Part One
PPP Policy

1

Private Finance Initiative in Use

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1.1 Introduction

This chapter reviews the performance of the Private Finance Initiative (PFI) in terms of service operation. Since its implementation in 1992, several PFI schemes have now gone into their operational phase, so an examination of the quality of service provided under PFI from the perspective of the users would now seem appropriate.

When a PFI scheme is proposed it is usually possible to indicate what the expected benefits will be. However, practical realities do not sometimes match projections. Although user groups are often involved in the planning and provision of facilities under PFI, the truest test of satisfaction is to evaluate the perceptions of actual users or beneficiaries of services. Interviews with stakeholders are used to evaluate the feelings of users concerning the efficacy of services and facilities under PFI schemes.

To facilitate this evaluation, the PFI concept and process is first introduced, drawing from theory. Readers who are familiar with PFI may thus wish to skip this section. The second half of the chapter describes a recent survey and looks at the performance of some PFI schemes in the health and leisure sectors.

1.1.1 Public-private partnerships

Public-private partnerships (PPPs) are long-term alliances formed between the private sector and public bodies often with the aim of exploiting the private sector's resources and expertise in the provision and delivery of public services. In PPP schemes, resources and risks are shared between the public and private sectors for the purpose of developing a public facility to enhance the delivery of public services (Norment, 2002). There are several PPP options that depend upon the remit of the private sector and these are discussed further below.

PPP schemes are often financed and operated by the private sector partner in return for revenues received for the delivery of the facility and services.

This arrangement benefits from the ability of the private sector to provide more favourable long-term financing options and to secure such financing in a much quicker timeframe (NCPPP, 2003). PPP contracts are often made to last long, and are typically for a 25–30-year duration. PPP schemes are often larger in magnitude and face complex risks beyond the scope normally experienced in typical construction. PPPs are generally seen to be capable of coping with projects of such magnitude.

PPPs address the common faults often associated with public sector procurement, such as high construction costs, time overruns, operational inefficiencies, poor design and community dissatisfaction (Mustafa, 1999). They also deliver advanced facilities and services more quickly and efficiently through innovative means (Field and Peck, 2003). Worldwide, PPPs have been used extensively in projects such as roads, prisons, stadiums and tunnels (Jefferies, 2006).

1.2 The Private Finance Initiative

The Private Finance Initiative (PFI) is a type of PPP launched in the UK in 1992 by the Conservative government. The concept went through moderate changes and adjustments in its early years and was later adopted by the Labour government after their election in 1997 (Heald, 2003). Reviews of the PFI process in 1997 and 1999 led to the formation of two establishments:

- Partnerships UK (PUK), as a PPP developer with the objective of providing public bodies with expertise and financial backing
- Office of Government Commerce (OGC), responsible for procurement policy development

PFI is commonly used as a form of procurement (Owen and Merna, 1997). In a PFI arrangement, the private sector partner takes on the responsibility of providing a public service, including maintaining, enhancing or constructing the necessary infrastructure or facility, while the public sector partner specifies the type and quality of service desired. PFI must secure value for money (VFM) to the public sector client.

The UK government has been very keen for its public sector establishments to use PFI as it offers them the opportunity to use private finance, albeit at a risk. This is attractive to the private sector as it offers them good returns in the form of annual payments, referred to as unitary charges. PFI is appealing because more, or improved, infrastructure is needed as public sector establishments cannot meet the supply of infrastructure required due to unceasing population growth (Walker and Smith, 1995).

Fundamentally the aim of PFI is to bring the private sector's finance, management skills and expertise into the provision of public sector facilities and services (Katz and Smith, 2003). PFI, therefore, takes advantage of the management skills of the private sector in the delivery of public services. It is believed that the private sector is better equipped than the public sector to handle some types of service delivery. However, in view of the high transaction

costs involved in setting up a PFI scheme, this arrangement is better suited to projects with a capital price in excess of about £50m.

The main responsibility for the design, building, financing and operation of the assets and the risks associated with these is transferred to the private sector. However, such risk transfer warrants a profit incentive to the private sector consortium (Grimsey and Lewis, 2002). Conjoint with risk transfer is the requirement that there must be effective private sector control, i.e. the public sector must not have the dominant influence in a PFI joint venture.

1.3 UK Government's Influence on the Use of PFI

PFI is one strategy for delivering high-quality public services that has become particularly important to the UK government. In assessing where PFI is appropriate, the government's approach is based upon its commitment to efficiency, equity and accountability and on the Prime Minister's principles of public sector reform.

> From 1st June 2000 all UK Central Government clients should limit their procurement strategies for the delivery of new works to PFI, Design and Build and Prime Contracting and from 1st June 2002 these procurement strategies should be applied to all refurbishment and maintenance contracts. Traditional, non-integrated, strategies should only be used where it can be clearly shown that they offer the best value for money. This means in practice that they will seldom be used. (Government White Paper)

Several public establishments have used PFI. As at December 2006, 794 PFI deals had been signed, worth over £54bn; and more projects are in the pipeline. £26bn of further PFI investments across 200 new projects are currently proposed and this includes the planned delivery of over 60 health facilities and 104 schools. These schemes are expected to close by 2010 and their uptake will make PFI one of the largest programmes worldwide.

In April 2007 HM Treasury undertook a large validation exercise and updated its database of PFI projects to reflect this and take into account projects that have:

- Been concluded or terminated
- Changed their contractual structures and, for instance, are no longer classed as PFI
- Been contractually merged

This HM Treasury exercise also identified that some departments have stopped collecting data on some very small projects in order to reduce reporting burdens. The leading users of PFI according to the Treasury's update are shown in Table 1.1.

In October 2007, HM Treasury (2007) published a working document containing information on current signed PFI Projects. This document lists 622 projects with a total capital value of almost £57bn. In addition this document provides data on the unitary payments for these projects (excluding figures for Scottish projects), from 1992–2046, of just over £180bn.

Table 1.1 An overview of the uptake of PFI (HM Treasury, 2007).

Sector/client	Number of projects	Expenditure to date (£)	Share of the market (%)
Department for Transport	49	22 496.77	42.1
Health	86	8 290.61	15.5
Ministry of Defence	47	5 644.45	10.6
Department for Employment and Skills	106	4 388.94	8.2
Scottish Executive	96	4 175.73	7.8
Department for Environment, Food and Rural Affairs	17	1 505.98	2.8
Home Office	41	1 375.43	2.6
Local governments	46	1 154.45	2.2
Others	103	4 371.80	8.2

1.4 Private Sector Tasks in PFI

Private consortia are usually contracted to design, build, finance and in some cases manage or operate a public service. The combinations of tasks applicable to PFI schemes are:

- Design, build, finance, operate (DBFO)
- Build, own, operate (BOO)
- Build, own, operate, transfer (BOOT)
- Build, operate, transfer (BOT)
- Turnkey

Amongst these, the DBFO option is popular and highly used. Figure 1.1 depicts its contractual links where the client contracts with a consortium which initially is known as a concessionaire. When the contract is signed, the concessionaire is referred to as a 'special purpose vehicle' (SPV). The SPV is normally represented by three to five companies and these would generally include a construction company, a facilities management firm and a financial institution. Depending on the nature of the service to be delivered, specialised firms may form part of the SPV, e.g. a waste management firm in a waste disposal service.

A consortium is necessary since no one company has the in-house expertise required to fund, design, build and operate the service (Carrillo *et al.*, 2006). The SPV is an independent legal entity, typically with its own business name. However, SPVs tend to maintain a very lean structure and carry out most of their contractual obligations by outsourcing, frequently to the parent companies that formed the SPV, for obvious reasons.

1.5 Establishing PFI Contracts

The process leading to a PFI contract is longwinded. Typically, PFI projects consist of 13 stages (Carrillo *et al.*, 2006):

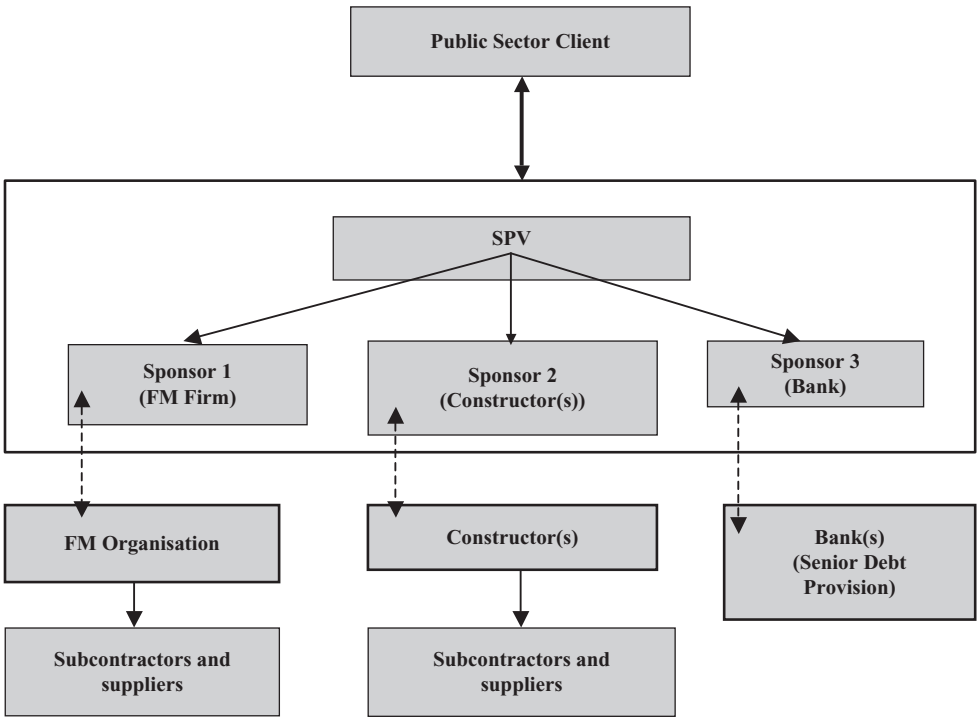

Figure 1.1 Participants in a PFI scheme.

1. Needs assessment
2. Strategic outline case
3. Outline business case
4. *Official Journal of the European Communities* (*OJEC*) advertisement
5. Pre-qualification questionnaire
6. Preliminary invitation to negotiate
7. Final invitation to negotiate
8. Final offer
9. Preferred bidder/final business case
10. Financial close
11. Construction
12. Operation and maintenance
13. Hand back

Table 1.2 and Figure 1.2 provide further details and an overview of this process. The period from the point of deciding to procure through to financial closure can last anywhere between 12 and 36 months. While early schemes used to take years to procure, financial closure is now reached in 12–18 months.

When a project is advertised and contractors express their interest, the client uses an iterative approach to screen the contractors. The intensity of scrutiny and amount of information involved increases with each subsequent iteration while the number of bidders is whittled down. Ultimately, a preferred

Table 1.2 The PFI process (HM Treasury, 2007).

Stage 1	Establish business need
	Consider key risks – outline risk matrix
Stage 2	Appraise the options
	Keep thinking about risks
Stage 3	Business case and reference project
	Work up reference project (embryonic PSC), risk matrix, costings, sensitivity and tentative transfers
Stage 4	Developing the team
Stage 5	Deciding tactics
Stage 6	Invite expressions of interest; publish *OJEC* Notice
Stage 7	Prequalification of bidders
Stage 8	Selection of bidders (i.e. shortlisting)
	During all of the above stages continuing to work up the PSC
Stage 9	Refine the proposal
	Review the PSC to ensure it is fully worked up before detailed bids are received from the private sector
Stage 10	The invitation to negotiate
	Publish the policy in relation to disclosure of PSCs
Stage 11	Receipt and evaluation of bids
	'Account' for all the risks
	Final check to see whether PSC needs to be revised because of availability of new data, but not for new ideas (picked up from PFI sides)
Stage 12	Selection of preferred bidder and the final evaluation
	Use this accounting to compare the PFI bids and the best PFI bid with the PSC which should be checked to ensure data and risk allocation are as accurate and comprehensive as possible
Stage 13	Contract award and financial close
Stage 14	Contract management
	Record details, share experiences and manage risk

bidder is selected and negotiations between the client and the preferred bidder result in a contract. A reserved bidder is typically appointed alongside the preferred bidder, so if the negotiations break down, the reserve bidder can be invited to step in.

The service operation period in a PFI project is long, often ranging from 15–35 years. After the service operation period, one of two things can happen:

- The provision of services and associated maintenance of assets reverts to the public sector client
- The public and private sector parties can renegotiate

When the first of these two options is selected, all aspects of assets or services below a set standard must be achieved before facilities are transferred to the public sector client (British Institute of Facilities Management, 2003).

1.6 Forms of Finance Used in PFI

PFI provides a way of funding major capital investments without immediate recourse to the public purse. Table 1.3 shows the funding options for PFI

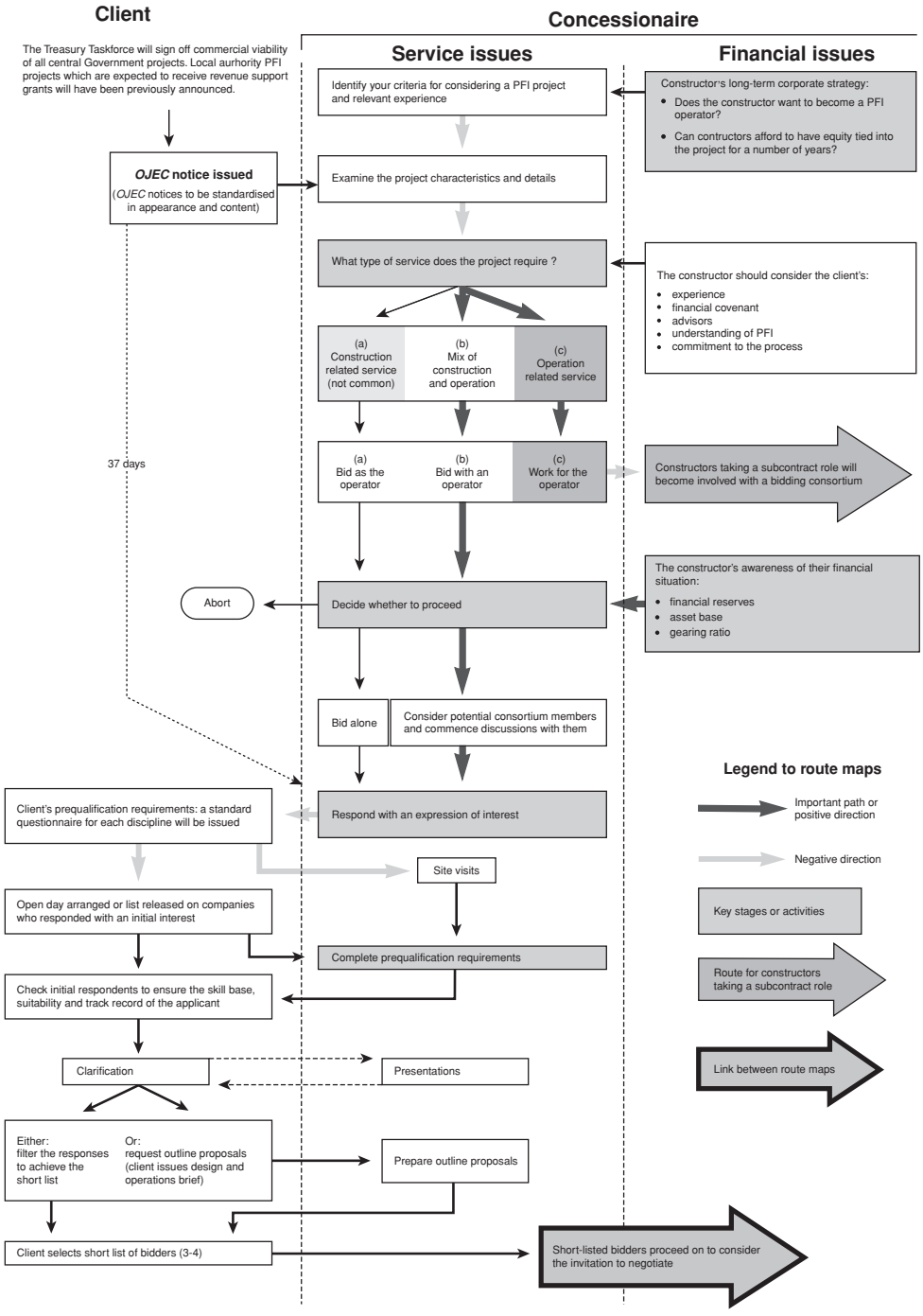

Figure 1.2 Towards formulating a PFI contract (Construction Industry Council, 1998).

Table 1.3 Funding Options.

Type	Usage
Bank debt	Frequently
Equity	Frequently
Bonds	Occasionally
Loan from shareholders	Occasionally
Mezzanine finance	Exceptionally

schemes. The private sector is required to invest equity in the project and a combination of equity and debt is often used. The debt to equity gearing is often 90:10 but can start from 95:5. In addition to equity, the SPV can source money from bonds, loans from outside the bank and mezzanine finance.

1.7 Performance of PFI Schemes – A Theoretical Perspective

1.7.1 Benefits of PFI

PFI yields certain benefits to the public or private sector or both.

Deregulation

Projects which had previously been delivered under the control of public bodies (e.g. prisons, hospitals, etc.) are now available to private sector organisations (PFP, 1995; Birnie, 1999).

Time savings

It has been reported that the construction period under PFI is shorter (Ward and Chapman, 1995; Price, 2000) with 80% of construction completions under PFI reported to be either within or on time, which is better than most other forms of procurement.

Cost savings

The whole-life price of a scheme procured by PFI is generally cheaper than for procurement by traditional means (PFP, 1995; Grubb, 1998) and this is a requirement for any UK PFI scheme. Before a PFI project is approved, the public sector client must prepare a public sector comparator (PSC) to show the advantage(s) of PFI. The client can also use PSC analysis to test whether another form of procurement will offer better VFM.

By taking advantage of private sector innovation, experience and flexibility, PPP and PFI schemes can deliver services more cost effectively than traditional approaches (Partnerships British Columbia, 2003). The lengthy negotiations

preceding the formation of a PFI contract contribute immensely to driving down prices.

Reduction of public sector risk

The public sector bears very minimal risk in PFI projects as it is a requirement that most risk should be transferred to the private sector. Each risk should be allocated to the party best able to manage it and, in general, most of the project risks are better managed by the private partner.

Leeway on government spending

PFI projects have a reduced financial burden on the public purse (Beenhakker, 1997; Jones, 1998), at least initially, as government does not have to pay all costs up front. Through the unitary payments, clients and the government pay back the money invested in a scheme to the private sector. So the government can use its money for other projects while paying for PFI schemes over time. According to Partnerships British Columbia (2003) PPPs can reduce the government's capital costs, helping to bridge the gap between the need for infrastructure and financial capacity.

Further opportunity to make profit

For equity investors, PFI is perceived as a relatively low-risk investment as it is backed by government covenant, provides a stable long-term yield and many of the risks are sub-contracted. Unlike other areas of project finance, PFI has limited exposure to market risks (demand for the infrastructure, commodity prices, etc.). The trend in the secondary market is to develop reasonably large portfolios of yielding assets typically after the construction phase.

Opportunity to develop assets and/or infrastructure

Most PFI schemes involve the provision of new infrastructure. Where current stock is retained, it is often upgraded and maintained on a regular basis.

Enlargement of markets

Private sector participants utilise their skills and knowledge in a number of areas, e.g. finance, law, risk, insurance, facilities management. In this regard, PFI offers further trading opportunities to the private sector.

Innovative solutions

In PFI, the design solutions are not finalised completely until the end of the negotiations (Figure 1.2). During the competitive phase and subsequent

negotiations, the SPV refines the design and often uses this opportunity to introduce innovative solutions that will benefit the client.

Accounting for maintenance costs

To a client, PFI relieves them of the responsibility for maintaining facilities. If something goes wrong with a building the SPV must fix it within a specified time or be charged on the basis of a predefined penalty.

Curtailing cost escalations

Project services are provided at a predictable cost set out in the contract agreement (Partnerships British Columbia, 2003). Inflation should not affect what the client will pay.

Improved service delivery

This is achieved by allowing both sectors to do what they do best. For example, the private sector will provide high-quality food to hospital patients while the NHS is free to concentrate on treating those patients.

Optimal use of assets

Private sector partners are motivated to make optimal use of the facilities to maximise return on their investment. This can result in higher levels of service and reduced occupancy costs for the government (Partnerships British Columbia, 2003).

1.7.2 Downsides of PFI

Despite its numerous benefits, PFI has its downsides.

High transaction costs

The cost of bidding for PFI projects is quite high (Tiffin and Hall, 1998; Mustafa, 1999; Walker, 2000). Bidding costs for PFI schemes are estimated to be in £millions. The National Audit Office (NAO, 2007) has reported significant problems with tendering processes. In addition, governments can borrow money more cheaply than private firms (Jones, 1998), so to a public sector establishment the cost of financing PFI schemes is higher (Gaffney *et al.*, 1999).

Demanding negotiations

When developing the contracts, the negotiations associated with PFI schemes are highly complex and very time consuming (Tiffin and Hall, 1998; Mustafa, 1999).

Bland products

There is the potential for innovative designs and construction methods to be inhibited as contractors may be wary of overruns (Mustafa, 1999; Birnie, 1999).

Unusual alliances

In the early days, the formation of project consortia was sometimes difficult as constituent members had differing objectives (Mustafa, 1999). An extension of this is the selling of stakes after the construction phase. By doing so, some companies have made profits and walked away from the risks.

Quantification of risks

High cost is ascribed to risk transfer (Gaffney *et al*., 1999). As no PFI scheme has yet run out its life, it is argued that no one knows precisely the frequency of occurrence of risks and their associated impact.

Unusually high profits

Shareholders in PFI schemes can expect very high returns per year (Gaffney *et al*., 1999); these returns can be perceived as unnecessarily high as this burden is passed on to the taxpayer.

Justification of PFI

According to Gaffney *et al*. (1999) the discounting method used to compare the 'present value' of different options is politically determined and set well above the government's interest rates. This favours PFI over other procurement options.

Inadequate prior knowledge of PFI

Most client organisations use PFI once so they have substantially fewer staff who fully understand the intricacies of PFI. In contrast, some private sector organisations have been involved with several PFI projects and therefore have significantly more experience (Robinson *et al*., 2004).

Although there are issues with PFI, its advantages are many, visible and undeniable. It is these advantages that are sustaining PFI.

1.8 Improving the Performance of PFI

The National Audit Office reviews PFI projects, sometimes via case studies, and particularly to scrutinise whether projects have achieved VFM. In the UK, PFI was developed by the Private Finance Panel (PFP). Two reviews of the concept were carried out by Sir Malcolm Bates in 1997 and 1998. His second review was carried out in tandem with Peter Gershon's review of central government civil procurement (Her Majesty's Treasury, 1999). Gershon's review concentrated on the need to establish an integrated and strategic framework for the PFI procurement process with the aim of obtaining cost savings and establishing best practice in the procurement of all government projects. The government accepted the findings and recommendations of these reviews in 1999. Thereafter, the functions of the PFP were taken over by two bodies:

- PUK (Partnership UK) – responsible for coordinating and accelerating the development, procurement and implementation of PPPs. PUK works solely with and for the public sector.
- OGC (Office of Government Commerce) – responsible for ensuring best practices are achieved in PFI/PPP.

Following these developments, the Public Private Partnerships Programme (4Ps) Ltd has since emerged as an advisory body for local authorities. The NHS standard contract was formulated and later ProCure 21 (2007) was launched for hospital schemes.

The OGC developed and launched its Gateway Review Process in England in February 2001. They recommend that gateway reviews should be carried out at key decision points on all major capital projects including PFI/PPP projects. This should be done by a team of experienced people, independent of the project team. There are five review points during the lifecycle of a project; three occur before the contract award stage, while the other two concern service implementation and confirmation of the operational benefits. The OGC review gateways are shown in Figure 1.3.

1.9 Performance of PFI Schemes – An Empirical Review

Now that services are being delivered from PFI schemes it would seem appropriate to compare service delivery performance with delivery from schemes procured using traditional methods. In order to do so, users with experience in both PFI and traditional procurement methods were contacted to obtain their opinions. A questionnaire was designed to elicit their opinions concerning the operation of their facilities and services (see Appendix). The questionnaire was used as a basis for conducting interviews with the stakeholders.

Discussions were held with people operating or managing a PFI service in the hospital and leisure sectors. The discussions sought to find out how the services are faring.

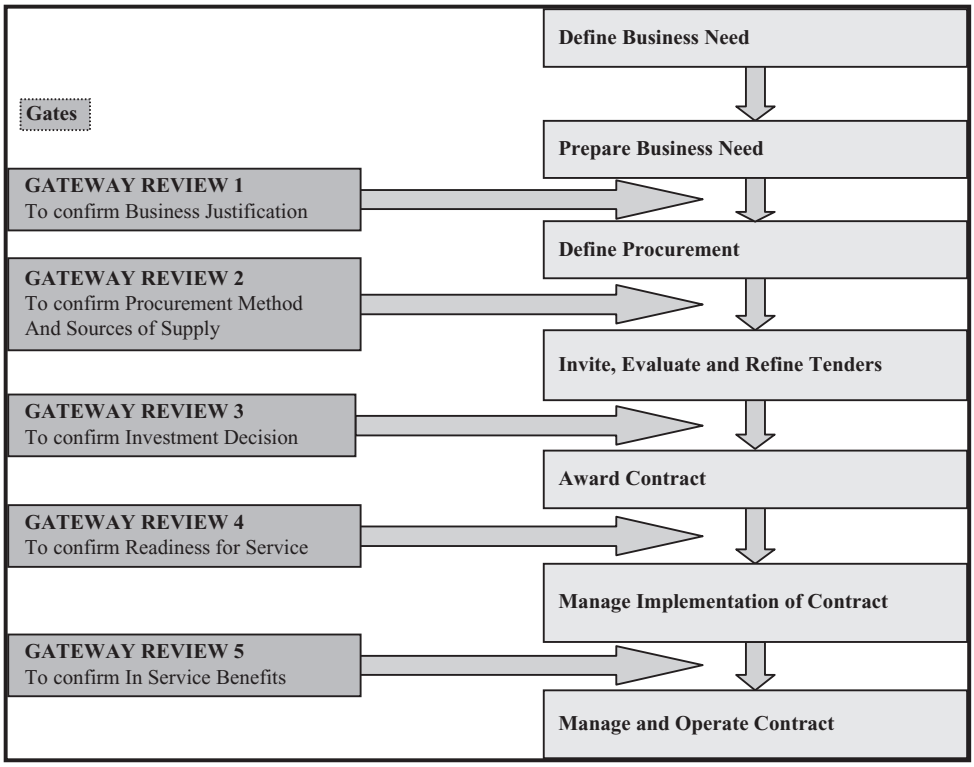

Figure 1.3 The gateway review template (OGC, 2001).

1.9.1 PFI In hospital projects

'The National Health Service (NHS) was set up in 1948 to provide healthcare for all citizens, based on need, not the ability to pay. It is made up of a wide range of health professionals, support workers and organisations' (National Health Service, 2004). The NHS is funded entirely by government, managed by the UK Department of Health, and serves over 800 000 patients per week. It is currently the largest organisation in Europe and employs over 1 million people in England. The advent of PFI was seen by the NHS as a means of improving its outdated system of procurement.

Where PFI is under consideration, an NHS trust is required to prepare an outline business case for approval by the NHS Management Executive and the Treasury. This outline business case indicates an estimate of the capital cost based on standard NHS costings. Final approval of a scheme is then dependent on the trust producing a full business case that will include an economic appraisal showing that the PFI option offers better VFM than a traditional funding stream.

In accordance with the guidance of the Department of Health, all major PFI schemes in the NHS should typically be arranged to cover the functions of: design, build, finance and operate (DBFO). However, in all these schemes, the

core clinical services are provided by the NHS through the relevant primary care trust (PCT).

The first major UK PFI scheme was the Norfolk & Norwich University Hospital, which was commissioned in late 1997 (Boyle and Harrison, 2000). Since then, there has been a rapid increase in the number of major PFI hospital schemes that have been approved and are currently under construction or operation. PFI in the health sector is about ensuring new facilities that are 'as modern, efficient and cost effective as possible' (Boyle and Harrison, 2000). This is achieved by incorporating specialist teams from the private sector who are experts at delivering advanced facilities. The Department of Health sees PFI as a key instrument for improving the quality and cost effectiveness of public services. Accordingly, PFI is seen not only as a mechanism for financing capital investments, but an avenue to exploit the full range of private sector management, commercial and creative skills (Department of Health, 2003).

Recently, there has been a significant reduction in the number of PFI health-related projects, with volumes dropping by more than half compared with the same period a year ago. This drop has partly been offset by a rebound in the use of traditional funding approaches, which has helped to support a 6% rise in public non-residential new orders (Baldauf, 2007).

The health sector is one area where criticisms of PFI have been vociferous. According to Gaffney *et al.* (1999) clinical concerns are generally countered by assurances that the largely undisclosed price of PFI is worthwhile because schemes approved by the initiative offer better VFM than traditional public sector procurement. This claim is usually based on the fact that, for approval purposes, all PFI schemes are compared with a PSC. However, concerns remain about the precision with which the cash payments of each option are discounted, and the pricing of 'risk transfer'. These concerns have lingered because the appraisal methodology is prescribed by government guidance and is crucial in the justification of the choice of PFI for any scheme.

1.9.2 PFI In leisure projects

Projects in this sector usually involve the design, funding, construction, operation and maintenance of a leisure centre to replace an existing facility. Facilities include:

- Swimming pools
- Fitness gymnasiums
- Health suites and treatment rooms
- Sports/indoor games halls
- Flexible second sports halls/socialising spaces
- Meeting rooms/teaching spaces
- Dancing studios
- Café bars
- Crèches
- Therapy facilities (e.g. hydrotherapy)

Leisure projects fall under the remit of the Department for Culture, Media and Sport (DCMS), who review and approve business cases. A scheme would normally provide new facilities but may include the refurbishment of some existing facilities, usually for a local authority.

The client will consult with the public at all stages of the project, especially when the outline business cases and outline planning applications are being prepared. This is usually done using public workshops, displays and online interaction and establishes a number of things, principally, the range of facilities and activities to offer.

1.9.3 Performance of hospital and leisure schemes

As interviewees in this research were employees of their various organisations, they were understandably somewhat reserved in their discussions. While they were more willing to discuss positive achievements they were less willing to identify any negative issues.

Hospital schemes

In the survey of users about hospital buildings, most were appreciative of their new buildings which are continuously maintained. If paint is damaged, for example, the SPV will repaint the affected wall at short notice. They tend to maintain a presence in the hospital and, if anything goes wrong with the facilities, they can be contacted quickly.

Some doctors described the new facilities as having large windows that improved the lighting in the facility. Theatre facilities were described as purpose built and excellent. In some hospitals, public areas were described as impressive, spacious and comfortable. A doctor described the new service operation as planned and business-like. When any of the equipment becomes outdated or damaged, the SPV replaces it without additional charge to the PCT. So for the entire duration of the concession the PCT does not need to be concerned with the provision and maintenance of facilities. In some hospitals, equipment did malfunction after the services became operational, and the SPV replaced these at no cost to the PCT.

By contrast, one situation was described where the lobby was too large. Some doctors identified theatre changing rooms as being quite small and nurses mentioned some narrow corridors. Such features may be difficult to pick up from a design plan, especially for clinicians who are not experts in interpreting such documents. Many risks associated with projects and PFI schemes are large and it may not be feasible to address each of them. Therefore, in some schemes the inadequacy of the size of corridors or changing rooms may not be recognised prior to construction. Given that a PCT will almost certainly procure only one PFI scheme, it is plausible to experience such teething problems. Although a lot of planning and consultation goes into the design of PFI hospitals, it is still possible to fail to identify the adequacy, or inadequacy, of some areas. It is evident from such issues that the consultation

process can be improved and the use of visualisation techniques may assist in the briefing process.

In recent times the NHS in the UK has been under financial constraints. The government has been asking NHS trusts to make cuts in their budgets and, while this directive applies across the board, it affects PFI hospitals more. For example, for two hospitals, each with a £100m budget, one of these has buildings procured by means of PFI and the other does not. The one with PFI buildings is paying a £7m annual unitary charge to service their PFI scheme. If the Treasury asks the hospitals to cut £15m out of their respective budgets, the hospital with PFI buildings will be making a cut of £15m on £93m (16%) while the one without PFI buildings will be making a cut of just 15%.

A few users felt that the schemes were financially driven and too expensive for their PCT. This argument was used to explain why fewer car parks were now available in PFI hospitals and users were being charged more for using them. When two or three hospitals are merged to form one big hospital, some communities have to travel longer distances to get to the new hospital. For some accident and emergency (A&E) cases this increase in travel could be the difference between life and death. Also, when hospitals are merged, some senior personnel may become redundant. While all frontline staff may be needed in the new bigger hospital, a new ward may not need two managers or two deputy managers. Only a few staff are affected this way, however this had been noticed by some users. One doctor cited a situation where the design brief was scaled down midway into the construction phase, and some of the proposed new-build facilities were eliminated and replaced with the refurbishment of existing buildings.

Leisure schemes

In the leisure centres studied, the respondents were keen to discuss the benefits. The facilities are much more modern and attractive. The level of usage of one leisure centre was said to have increased from 600 users per month before PFI to 35 000 users per month after PFI. The respondents were generally very satisfied with their outcomes and the facilities were said to be commendable.

Attempts to identify negative issues in this sector were not successful. Either no problems were encountered in this sector or the projects studied did not encounter any significant difficulties.

The interviews with some respondents established that a proactive approach was often adopted and was seen to be worthwhile. If clients can be forthcoming with information or concerns, then solutions can be worked out amicably with the private sector. In one of the leisure centres, for instance, the client raised an issue concerning a club that was using their old swimming pool. Following discussions, it was agreed to allow the club use of the new pool for a specified period of time under terms that remained favourably unchanged. Without this special arrangement the club would have had to pay more. In another scheme, a hotline was set up to ensure constant access to the SPV where any issue of concern could be treated speedily.

In some of the projects the clients identified the major stakeholders and held consultations with them. The unions, communities and other stakeholders were consulted and their views taken into consideration. In one scheme where three swimming pools were replaced with one bigger swimming pool, the communities affected were consulted and in this respect the local authority client lowered the price of using the new pool and also made concessions in terms of the cost of commuting to the new pool.

1.10 A Generic Overview of PFI Schemes

Although a client gets new facilities via PFI, it was pointed out that one can acquire a new building by other means. It is not the use of PFI alone that yields new buildings or new construction facilities. However, the advantage that PFI offers over other forms of procurement is that the facilities are maintained at a high level of specification throughout the concession period and facilities are kept up to date. If a machine breaks down, and is beyond repair, it is replaced with one that has a similar or higher specification to the one that was damaged.

There is no uniformity in the specifics of PFI contracts. For example, in some projects, the SPV is responsible for some soft facilities management (FM) services like cleaning, laundry and portering; while in others they are not, so the client has the luxury of choice in PFI.

Clients have realised the importance of engaging the SPV in frank consultation. This helps them to achieve facilities that either match or surpass their requirements.

Some of the hospital schemes studied encountered teething problems whereas the leisure schemes did not and there are several reasons why this may be the case. Hospital schemes are bigger and much more complex, and so the chances of error therein are increased. PFI hospital schemes started earlier than leisure centres and lessons learnt in the former are taken on board in the implementation of the latter. In addition, the leisure centres had champions who knew what was expected in terms of facilities needed and how to generate their specifications. These champions were also able to identify their stakeholders and consult with them appropriately.

The foregoing findings are not an indication that one PFI sector is better than another, rather that the outcomes are transferable. Given the same conditions, some of the downsides identified in the health sector could manifest in the leisure sector. Likewise, with due care, the successes identified in the leisure centre can be duplicated in the health sector. It is getting the right conditions, personnel and resources that matters.

The downsides of PFI cannot be entirely eliminated, but need to be monitored to avoid or minimise their potential impacts. Other forms of procurement have their downsides too. PFI has lots of potential that can be exploited in a project. It seems that careful monitoring can enable a project team overcome most of the disadvantages of PFI. According to Liddle (2006): 'The

industry continues to be distracted by the cascade of criticisms targeted at PFI. I am calling for a new attitude – one that embraces PFI and concentrates on the value it brings.'

1.11 Comparative Studies

PUK published a report into operational PFI/PPP projects in March 2006 (PUK, 2006). The report, which commented on the largest survey of PFI projects ever undertaken, contains a comprehensive review of the performance of PFI projects during their operational phase. The findings show that public sector managers and users are happy with the outcomes of their PFI/PPP projects. Specifically: 96% of projects in their survey are performing at least satisfactorily, with 66% of projects performing at the stated level of either good or very good standard; 89% of projects achieving contract service levels of either always or almost always; 80% of all users of PFI projects are always or almost always satisfied with the service being provided. In their survey, public sector managers believe that they have developed an effective partnership with the private sector to deliver services, wherein 97% believe that their relationship with their private sector partners is satisfactory or better. PUK's survey revealed that incentives within PFI contracts are working, with around 80% of public sector managers agreeing that the payment mechanism supports the effective contract management of the project.

According to Jefferies (2006), reporting on the Sydney superdome in Australia, which was procured by a DBFO arrangement, this project has certainly delivered an outstanding building and is an example of how both government and private industry can meet Australia's need for infrastructure in the new millennium. However, Jefferies's reflections indicate that more traditional economic infrastructure projects, such as roads, where there is a more defined revenue stream, appear to have been more successful than social infrastructure projects such as hospitals and schools.

1.12 Conclusion

PFI was introduced in the UK in 1992 to deliver improved services. Since then, its uptake has been significant with hundreds of signed deals having a capital value of almost £60bn. Whilst most public sector clients will undertake one or two PFI projects, the private sector side is often used to procuring that way. Thus, there tends to be an experience gap between the public and private sectors. The use of PFI ensures that services are delivered using new or refurbished facilities and these facilities are maintained throughout the service period. In projects procured by PFI the clients are happy because the benefits are many, e.g. they do not have to maintain buildings, soft services are provided by someone else, risks are transferred to the private sector, they

obtain VFM, etc. The private sector too is happy because they get a steady income that lasts decades and a high return for their money.

Although the implementation of PFI is relatively complex and long winded, careful consultation and monitoring of the process can yield win–win outcomes. However, as the risks are many in PFI, an oversight can lead to an unpleasant outcome. As some of the hospitals have shown, an inadequate size of a room can affect the comfort of users. It can be difficult to get everything right in the PFI process and in this respect all the views of stakeholders should be accounted for.

Time is a teacher. With the passage of time, procurers of PFI are learning to avoid its pitfalls. Our study indicates a positive trend towards more of the advantages than a repetitive practice where mistakes are allowed to happen again. As most clients are usually new to PFI, it may be inevitable for mistakes to manifest in some PFI schemes. One way to avoid such is to use establishments like 4Ps who offer free advisory services to local authority clients. The National Audit Office, PUK and OGC can also extend their services to cater for new clients who need extra support in developing their PFI schemes. This, for instance, can be reflected in a revised OGC review gateway.

Despite its numerous advantages, any mistake in a PFI scheme is likely to stand out for a long time and be costly to correct, making it essential to get the outcome right first time.

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Appendix: Questionnaire used in the survey

Complete/provide answers in respect of current or recent place of work

Name of project?	
When buildings/facilities became operational?	
How long have you used these buildings or facilities?	
How often do you use the buildings? (e.g. daily, weekly, etc.)	
Your name	
Your designation	
Address	
Tel:	
Email:	

Rate the facilities on the basis of the satisfaction derived by you in the course of using them:

	Exc	Good	Slightly good	Neutral	Slightly poor	Very poor	Extremely poor	Comments
Buildings/facilities:								
Size (i.e. adequacy)								
Quality								
Functional efficacy								

Rate the facilities on the basis of the satisfaction derived by you in the course of using them

	Exc	Good	Slightly good	Neutral	Slightly poor	Very poor	Extremely poor	Comments
Durability								
Innovativeness								
Safety								
Security								
Compliance with DDA								
User-friendly								
Service delivery:								
Speed								
Quality								
Effectiveness								

Rate the performance of these facilities prior to PFI

	Exc	Good	Slightly good	Neutral	Slightly poor	Very poor	Extremely poor	Comments
Size (i.e. adequacy)								
Quality								
Functional efficacy								
Durability								
Innovativeness								

Rate the performance of these facilities prior to PFI

	Exc	Good	Slightly good	Neutral	Slightly poor	Very poor	Extremely poor	Comments
Safety								
Compliance with DDA								

Comment more on the facilities

Identify or comment on any positive feature of the PFI facilities, i.e. not captured above	Identify or comment on any negative feature of the PFI facilities, i.e. not captured above
Any other suggestion on how the facilities can be improved	