

# PFI IN THE UK & PPP IN EUROPE 2008

**MARCH 2008**
**WWW.IFSL.ORG.UK/RESEARCH**

Public private partnerships (PPP) have been widely developed in the UK over the past decade. PPP is delivering and servicing 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 and PPP in the UK that are compiled by Public Private Finance. It also features the developing PPP market in Europe using data from Public Private Finance and DLA Piper.

## PFI & PPP IN THE UK

The value of 60 signed projects in 2007 dropped to £7.3bn from the record £9.6bn in 2006, but remains well ahead of the three previous years. Between 1996 and 2005, the annual total of PFI/PPP contracts was running at between £2bn and £5bn a year (excluding the LU contract in 2002). The major focus of activity in 2007 was in health and education, although defence was also prominent: the £1bn project for replacement of marine service vessels for UK naval bases was the largest deal of the year.

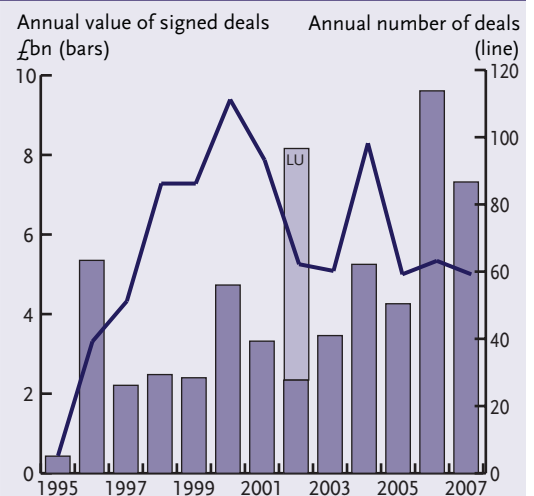
Up to the end of 2007, 901 PFI & PPP projects in the UK had been signed, with a capital value of £60bn (Chart 1). The aggregate total has been reduced following the termination of the Metronet London Underground (LU) contracts. The number of deals has been relatively stable at around 60 a year over the past six years, with the exception of 2004 when there was a spike to 99 due to the signing of 51 health contracts.

Recent years have seen a rise in the average deal size which was £122m in 2007. This was down on the peak of £150m in 2006 but much higher than previous years: around £55m in 2003 & 2004 and £71m in 2005. This is due to the greater scrutiny and focus on procurement costs which has tended to reduce the number of smaller contracts. Overall, PFI/PPP has accounted for about 10-15% of public sector capital investment since 1996, with the remainder being carried out through conventional forms of procurement.

**Government departments** Based on a breakdown by government department (Table 1), the biggest participants in PFI projects in 2007 were health, education, Scottish Executive, defence and transport. Since 2003 the value of contracts in health, education and defence has grown

Transport is the biggest PFI/PPP department over the past 20 years, accounting for contracts worth £17.8bn, 30% of the total based on value, partly due to the Channel Tunnel and remaining LU contract (Table 2). Transport spans a variety of projects involving roads, bridges, trams and light railway. By their nature such transport projects are quite large, so the average contract size of the 62 transport contracts is £195m (excluding LU), much larger on average than any other department.

Transport projects have accounted for 8 of the 17 largest deals valued at over

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


<sup>1</sup>PFI contracts based on year contract was signed  
Source: Public Private Finance

**Table 1 PFI/PPP in UK government departments**

	Annual value of signed contracts, £m				
	2003	2004	2005	2006	2007
Health	667	2628	998	3010	1706
Educn & Skills	373	456	749	1495	1514
Scottish Exec.	209	173	377	1003	1106
Defence	925	900	654	2674	1000
Transport	351	735	1021	150	727
ODPM	491	62	406	422	570
N.Ireland Ass.	105	60	18	390	382
DEFRA	145	35	---	421	175
Home Office	138	74	38	---	46
Welsh Assembly	---	82	---	42	17
DCA	---	40	---	---	---
Others	57	---	---	---	75
<b>Total</b>	<b>3461</b>	<b>5245</b>	<b>4261</b>	<b>9607</b>	<b>7318</b>

Source: Public Private Finance

£400m (Table 6, page 4). After LU and Channel Tunnel rail link, some of the largest deals involve communications systems, such as those for air traffic control and military satellite communications. Other large transport projects have included the building and operation of the M6 motorway toll road.

Health is the next largest department, with projects worth £12.6bn, 21% of the total. The National Health Service has also undertaken the greatest number of projects, a cumulative total of 269 up to end-2007, 30% of the number of PFI contracts, mostly involving investment in hospitals. The largest health projects have included hospitals in London, Birmingham and Manchester. There were 18 health contracts signed in 2007, valued at £1.7bn.

Over the past 20 years, defence has accounted for 5 of the 10 largest projects, all signed in recent years. These include an accommodation project, marine service vessels, as well as Skynet 5, future vehicles, and Colchester Garrison. Like transport such projects tend to be large with the 62 defence projects totalling £8.3bn and having an average size of £134m.

Most schemes in education have involved the building or refurbishment of schools. In the Home Office, PFI contracts have mainly been 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.

In 2007, the largest projects, after the marine service vessels were a road telecommunications system, two hospitals, the A1 road scheme and schools projects in Waltham Forest and Leeds (Table 3).

**UK sector analysis** As well as an analysis by government department, the Public Private Finance database also facilitates an analysis of activity by sector. This is very similar to departmental analysis in some areas such as education and transport, but it sheds light on other aspects of PFI/PPP relating to accommodation and telecoms services, as well as allocating the activities of the devolved administrations in Scotland, Wales and Northern Ireland. The main sectors historically have been transport, health, education, accommodation, defence, telecoms/IT and waste management/water (Table 4).

Transport remains the largest sector over the past 20 years at £16.6bn, but is less dominant following the termination of the Metronet LU contracts. Transport contracts have tailed off in recent years. Health is the next largest sector with contracts totalling £13.8bn, just under a quarter of the total. Projects are focused on development of hospitals with most contracts signed in recent years. Health is followed by education £9.3bn, accommodation £6.4bn, and defence £6.0bn. Both telecoms/IT and waste management/water each account for contracts worth over £2.5bn.

Education was the largest sector in 2007, with contracts

Table 2 PFI/PPP in UK government departments

Cumulative total, 1987-2007				Average size of contract
Department	Number	£m	% share	£m
Transport	62	17754	29.7	195*
Health	269	12555	21.0	47
Defence	62	8321	13.9	134
Educn & Skills	156	6427	10.8	41
Cabinet Office	107	5285	8.8	49
Scottish Exec.	68	2500	4.2	37
ODPM	52	1400	2.3	27
DEFRA	22	1333	2.2	61
HM Treasury	34	1189	2.0	35
DCA	22	625	1.0	28
Welsh Assembly	7	522	0.9	75
DTI	9	393	0.7	44
DCMS	4	353	0.6	88
HM Cust. & Rev.	2	342	0.6	171
DWP	12	302	0.5	25
FCO	2	128	0.2	64
Home Office	5	123	0.2	25
N.Ireland Ass.	3	101	0.2	34
Others	3	94	0.2	31
<b>Total</b>	<b>901</b>	<b>59745</b>	<b>100.0</b>	<b>40</b>

Source: Public Private Finance

\*Excluding LU contract

Table 3 Largest UK PFI/PPP contracts 2007

Capital value of signed deals, £m	Sector	£m
Marine Services	Defence	1000
Road Telecoms	IT & Telecoms	490
Peterboro. & Stamford Hospitals	Health	335
N. Staffordshire Hospital	Health	272
A1 and A4/A5 roads	Transport	260
Waltham Forest: Schools	Education	250
Leeds: Schools	Education	225
Ashford: Housing	Housing	200
Pinderfield & Pontefract Hospitals	Health	200
Newcastle: Schools	Education	180
New Tyne Crossing	Transport	180
Northern Batched Hospitals	Health	180
Edinburgh: Schools	Education	180
Edinburgh Royal Infirmary	Health	180
Walsall: Hospitals	Health	174
S. Tyneside: Schools	Education	162
Perth & Kinross	Education	161
Manchester - Housing	Housing	160
Sheffield: Schools	Education	158
Knowsley: Schools	Education	157

Source: Public Private Finance

Table 4 UK PFI/PPP sector breakdown

Signed projects, £m						Cumulative 1987-2006	% share 1987-2006
	2003	2004	2005	2006	2007		
Transport	442	457	403	292	497	16605	28.4
Health	707	2681	992	3020	1911	13848	23.2
Education	373	575	1146	2434	2415	9268	15.5
Accommodation	332	718	443	1455	616	6416	10.7
Defence	775	121	600	1800	1000	6021	10.1
Telecoms & IT	60	25	540	---	490	2672	4.5
Waste mgt. & water	343	300	---	575	314	2537	4.2
Local government	361	295	98	---	---	910	1.5
Other projects	68	74	38	31	75	1118	1.9
<b>Total</b>	<b>3461</b>	<b>5245</b>	<b>4261</b>	<b>9607</b>	<b>7318</b>	<b>59745</b>	<b>100.0</b>

Source: Public Private Finance

totalling £2.4bn, the same as 2006. Health was the next largest sector with contracts worth £1.9bn, down a third on 2006, while the £1bn marine service vessels made defence the third largest sector. Accommodation, transport, telecoms/IT and wastemanagement/water each made contributions of between £300m and £620m in 2007.

**PPP IN EUROPE**

The PPP market elsewhere in Europe has been developing in recent years, with the €7.4bn value of signed contracts unchanged in 2007 from 2006, having previously peaked at €8.9bn in 2005\* (Chart 2). Since 2001 signed projects elsewhere in Europe have totalled €32bn, three quarters of €42bn in the UK during this period.

The cumulative value of PPP deals to have been signed by end-2007 is highest in Spain €4.1bn, Italy €3.6bn and Ireland and France both just under €3bn (Table 5). The largest PPP signed contracts have been connected with transport infrastructure. Roads are most prominent, particularly motorways, many of which will be tolled. Rail and other infrastructure, such as bridges and tunnels, also feature amongst the largest projects.

In addition to 193 contracts signed elsewhere in Europe up to 2007, DLA Piper estimates that further projects to the value of €68bn were being procured elsewhere in Europe at the beginning of 2007 (Table 5). This total aggregates current projects in tender or in the process of being financed and has risen from €55bn in 2006. Italy is much the largest market with projects to the value of €30bn being procured. Of this €13bn relates to motorway and highway projects, €4.4bn to the Rome and Modena metro, €3.9bn to the Messina bridge, €2.6bn to water projects in Sicily and €2.0bn to hospitals. Germany and Greece are the next largest countries for procurement with €9.5bn and €6.3bn respectively. The further rise in procurement points to steady growth in signed PPP contracts in Europe over the next few years.

**Chart 2 PPP contracts in Europe (excluding UK)**



Source: Public Private Finance

**Table 5 PPP in Europe**

	Value of signed contracts, €m					Number signed deals 2001-07	Projects being procured Jan 2007 €m
	2001-04	2005	2006	2007	Total		
Spain	1000	1154	1664	309	4127	38	2931
Italy	890	2179	439	55	3563	20	29799
Ireland	720	121	623	1489	2953	18	---
France	0	1788	735	329	2852	26	3964
Greece	0	798	1600	3885	2398	7	6270
Germany	440	830	177	465	1912	34	9495
Belgium	1300	480	---	300	1780	5	3635
Netherlands	1302	---	431	---	1733	6	1211
Poland	1520	---	---	---	1520	2	1317
Austria	49	0	850	---	899	6	20
Finland	0	700	---	---	700	1	---
Bulgaria	0	366	288	366	654	6	2202
Cyprus	0	500	---	---	500	1	---
Portugal	278	---	32	140	450	6	1515
Other countries	488	2	528	15	1018	17	5221
<b>Total (exc.UK)</b>	<b>7987</b>	<b>8918</b>	<b>7367</b>	<b>7353</b>	<b>31625</b>	<b>193</b>	<b>67580</b>

Source: Public Private Finance, DLA Piper

\*These figures for PPP in the rest of Europe are compiled by Public Private Finance on the same basis as the PFI/PPP statistics for the UK.

**Table 6 Largest UK PFI/PPP contracts 1987-2007**

Capital value of signed deals, £m	Government Department	Year signed	£m
London Underground (Tube Lines)	Transport	2002	5484
Channel Tunnel Rail Link	Transport	1996	4178
Project Allenby/Connaught: Accommodn.	Defence	2006	1800
Barts & London NHS: Hospital Redevelt.	Health	2006	1100
Future Provision of Marine Services (FPMS)	Defence	2007	1000
National Air Traffic Services Ltd (NATS)	Transport	2001	800
Skynet 5	Defence	2003	750
MoD: Future C Vehicles	Defence	2005	600
Birmingham NHS: Hospital	Health	2006	560
Ministry of Defence: Colchester Garrison	Defence	2006	539
Highways Agency: Nat. Roads Telecom.	Transport	2005	490
Highways Agency - Nat. Roads Telecom & Telecoms	Telecoms	2007	490
M6 Toll Road	Transport	2000	485
LUL: Connect	Transport	1999	468
Manchester NHS: Hospital accommodn.	Health	2004	415
A13 Thames Gateway	Transport	2000	411
LUL - Northern Line Trains Rolling Stock	Transport	1995	409
St Helens NHS: Hosp. Accommodn.	Health	2006	380
Coventry & Warwicks. NHS: Hospital	Health	2002	379
N. Staffords NHS: Hospital	Health	2004	350
Peterborough & Stamford Hospital	Health	2007	335

Source: Public Private Finance

**OTHER SOURCES OF INFORMATION**

**Public Private Finance**

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

**DLA Piper**

European PPP Report

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

**IFSL**

**Report author: Duncan McKenzie**

**Director of Economics**, Duncan McKenzie  
[d.mckenzie@ifsl.org.uk](mailto:d.mckenzie@ifsl.org.uk) +44 (0)20 7213 9124

**Senior Economist:** Marko Maslakovic  
[m.maslakovic@ifsl.org.uk](mailto:m.maslakovic@ifsl.org.uk) +44 (0)20 7213 9123

International Financial Services London  
 29-30 Cornhill, London, EC3V 3NF

This report on *PFI in the UK & PPP in Europe* is one of eight reports highlighting UK product expertise. All IFSL's reports can be downloaded at:

[www.ifsl.org.uk/research](http://www.ifsl.org.uk/research)

© Copyright March 2008, IFSL

**IFSL PPP Export Group**

IFSL is taking a leading role in the promotion of PPP around the world through its PPP Export Group, chaired by Dr Tim Stone of KPMG. Working with central government and the private sector, IFSL has run seminars in many countries. It also organises meetings and visit programmes for overseas officials visiting London who come to find out more about the UK's experience and expertise in PFI/PPP. For further information on the work of IFSL's PPP Export Group contact:

Stephen Harris, Head, International Group,  
 Tel: +44 (0)20 7213 9108  
 Email: [s.harris@ifsl.org.uk](mailto:s.harris@ifsl.org.uk)

**Data files**

Datafiles in excel format for all charts and tables published in this report can be downloaded from the Research section of IFSL's website [www.ifsl.org.uk](http://www.ifsl.org.uk)

**Sign up for new reports**

If you would like to receive immediate notification by email of new IFSL reports on the day of release please send your email address to [download@ifsl.org.uk](mailto:download@ifsl.org.uk)



**International Financial Services, London** is a private sector organisation, with nearly 40 years experience of promoting the UK-based financial services industry throughout the world.



**City of London Corporation** administers and promotes the world's leading international finance and business centre and provides free inward investment services.



**UK Trade & Investment** helps UK-based companies succeed in international markets and assists overseas companies to bring high quality investment to the UK's vibrant economy.

4 This brief is based upon material in IFSL's possession or supplied to us, which we believe to be reliable. Whilst every effort has been made to ensure its accuracy, we cannot offer any guarantee that factual errors may not have occurred. Neither International Financial Services, London nor any officer or employee thereof accepts any liability or responsibility for any direct or indirect damage, consequential or other loss suffered by reason of inaccuracy or incorrectness. This publication is provided to you for information purposes and is not intended as an offer or solicitation for the purchase or sale of any financial instrument, or as the provision of financial advice. Copyright protection exists in this publication and it may not be reproduced or published in another format by any person, for any purpose. Please cite source when quoting. All rights are reserved.