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*CLES Bulletin* is a topical summary of articles which have appeared in the professional press. Its aim is to provide a pithy précis of a subject area, drawing out the specific and common issues raised in the individual articles.

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## *Private Finance Initiative*

### **Introduction**

The concept of allowing the private sector to deliver public services whilst making a profit has always been a controversial matter. The Private Finance Initiative (PFI), introduced by the Conservative Government in 1992, does exactly this. It allows private sector companies to handle the management of a public sector project, such as a hospital or a school. The Government then pays the company an annual fee on which the private company makes a profit. There are a number of benefits of PFI, namely saving time and resources within the public sector. This Bulletin looks at PFI schemes across various sectors, including housing, school and IT, and highlights some valuable lessons learnt along the way.

*Inside Housing*<sup>1</sup> defines a PFI in housing terms as a means to deliver an integrated package of capital work followed by an ongoing range of services to manage and maintain the homes to a specified standard.

The article is specifically concerned with identifying the elements which comprise a good PFI bid. It contends that at the heart of a successful bid lies the team. Given that PFI brings together public, private and not-for-profit sectors it is essential that those from one sector instinctively understand and respect those from the other.

It also emphasises the importance of the bid being based on listening to both the client and residents, and argues that this is more important in social housing PFI than in those for hospitals, schools or prisons because in the housing sector, consultation with the end user is an inherent, enshrined part of the bid process.

Another facet of a good bid is that it contains not only the detailed arguments in support of its proposals but distils them into an accessible, comprehensible and engaging submission. PFI has rules and demonstrating either full compliance with them or well-argued deviations from them is a fundamental prerequisite. Also important is the demonstration of how proposals once on site, will be measured.

*Inside Housing* is clear that any PFI bid should reflect the lessons learned in other sectors and previous bids, but the essence of PFI is that it has the flexibility to provide an individual solution for each project, therefore, in this regard there is no such thing as a template for a good PFI bid. Though, it is apparent that a good PFI bid cannot be put together without the necessary human and financial resources.

*Roof*<sup>2</sup> magazine reports on Manchester City Council's PFI scheme for social housing on the Plymouth Grove estate. It recognises, like *Inside Housing* magazine, that a housing PFI is different in crucial aspects from a school or hospital scheme. In particular, the Manchester scheme involves several hundred properties under one contract, each asset in constant and varied use, and all aspects of service delivery and asset management have an important bearing on the general perception of the estate, so estate management was included within the PFI contract.

*Roof* highlights the Government's desire for local authorities to divest themselves of direct responsibility for managing housing stock, and therefore identifies the choices available as stock transfer, PFI and arms-length management. It looks at the options in turn, arguing that transfers can work when the stock to be transferred does not require massive investment and can therefore be used as security for borrowing. Arm's length management involves setting up a wholly owned company to behave in a very similar fashion to RSLs, so again the amount of investment requires may inhibit this solution. A PFI solution, however, provides an outsourcing of the management function under contract to the council. Funders thus have the comfort of the council's covenant, and major investment can be contemplated.

It acknowledges that the PFI option is not cheap, however, it does point out that the PFI contractor is

<sup>1</sup> Adams, Jeffrey *Lift off* Inside Housing 21 Mar 2003 pp.43-44

<sup>2</sup> Guilfoyle, Bridget *No pain, no gain* Roof Jul/Aug 2003 p.33

incentivised to manage costs because every penny saved is an additional profit for its investors.

Finally, *Roof* looks at the lessons already learned from the first round of pathfinder schemes, ultimately arguing that Government agencies should be less rigid and dogmatic in some of their approaches to PFI contract terms, to ensure an affordable project is delivered.

*Policy & Politics*<sup>3</sup> focuses on PFI in schools. It considers the suitability of the PFI methodology and the process to appraise PFI school projects, where the interests and different responsibilities of the Local Education Authority and school governors may conflict.

The article explores how the control procedures designed to ensure value for money in the context of the PFI, operate in the context of schools, casting doubt on the strict regulatory control of such projects, particularly in terms of meeting the identified needs of the school, ensuring value for money and affordability.

*Policy & Politics* reports that investigators of PFI projects have raised a number of concerns, for example, the National Audit Office has produced more than 20 reports on PFI, although none on schools. The article also suggests that while the Government has consistently argued that PFI is no more than a procurement policy with no implications for services other than increased efficiency and value for money, the nature of the PFI contract raises particular problems in the context of schools.

In particular, the different interests of the two public agencies, the LEA and the school, generate problems and the tension between promoting the use of PFI and ensuring that it is only used in ways that meet the objectives of greater efficiency and value for money is also a fundamental problem in PFI school projects.

*Policy & Politics* concludes that under circumstances where the Government is actively promoting PFI by only making funding available for capital investment under PFI, it is difficult to reconcile policy promotion with policy regulation and protect the public purse and the wider public interest.

*Public Finance*<sup>4</sup> magazine reports on the Treasury's Review of the PFI, in which it was announced that they were putting an end to PFI for IT projects. It argues that there has been a string of private finance disasters in IT,

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<sup>3</sup> Edwards, Pamela; Shaoul, Jean *Controlling the PFI process in schools: a case study of the Pimlico project* *Policy & Politics* 31 (3) July 2003 pp.371-385

<sup>4</sup> Silverman, Avi *IT's all over now* *Public Finance* 1-7 Aug 2003 pp.24-25

however the Review has instead stuck to general explanations of why it hasn't worked. Thus, *Public Finance* delves into the reasons behind the failure of PFI in IT projects.

Firstly, it suggests, that too much control is given to one supplier. Normally there would be separate agreements for the design, build and operation of an IT system, whereas with the PFI there is a tendency to get one contractor for everything, and over quite a long period of time – often seven to ten years.

On top of this, the contractor is often given a lot of freedom to deliver the system, hence allowing a 'shying away' from being too prescriptive about what it wants. It highlights examples of projects which were delayed due to new software requirements, as a PFI scheme can't cope easily with specification or technology changes.

*Public Finance* argues that perhaps the biggest obstacle for the PFI is the failure of third-party funding. It says it is notoriously difficult to identify where revenues or costs savings may be found, and that banks are reluctant to get involved and so set higher rates for funding IT projects.

*Public Finance* concludes by asking, given its obvious flaws, why PFI for IT has not been abandoned earlier? It argues that this could be a case of neglect, in that the Government's attention has been elsewhere, especially as it has viewed the PFI as something that, as a delivery vehicle, has been successful in other sectors.

## Conclusion

This Bulletin has highlighted the range of tensions among the different sectors using the PFI approach. Using private sector capital to deliver services to the public over long periods has enabled, in many cases, quality services to be delivered on time and to budget. However, the articles clearly reveal lingering problems which still need to be addressed for the initiative to thoroughly benefit the public.

For more information on this topic please contact:

**Siân Thomas**  
**Information & Policy Researcher, CLES**

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*The Centre for Local Economic Strategies*  
Express Networks, 1 George Leigh Street, Manchester  
M4 5DL  
Tel 0161 236 7036 Fax 0161 236 1891  
Email [sianthomas@cles.org.uk](mailto:sianthomas@cles.org.uk) Web [www.cles.org.uk](http://www.cles.org.uk)