

# PFI IN THE UK: UPDATE



**April 2006**

Public private partnerships (PPP) have been more widely developed in the UK than anywhere else in the world. PPP has delivered new facilities in schools, hospitals, prisons and roads. The principal vehicle for delivering PPP in the UK is the Private Finance Initiative (PFI). This report covers all projects classified under PFI in the UK that appear in *publicprivatefinance*.

## PFI: PROGRESS TO DATE

Up to the end of 2005, 780 PFI projects in the UK had been signed, with a capital value of over £53bn (Chart 1). Based on the year in which contracts were signed, the total value of PFI projects has been in the region of £3bn to £5bn since 2000, although the total of £18.3bn in 2002 was much higher as a result of the contracts for the London Underground valued at £16.3bn. The 2005 total of £4.3bn was down on the £5.2bn of the previous year, but higher than the £3.5bn in 2003.

Only a few PFI-type projects were signed in the early 1990s, including a large contract of £4bn for the Channel Tunnel rail link in 1996, with most having been signed since 1997, typically at least 60 each year. The number of deals peaked at 112 in 2000 before declining to 61 in 2003. They jumped to 99 in 2004, as a result of a particularly large number of deals in the health sector - 51 signed during that year alone - but returned to 61 in 2005.

Excluding the very large Channel Tunnel and LU contracts the average deal size over the past fifteen years has been £42m. In recent years there has been an increase in contract size to over £50m in 2003 and 2004 and to £70m in 2005. This is due to the greater scrutiny and focus on procurement costs in smaller contracts. Overall, PFI has accounted for about 10-15% of public sector capital investment since 1996, with the remainder being carried out through conventional forms of procurement.

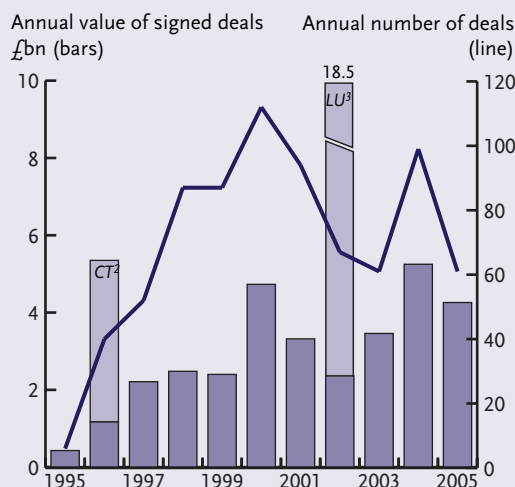
Based on a breakdown by government department (Table 1), the biggest participants in PFI projects have been Transport, Health, Defence, Education, the Scottish Executive and the Office of the Deputy Prime Minister. Transport has accounted for just over a half of the value of signed PFI contracts, partly due to the LU and Channel Tunnel contracts. Excluding these large deals, Transport would have been exceeded slightly by Health. Transport spans a variety of projects including roads, bridges, trams and light railway. By their nature such transport projects are quite large, so there have been only 58 such contracts with an average contract size of £127m even excluding the LU and Channel Tunnel projects, a much larger average than any other department. Transport has been less prominent over the past three years, when the value of contracts in both Health and Defence has been higher (Table 2).

Transport projects account for 8 of the 12 PFI deals valued at over £400m (Table 3). After the LU and Channel Tunnel rail link, some of the largest deals involve communications systems, such are those for air traffic control

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**Chart 1 UK PFI contracts<sup>1</sup>**



<sup>1</sup>PFI contracts based on year contract was signed  
<sup>2</sup>CT: Channel Tunnel rail link £4.2bn  
<sup>3</sup>LU: London Underground £16.2bn  
Source: publicprivatefinance

**Table 1 PFI in UK government departments**

Department	Number	£m	% share	Average size of contract (£m)
<b>Cumulative total, 1987-2005</b>				
Transport	58	27222	51.2	127*
Health	236	7839	14.7	33
Defence	56	4647	8.7	83
Educn & Skills	129	3418	6.4	26
Scottish Exec.	87	3177	6.0	37
Office of Deputy PM	55	1507	2.8	27
Home Office	51	1354	2.5	27
Environment	16	737	1.4	46
Welsh Assembly	20	566	1.1	28
Work & Pensions	7	522	1.0	75
N.Ireland Ass.	27	417	0.8	15
Trade & Industry	9	393	0.7	44
Customs & Revenue	4	353	0.7	88
Cabinet Office	2	342	0.6	171
Constitutional Affairs	12	302	0.6	25
HM Treasury	2	128	0.2	64
Foreign Office	3	101	0.2	34
Culture, Media & Sport	3	48	0.1	16
Others	3	94	0.2	31
<b>Total</b>	<b>780</b>	<b>53165</b>	<b>100.0</b>	<b>42</b>

\*Average size of transport contract excludes LU & Channel Tunnel totalling £20.4bn  
Source: publicprivatefinance

and military satellite communications. Other Transport projects include the building and operation of a motorway toll road and a number of other LU projects for new trains and a new digital communications system across the network. The largest Health scheme has been for hospital accommodation in Manchester while a schools project in Glasgow was the biggest in the Education sector.

The National Health Service has undertaken the most PFI projects, with a cumulative total of 236 up to end-2005, 30% of all contracts, mostly involving investment in hospitals. Since 1998, there have been between 20 and 30 NHS deals signed in most years, the main exception being 2004 when 51 were signed. Contracts in that year totalled £2.6bn and accounted for a third of the Health total of £7.8bn.

Deals in the Ministry of Defence have included simulator training equipment, communications and intelligence systems, and rapid deployment ferries. Like Transport such projects tend to be larger with the 83 Defence projects totalling £4.6bn and having an average size of £83m.

Most schemes in Education involved the building or refurbishment of schools. In the Home Office, PFI contracts were mainly directed to prisons and police buildings, while waste management has been the main subject of contracts in the department covering environmental issues. The devolved authorities in Scotland, Wales and Northern Ireland have also initiated a variety of deals.

**SECTOR ANALYSIS**

As well as an analysis by government department, publicprivatefinance also include a breakdown by sector of activity. This is very similar to departmental analysis in some areas such as education and transport, but it sheds light on other aspects of PFI relating to accommodation and IT services, as well as allocating the activities of the devolved administrations in Scotland, Wales and Northern Ireland. The main sectors are transport, health, education, accommodation, defence, IT and waste management/water (Table 4, Chart 2).

**Table 2 PFI in UK government departments**

Annual value of signed contracts, £m				
	2002	2003	2004	2005
Transport	16198	351	735	1021
Health	634	667	2628	998
Defence	456	925	900	654
Educn & Skills	587	373	456	749
ODPM	77	491	62	406
Home Office	279	138	74	38
DEFRA	111	145	35	---
DCA	45	---	40	---
Cabinet Office	12	---	---	---
Scottish Exec.	99	209	173	377
Welsh Assembly	---	---	82	---
N.Ireland Ass.	36	105	60	18
Others	---	57	---	---
<b>Total</b>	<b>18534</b>	<b>3461</b>	<b>5245</b>	<b>4261</b>

Source: publicprivatefinance

**Table 3 Largest PFI contracts**

Capital value of signed deals, £m	Government Department	Year signed	£m
London Underground Ltd	Transport	2002	16179
Channel Tunnel Rail Link	Transport	1996	4178
National Air Traffic Services Ltd (NATS)	Transport	2001	800
Skynet 5	Defence	2003	750
MoD - Future C Vehicles	Defence	2005	600
Ministry of Defence - Colchester Garrison	Defence	2004	539
Highways Agency - Nat. Roads Telecom. Servs.	Transport	2005	490
M6 Toll Road	Transport	2000	485
LUL - Connect	Transport	1999	468
Manchester NHS - hospital accommodation	Health	2004	415
A13 Thames Gateway	Transport	2000	411
LUL - Northern Line Trains Rolling Stock	Transport	1995	409
Coventry & Warwicks. NHS - Walsgrave Hosp.	Health	2002	379
University Hospital of N. Staffords. NHS	Health	2004	350
NHS Grampian - Kincardine Hospital	Health	1997	331
Second Severn Crossing	Transport	1990	331
GCHQ Cheltenham	Defence	2000	330
Newcastle Upon Tyne Hospitals NHS	Health	2005	300
Royal Navy Fleet Communications Service	Defence	2000	280

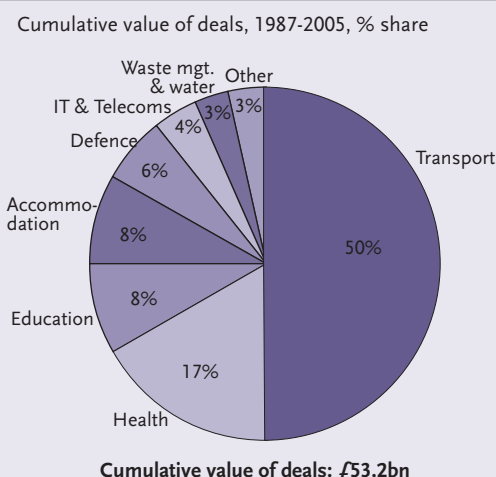
Source: publicprivatefinance

**Table 4 PFI sector breakdown**

Cumulative total, 1987-2005							
Sector	Number	£m	% share	Sector	Number	£m	% share
Transport:	47	26511	49.9	Defence	41	3221	6.1
- Rail, Tube, & Tram	17	18537	34.9	IT and Telecoms	70	2182	4.1
- Road & Bridge	26	7964	15.0	Waste Mgmt. & Water	30	1648	3.1
- Airport, Ferry & Port	4	10	0.0	Local Government	23	910	1.7
Health	255	8918	16.8	Prisons	18	475	0.9
Education	148	4420	8.3	Environment	5	191	0.4
Accommodation:	109	4345	8.2	Leisure and Tourism	10	138	0.3
- Residential	46	1853	3.5	Culture and Media	8	118	0.2
- Offices	25	1624	3.1	Health - IT	15	72	0.1
- Police & Fire	29	647	1.2	International Affairs	1	17	0.0
- Courts	9	221	0.4	<b>Total</b>	<b>780</b>	<b>53165</b>	<b>100.0</b>

Source: publicprivatefinance

**Chart 2 PFI sector breakdown**



Source: publicprivatefinance

Within transport, the predominant sector at £18.5bn is rail-related based on the large LU contracts, while roads and bridges contributed a further ££8.0bn. Health projects, largely hospitals reach £8.9bn on the sector analysis, with education at £4.4bn. Accommodation is a similar order of magnitude at £4.3bn, with residential accommodation the biggest segment £1.9bn, followed by offices, police and fire buildings and court buildings. After defence, IT and telecommunications is another sector to be picked up in this analysis with contracts valued at £2.2bn. Prisons have been quite a high profile area in PFI but have accounted for less than 1% of the total with £475m.

**PFI PROJECTS IN THE PIPELINE**

The total value of PFI projects is likely to increase by a half to nearly £80bn over the next four years with 200 PFI projects valued at £26bn in the pipeline in early 2006 and likely to be signed by 2010. Added to the £53bn signed by end-2005 these projects will bring the total to nearly £80bn in 2010. These findings were published in an HM Treasury report *PFI: Strengthening long-term partnerships* released in March 2006.

Based on total contract value, Health will attract the most investment £8bn, followed by Defence £5bn, the devolved administrations in Scotland, Wales and Northern Ireland £4bn combined, and Transport and Education each around £3bn (Table 5).

**OPERATIONAL PERFORMANCE OF PFI**

PFI projects are demonstrating strong operational performance with a high degree of user satisfaction according to a Partnerships UK report on *Operational PFI Projects* undertaken in 2005. When public sector contract managers of 105 projects were asked to rate how their project was performing in terms of delivery of services stated in the contract, a quarter (26%) responded that performance was very good, 40% good and 30% satisfactory. Only 2% said performance was poor and a further 2% very poor (Chart 3).

When benchmarked against contractual requirements 89% of contract managers said that service providers were always or almost always meeting those requirements (Table 6). Where problems do occur, action by contract managers ensures that problems with service providers are always or almost always resolved in 82% of projects.

Supporting the positive assessment of contract managers, reaction from users was also positive with 79% of respondents indicating that, based on their own surveys, services were always or almost always being delivered to an acceptable standard (Chart 3). Some 20% thought that they were being delivered to standard about half the time and only 1% considered that they were almost never being delivered to the requisite standard.

**Table 5 PFI projects in the pipeline**

PFI projects in the pipeline in March 2006 that are likely to be signed by 2010

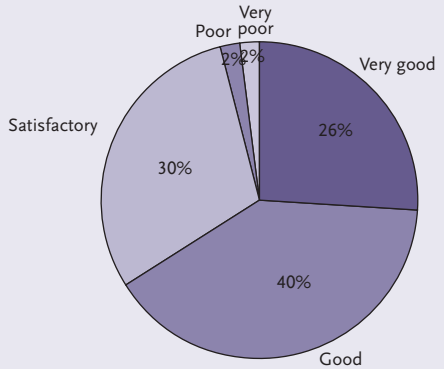
Department	£bn
Health	8.1
Defence	5.2
Devolved administrations	4.1
Transport	2.9
Education	2.8
Office of Deputy PM	1.4
Environment	0.9
Other	0.5
<b>Total</b>	<b>25.9</b>

Source: HM Treasury PFI: strengthening long-term relationships

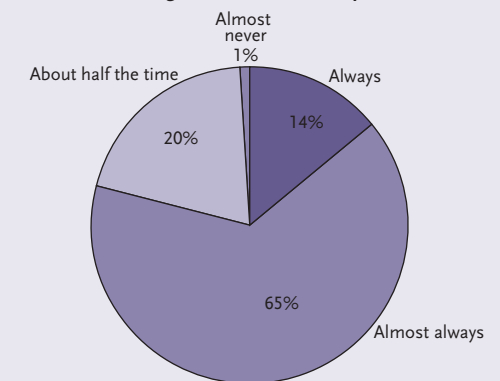
**Chart 3 Operational performance of PFI**

Partnerships UK survey of 105 operational PFI projects

How would you rate the overall performance of the project in terms of delivering the services stated in the PFI contract?



To what extent did the last user satisfaction survey find that services were being delivered to an acceptable standard?



Source: Partnerships UK: Report on Operational PFI Projects

**Table 6 Operational performance of PFI**

Public sector contract managers view on the extent to which service providers are:

% share	Meeting service requirements	Resolving problems when they arise
Always	12	13
Almost always	77	69
About half the time	10	15
Almost never	1	3
Never	0	0

Source: Partnerships UK: Report on Operational PFI Projects

**SOURCES****Public Private Finance**

[www.publicprivatefinance.com](http://www.publicprivatefinance.com)

**HM Treasury**

PFI: Strengthening long-term partnerships March 2006

[www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk)

**Partnerships UK**

Report on Operational PFI Projects March 2006

[www.partnershipsuk.org.uk](http://www.partnershipsuk.org.uk)

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