a lack of flexibility in the longer-term provision of services. The procurement of property by any means will necessarily provide long-term commitments, but, for example, the existence of a long term contract may affect decisions on the rationalisation of service provision.

How are projects assessed through post-project audit and evaluation? It will often be the case that expectations are not always realised. How can these issues be remedied in the context of long-term contracts?

There is a need to explore the role, implications and effects on all stakeholders. In this connection it is important to include an analysis of not only the public sector partners in this process but also the private sector companies and bankers involved in the consortiums making bids. The changes needed to deal with decision making for PFI are considerable not just in the public sector but in the private sector as well. Research is needed to carefully analyse these changing processes for all involved. It is unlikely that these understandings can be reached quickly and in the short term. It is already clear that the way decisions are made in

various locations differs considerably. An important concern, therefore, is to undertake a range of detailed longitudinal studies into these processes in different contexts. The way decisions have been and will be taken is far from settled at the moment and a pattern will only be apparent over time. An issue as complex as PFI is likely to be evaluated by a wide range of studies in particular areas of activity focussing on the actual decisions taken.

What is the merit and worth of PFI?

Finally, there is a need to evaluate this important change for not only the UK public sector but also for UK society more generally. We need to understand how PFI schemes operate at the local level and whether the idea of partnership can be operationalised to the benefit of local communities. In undertaking an evaluation we need to be aware of the need to differentiate an evaluation of the macro-economic and fiscal issues from the micro-organisational ones. Clearly at some stage this micro-analysis will have to be related to the more macro concerns of whether PFI is fiscally and economically sensible. In the first instance, however, it seems unfair to hold organisational managers responsible for macro economic decisions. It is more relevant to hold them responsible for the implementation and on-going management of the projects. We need to know whether there are structural issues that make the development of these types of relationships at this micro level impossible. In essence, we have to know whether the public services are able to develop measures that ensure value-for-money and accountability for the quality of public service, which are not compromised by the need for private sector profit.

Our view is that such an evaluation should involve all stakeholders⁶¹. This wide-ranging involvement would allow the discussion of what should be seen to constitute 'success' for the PFI projects concerned. Narrow criteria (for example, obtaining off –balance sheet status for PFI assets in the public sector), might then be broadened. The evaluation could actively involve the NAO who might expand their current value-for-money audit role⁶². We note their current active engagement in looking at PFI. We believe that their work, which is necessarily completed in a relatively short time, should be complemented by academic studies, which can explore the complexity of these wide-ranging sets of research issues over a longer timescale.

⁶¹ See Laughlin and Broadbent, (1996).

⁶² See Broadbent and Laughlin (1997) for an explanation of this argument.

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Appendix 1

The NAO studies in relation to the PFI projects are:

The Skye Bridge (HC5, 1997/98, 23/5/97),
The Contributions Agency (HC12, 1997/98, 29/5/97),
Bridgend and Fazakerley Prisons (HC253, 1997/98, 31/10/97),
The First Four Road Contracts (HC476, 1997/98, 28/1/98),
The A74(M)/M74 in Scotland (HC356, 1998/99, 9/4/99),
Department of Social Security Estate (HC370, 1998/99, 23/4/99)
Dartford and Gravesham Hospital (HC423, 1998/99, 19/5/99).
Examining the Value for Money of Deals Under the Private Finance Initiative (HC 739, 1998/99, 13/8/99)
The Private Finance Initiative: The Procurement of Non-Combat Vehicles for the Royal Air Force (HC 738, 1998/99 19/8/99)
The Contributions Agency: The Newcastle Estate Development Project (HC 16, 1999/00, 25/11/99)

Appendix 2

Documents relating to the debate around the nature of the accounting standard are:

Private Finance Treasury Taskforce, Technical Note No. 1 'How to Account for PFI Transactions' September 1997.

Accounting Standards Board Exposure Draft 'Amendment to FRS5 'Reporting the Substance of Transactions': The Private Finance Initiative'. December 1997.

Accounting Standards Board Standard, 'Amendment to FRS5 'Reporting the Substance of Transactions': Private Finance Initiative and Similar Contracts'. September 1998.

Private Finance Treasury Taskforce Technical Note No. 1 (Revised), 'How to Account for PFI Transactions', June 1999.

Appendix 3

Government Documents:

Cm 555 (1989), *Working for Patients*, HMSO, London

Cm 2626 (1994), 'Better Accounting for the Taxpayers' Money. Resource Accounting and Budgeting in Government, HMSO, London

Cm 2929 (1995), Better Accounting for the Taxpayers' Money. The Governments Proposals: Resource Accounting and Budgeting in Government, HMSO, London

Cm 3978 (1998) 'Stability and Investment for the Long Term' *Economic and Fiscal Strategy Report 1998*, HMSO, London.

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Private Finance Treasury Taskforce (1998) *Step by Step Guide to the PFI Procurement Process* (London: HM Treasury)

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Private Finance Treasury Taskforce (1999) *Standardisation of PFI Contracts* (London: HM Treasury)

Private Finance Treasury Taskforce (1999) Technical Note No.5, *How to Construct a Public Sector Comparator* (London: HM Treasury)

Private Finance Treasury Taskforce, Policy Statement No.2, *Public Sector Comparators and Value for Money* (undated)

Private Finance Treasury Taskforce, Policy Statement No 4. Disclosure of information and Consultation with Staff and Other Interested Parties (October 1998)

Treasury Working Paper (1991) Discount Rates and Rates of Return in the Public Sector: Economic Issues. Written by Michael Spackman

UK National Accounts, *The Blue Book, 1997*, Office for National Statistics, London