

Stephen Hicks believes there is significant evidence to question the value of PFI.

the negative side of PFI

■ In response to the article 'The Positive side of PFI' published in the December 2007 issue of *Health Services Review*, it is surely right that many individuals and organisations do have an opinion on the Private Finance Initiative (PFI).

The sums involved, let alone the potential impact on public services, surely warrants such interest. Figures from HM Treasury show the increasing annual liability of annual payments under PFI contracts (rising from £M1,153 in 2000/01 to £M5,999 in 2010/11) and also the range of services involved, with defence, health, transport and schools being amongst these.

basic principles

There are three basic ideas behind PFI:

- **first** – that the public sector should stick to the knitting and not embroil itself with activities that are not part of its core remit. So in the NHS for example, the critical issue is having use of fit for purpose buildings, not designing, building and maintaining them. Similar examples for other parts of the public sector I am sure can be imagined by the reader
- **second** – that of attracting private finance into the public sector, and providing capital where the public purse cannot immediately do so
- **third** – that the private sector will provide better value for money than a public sector offering, and related to this is the notion that poor project management led to the public sector being taken advantage of by the private sector.

In themselves, these seem laudable enough but we all know how the devil can be in the detail. The obvious problems that can be foreseen intellectually with PFI schemes are as follows:

- they will consume a lot of time in their negotiation and subsequent

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- management, simply because another party or parties is/are involved
- it is naïve to assume that contractors will not seek to avoid costs even if such avoidance leads to services not in accordance with contract specification
- PFI contracts are for a lengthy duration (often 30 years) and in effect lock the public sector into a particular facility/location and financial commitment
- providing financial analysis that can demonstrate the better VFM of PFI over conventional procurement/operation will never be an exact science.

evaluating PFI

In reality, all these issues have been observed and evidenced by research. A good starting point for looking at these issues is the ACCA Research Report No 84 *Evaluating the Operation of PFI in Roads and Hospitals* (available online at www.accaglobal.com/publicinterest/activities). Amongst the report's conclusions are:

- monitoring of contracts has led to an increased workload and some outcomes are difficult in practice to define and monitor
- in reality, risk is not always transferred to the private sector even though substantial risk premiums are implied in contract prices
- it is impossible to compare the actual costs of PFI against the Public Service Comparator as this latter figure quickly becomes out of date. Thus it is impossible to monitor actual value for money
- there are often quite complex private sector arrangements that make it difficult to maintain transparency in financial reporting and accountability

- some schemes are dealt 'off balance sheet' by all of the contracting parties, i.e. assets we can all touch do not exist in accounting terms.

This research also provides references to other sources that examine the PFI process.

real issues

I hope this article demonstrates that the concerns felt about PFI schemes are based on more than vague public linking of MRSA problems with such schemes and union opposition to diminution of terms and conditions of their members. There are some very real issues with PFI and one would hope that the Government will avail itself of all research and react appropriately.

Whilst one applauds the provision of a modern public sector infrastructure, obtained against a backcloth of value for money and good governance, it does seem to me that this is an area that needs constant and careful monitoring and management. ■

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further reading

HM Treasury PFI Statistics
http://www.hm-treasury.gov.uk/documents/public_private_partnerships/ppp_pfi_stats.cfm

ACCA Research Report 84
www.accaglobal.com/publicinterest/activities/research/reports/accountability/rr-084