

Public Service Insight Public Service Insight

RESEARCH, POLICY and ANALYSIS on PUBLIC SERVICES

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Pricewaterhousecoopers and PFI

An examination of the document *Public Private Partnerships: A Clearer View*
(October 2001)

The Pricewaterhousecoopers (PWC) document was cited by Prime Minister Tony Blair in the House of Commons as evidence that the Private Finance Initiative delivers value for money as a means of investing in public services.

In a response to a question from Annabelle Ewing (SNP), he replied:

“I refer the hon. Lady to the PricewaterhouseCoopers report on the PFI, which found that it was excellent value for money. ...

“...Overwhelming evidence, not only from the PricewaterhouseCoopers report but from the National Audit Commission, shows that the partnership provides good value for money.”

His mention of the PWC report came in response to challenges to the objectivity and validity of the document previously cited by ministers as “proof” that PFI represents better value for money than traditional public sector procurement – *Value for Money Drivers in the Private Finance Initiative*, produced by Arthur Andersen and Enterprise LSE.

Among the many complaints raised against the Andersen report is that the company itself was far from objective in its analysis, being an active participant in a substantial number (32) of PFI projects. In addition it was argued that though the Andersen document purported to be an analysis of 29 PFI Final Business Case documents, it did not sufficiently identify the projects to allow any corroboration of their findings. The methods of analysis which led to its widely-quoted claim of “average” savings of 17% between the projected cost of the PFI scheme and the hypothetical cost of a publicly-funded alternative have also been challenged by many commentators and academics.

The Pricewaterhousecoopers report, now cited by Tony Blair as a further vindication of PFI, replicates many of the same flaws of the Andersen report – but is if anything even more compromised. It makes little pretence at being anything other than a sales brochure for the concept of PFI.

There is no way PWC can pretend to be an impartial or objective analyst of the PFI process, given its self-proclaimed position as

“The market leader in project finance and privatisations ...”

and as:

“Financial Advisers on all the best Public-Private Partnerships”¹

Indeed the company claims to be involved in more signed PFI deals than any other consultancy firm in 2000, with 90 signings of projects valued at £8.276 billion, compared with Arthur Andersen’s relatively modest 23 signings – which however are valued at £9.016 billion.²

A search of the Office of Government Commerce website however suggests that PWC are if anything *understating* their involvement in PFI: it appears that the firm is, or has been, actively engaged in a hefty 132 PFI schemes, totalling over £17 billion, – although £7 billion of this, as with Arthur Andersen, is attributable to the controversial London Underground PPP.

A November 19 PWC Press Release underlines the scope of the company’s involvement in PFI schemes north of the border, with a proud claim that the company had reached “£1 billion mark on Scottish PPP deals”.

But the extent to PWC’s commitment to PFI is also emphasised by the listing of similar major schemes in which the company has been playing a role in Europe (where “PricewaterhouseCoopers advises on eight of Europe’s top ten private equity deals” raising cash for PPP projects), Canada, and elsewhere.

Nor does PWC claim that its report *Public Private Partnerships: A Clearer View*, published last October, represents any rigorous scientific or financial analysis of even the selection of schemes it appears to address.

Despite the introductory paragraph pointing out that “the lack of hard evidence on the pros and cons of PPP models and the urgent need for such data...” and arguing that “The PPP industry has also been frustrated by a lack of objective analysis...”,³ the report offers neither hard evidence nor analysis.

Instead it presents what is claimed to be a series of extracts from interviews with “the people who are making these projects work...” and thus, it is claimed “seeing their benefits and shortcomings”.

The report is said to be based on interviews primarily with managers and senior staff involved with 20 different projects – one of which covers 8 separate road schemes and is counted as 8. Included are 6 hospital schemes, 5 school projects, 2 schemes with London Underground, Croydon trams, two prisons, two military housing schemes and a waste water treatment plant.

¹ PWC website: www.pwcglobal.com/uk

² UK Private Funded Infrastructure Projects, PWC website: www.pwcglobal.com/uk

³ *Public Private Partnerships: A Clearer View*, p1

Ignoring last year's long-running Dudley Hospitals strike, and industrial problems at a number of new PFI hospitals, the PWC report claims that:

“None of the managers believed that staff were, on the whole, unhappy with the arrangements or unfairly treated.”⁴

Significantly, none of the affected staff have been interviewed to ascertain their views on being forcibly transferred to the employment of a PFI consortium, but one statement immediately preceding this PWC claim tells a rather different story:

“Some of the staff weren't impressed by (the FM provider) and have since left” (Project director, NHS Trust.)

PWC's commentary stresses the extent of “consultation” within PPP projects. But then four of its five quotes tell a very different story, echoing many of the critics of PFI:

“A general attitude of “them and us” does persist towards the private sector. Perhaps this is because... the staff had insufficient input into the design and therefore feel detached from the private sector's involvement in the new project.” (Director, NHS Trust)

“There was no transparent mechanism to allow change during the construction period. Therefore there have been issues over getting everyone involved in reviewing changes proposed which has taken a lot more time and effort than it should have.” (Public sector manager)

“...(we should) play a greater part in the design to ensure that this delivers all (of the) outputs...” (Public sector PPP project manager)⁵

Complications for public sector managers up against private sector negotiators are also revealed in the responses but glossed over by PWC:

“The Trust has learned many lessons, ... in particular ... the ambiguity of the output specification allowed the private sector to get away with too much.” Director, NHS Trust

“Better output descriptions are needed. It is currently too easy for the consortium, especially the FM company, to avoid what were considered by the (authority) to be contractual obligations.” Public sector project director

“The output specification needs utmost clarity but it has proved difficult to achieve sufficient detail, particularly for soft FM. Consequently the Trust has paid out more on outputs for soft FM not covered by the output

⁴ *Public Private Partnerships: A Clearer View*, p9

⁵ *Public Private Partnerships: A Clearer View*, p10

specification than it has taken away in penalties.” Project Director, NHS Trust ⁶

Two public sector directors, one of them from an NHS Trust, point out the likely long-term impact of PFI in squeezing budgets for front line services:

“Annually, the cost of variations has added 10% to (the authority’s) payments and used up all the contingency. Ideally, contracts need to be able to cope with more changes in both the long- and short-term.”
Director, Public sector authority

“The Trust has to make regular cost efficiency savings and having adopted the PFI route it has lost some flexibility on where in its budgets it makes these savings. Traditionally, savings were made on general repairs but since responsibility has transferred to the private sector, these savings may have to be made through reducing funding for clinical services.”
Director, NHS Trust

Nothing in the report offers any hard or attributable evidence to show that PFI represents value for money – let alone better value for money than an equivalent publicly-funded project. There are very few hard or identifiable figures at all, and no detailed discussion of the controversial way in which the hypothetical “Public Sector Comparator” has been manipulated to make PFI appear better value in comparison.

Indeed the PWC report concedes some of the objections made against PFI, notably the escalation of costs from original plan to completed project. Its answer is that “price escalation is not a feature of PPPs alone.” Questions raised over the quality of some of the buildings completed under PFI are brushed aside as “teething problems”.

In this respect it is instructive to note that among PWC’s own portfolio of PFI schemes in which it has been a participant are some of the most controversial hospital projects:

- Calderdale (where a newly completed PFI hospital now has to be redesigned to meet the NHS Plan⁷)
- North Durham, where the PFI scheme involved heavy cuts in beds and staff;
- Swindon and Marlborough – one of the first to switch services from an accessible city site to a “Greenfield site” on the outer edge;
- UCLH, London – where Alan Milburn intervened to forestall bed cuts, but the cost mushroomed to over £400m;
- Central Manchester – where the Health Service Journal revealed a potential cash shortfall of £13-32m a year for the local NHS;

⁶ *Public Private Partnerships: A Clearer View*, p15

⁷ Health Service Journal Nov 1 2001

- And Worcester Royal Infirmary, which has involved the axeing of in-patient and A&E services at Kidderminster and beds at Redditch – and forced ministers to step in and increase local bed numbers.

In short, the PWC report is NOT impartial, it is NOT hard evidence, it does NOT prove the points it claims to prove, and it comes from a company embroiled in some of the most controversial and flawed PFI projects. If this is the calibre of evidence Tony Blair and ministers have relied upon to show value for money from PFI, the case has yet to be proven.

PricewaterhouseCoopers: PFI Involvement				
Project Title	Govt Dept	Project Type	Status	Capital Value (£m)
Defence Animal Centre (DAC)	Ministry of Defence	PFI	Signed	11
MoD - Expeditionary Camp Infrastructure	Ministry of Defence	PFI	Shortlist	60
MoD GB- Wide Water & Sewerage (Aquatrine) - package A	Ministry of Defence	PFI	Shortlist	100
MoD - Main Building Refurbishment (Whitehall)	Ministry of Defence	PFI	Signed	400
Training Administration Financial Management Information Service - TAFMIS	Ministry of Defence	PFI	Signed	14
Joint Services Command and Staff College (JSCSC)	Ministry of Defence	PFI	Signed	93
Strathclyde Joint Police Board - Police Force Training Centre	Scottish Executive	PFI	Signed	17
Tri-Service Materials Handling Equipment	Ministry of Defence	PFI	Signed	32
HMS Nelson	Ministry of Defence	PFI	Signed	20
Tri Service Airfield Support Services	Ministry of Defence	PFI	Invitation to Negotiate	n/a
RAF Cosford/Shawbury Family Quarters	Ministry of Defence	PFI	Signed	15
RAF Lossiemouth Family Quarters	Ministry of Defence	PFI	Signed	24

Employment Service - IT	DfEE	PFI	Signed	116
London Borough of Camden - Jews Free School	DfES	PFI	Signed	9
Hillingdon School (Barnhill Community High)	DfES	PFI	Signed	18.8
St Thomas More Catholic Comprehensive School	DfEE	PFI	Preferred Partner	11
University of Greenwich - Student Village	DfEE	PFI	Signed	11
Wiltshire County Council - Chippenham Secondary Schools	DfES	PFI	Signed	38.6
Cornwall County Council - Schools	DfES	PFI	Signed	50.7
Colfox School - Dorset CC	DfES	PFI	Signed	15.6
East Riding of Yorkshire Council - East Riding Grouped Schools	DfES	PFI	Signed	26
East Sussex CC - Peacehaven School	DfES	PFI	Signed	19
LB of Enfield - World's End School	DfES	PFI	Signed	15.9
Leeds LEA - Cardinal Heenan Catholic High School	DfES	PFI	Signed	4.1
Torbay Council - Torquay Schools	DfES	PFI	Signed	14.2
MBC of Wirral - Schools	DfES	PFI	Signed	55.2
Hereford & Worcester Waste Management	DEFRA	PFI	Signed	47.4
Manchester City Council - Housing Energy Services	DTLGR	PFI	Signed	3
Redcar and Cleveland BC - Office Accommodation	DTLGR	PFI	Signed	13.72
Calderdale Healthcare NHS Trust - Halifax General Hospital	DoH	PFI	Signed	64.6
Carlisle Hospitals NHS Trust - Cumberland Infirmary	DoH	PFI	Signed	66
Doncaster & South Humber Healthcare NHS Trust - Mental Health Facilities	DoH	PFI	Signed	19
North Durham Health Care NHS Trust - Dryburn Hospital	DoH	PFI	Signed	61
South Durham NHS Trust - Sedgfield Community Hospital	DoH	PFI	Signed	6.2

South Tees Acute Hospital NHS Trust - South Cleveland Hospital	DoH	PFI	Signed	121.9
Sussex Weald & Downs NHS Trust (formerly Chichester Priority Care Services NHS Trust)	DoH	PFI	Signed	22
Swindon & Marlborough NHS Trust - Princess Margaret Hospital	DoH	PFI	Signed	96
University College London Hospitals NHS Trust - Gower Street Campus	DoH	PFI	Signed	404
South Manchester University Hospitals NHS Trust - Wythenshawe Hospital	DoH	PFI	Signed	65.6
Home Office Headquarters	Home Office	PFI	Preferred Partner	130
Prisons Energy (Tranche 1) - Powerline Energy Project	Home Office	PFI	Signed	9
Greater Manchester Fire Station - Headquarters Redevelopment	DTLGR	PFI	Signed	3.5
LUL - British Transport Police Central Headquarters	DTLGR	PFI	Signed	50
Cheshire Police Authority - Relocation of HQ & Training Centre	Home Office	PFI	Preferred Partner	30
Cleveland and Durham Police - Firearms Training Facility	Home Office	PFI	Signed	9
Cumbria Police Authority	Home Office	PFI	Signed	5
Derbyshire Police - Ilkeston Station	Home Office	PFI	Signed	4.5
Nottinghamshire Police Traffic Wing	Home Office	PFI	Signed	6
IR Manchester & Stockport	Inland Revenue	PFI	Signed	60
Court Service Accommodation - East Anglia	Lord Chancellor's	PFI	Preferred Partner	15
Worcestershire CC - Hereford and Worcester Magistrates Court	Lord Chancellor's	PFI	Signed	21

East Riding of Yorkshire - Humberside Magistrates' Courts	Lord Chancellor's	PFI	Signed	23
Manchester City Council - Magistrates' Courts	Lord Chancellor's	PFI	Signed	25
National Physical Laboratory	DTI	PFI	Signed	88.6
Tranche 1: A1(M) Alconbury to Peterborough	DTLGR	PFI	Signed	128
Tranche 1: A417/ A419 Swindon to Gloucester	DTLGR	PFI	Signed	49
Tranche 1: A69 Newcastle to Carlisle	DTLGR	PFI	Signed	9
Tranche 1: M1/A1 Link Road	DTLGR	PFI	Signed	214
Tranche 1A: A30/ A35 Exeter to Bere Regis	DTLGR	PFI	Signed	75
Tranche 1A: A50/ A564 Stoke to Derby Link	DTLGR	PFI	Signed	21
Tranche 1A: M40 Junctions 1 - 15	DTLGR	PFI	Signed	65
Tranche A1: A19 Dishforth to Tyne Tunnel	DTLGR	PFI	Signed	29
Traffic Control Centre	DEFRA	PFI	Signed	160
Nottingham CC - Express Transit	DTLGR	PFI	Signed	140
Essex CC - A130	DTLGR	PFI	Signed	90
Department of Education for NI - Drumglass High School	Northern Ireland Office	PFI	Signed	7
Dept of Education for NI - Belfast Institute of Further & Higher Education	DfES	PFI	Signed	20
St Genevieve's Secondary Intermediate Girls School - Belfast	Northern Ireland Office	PFI	Signed	14
Wellington College and Balmoral High School - Belfast	Northern Ireland Office	PFI	Signed	19
Dept of Education for NI - Classroom 2000 Project	DfES	PFI	Preferred Partner	250
West Lothian Further Education College - Livingston	Scottish Executive	PFI	Signed	15
East Renfrewshire Council - Glasgow South Orbital Road	Transport	PFI	Shortlist	100

Glasgow City Council - Schools (Project 2002)	Scottish Executive	PFI	Signed	225
Stirling Council - Balfron High School	Scottish Executive	PFI	Signed	16.5
Perth & Kinross Council - Office Accommodation	Scottish Executive			15
East of Scotland Water Authority - Levenmouth Purification Scheme	DEFRA	PFI	Signed	47
East of Scotland Water Authority - Esk Valley Purification Scheme	Scottish Executive	PFI	Signed	30
West of Scotland Water Authority - Daldowie Sludge Treatment Centre	Scottish Executive	PFI	Signed	65
West of Scotland Water Authority - Dalmuir Sewerage	Scottish Executive	PFI	Signed	50
Meadowhead Ayr, Stevenson and Inverclyde Sewage Treatment	Scottish Executive	PFI	Signed	65
Shieldhall Sewage Treatment Centre	DEFRA	PFI	Signed	40
Tayside Primary Care NHS Trust- Psychiatric Unit	DoH	PFI	Signed	10
Lanarkshire Acute Hospitals NHS Trust	Scottish Executive	PFI	Signed	149
Kilmarnock Prison	Scottish Executive	PFI	Signed	32
Pontypridd and Rhondda NHS Trust - Staff Residences	DoH	PFI	Signed	5
Bro Morgannwg NHS Trust - Baglan Hospital (Neath Port Talbot Hospital)	Welsh Assembly	PFI	Signed	66
The Royal Logistic Corps	Ministry of Defence	PFI	Shortlist	200
National Probate Record Centre	Lord Chancellor's	PFI	Signed	8
Awe Aldermaston - Atomic Weapons Site	Ministry of Defence	PFI	Signed	2,200.00
Sefton Metropolitan Borough Council - Leisure Centre	DEFRA	PFI	Signed	6
MoD - Wattisham Airfield Family Quarters	Ministry of Defence	PFI	Signed	60
Essex CC - Debden School	DfES	PFI	Signed	11.1

LB of Croydon - IT	DEFRA	PFI	Preferred Partner	n/a
North Wales Police Authority - Rhyl	Home Office	PFI	Shortlist	13
Sheffield City Council - Family Hearing Court	Lord Chancellor's	PFI	Preferred Partner	5
Avon & Somerset CC - Magistrates Court	Lord Chancellor's	PFI	Preferred Partner	20
Southern Derbyshire Acute Hospitals NHS Trust - Accommodation	DoH	PFI	Shortlist	160
Central Manchester & Manchester Children's University Hospitals NHS Trust	DoH	PFI	Pre-Qualification / Bidder Stage	250
Bedfordshire Magistrates Court	Lord Chancellor's	PFI	Pre-Qualification / Bidder Stage	n/a
Docklands Light Railway Extension	DEFRA	PFI	Shortlist	110
Driver & Vehicle Testing Agency	DEFRA	PFI	Signed	12
Broadland Flood Alleviation	DEFRA	PPP	Signed	135
Lanarkshire Acute Hospitals NHS Trust - Replacement of Law Hospital	Scottish Executive	PFI	Signed	100
Dept of Education for NI - North West Institute of Further & Higher Education	DfES	PFI	Signed	8
Aberdeen, Stonehaven, Fraserburgh and Peterhead Sewage and Sludge Treatment	Scottish Executive	PFI	Signed	80
MoD - Army Foundation College (AFC)	Ministry of Defence	PFI	Signed	73
Worcester Royal Infirmary NHS Trust - Hospital Building	DoH	PFI	Signed	86.6
Ayrshire and Arran Community Health Trust - Cumnock Community Hospital	Scottish Executive	PFI	Signed	8.6
Workington Police Station	Home Office	PFI	Signed	5
Bournemouth BC - Library	DTLGR	PFI	Signed	14.99

Sandwell MBC- Schools	DfEE	PFI	Shortlist	20
Portsmouth City Council - Highway Maintenance	Transport	PFI	Shortlist	31
Inland Revenue/ HM Customs and Excise Serviced Accommodation (STEPS)	Inland Revenue/ Customs & Excise	PFI	Signed	500
South Glasgow University Hospital NHS Trust - Southern General Hospital	Scottish Executive	PFI	Signed	11
Employment Service and DfEE Estate FM	DfEE	PPP	Shortlist	n/a
Northern Birmingham Mental Health NHS Trust - Mental Health Services	DoH	PFI	Signed	12.41
Swindon & Marlborough NHS Trust - IT DoH		PFI	Preferred Partner	n/a
Colchester Garrison	Ministry of Defence	PFI	Preferred Partner	200
East Renfrewshire Council - Schools	Scottish Executive	PFI	Signed	12.5
HMP Dovegate, Staffordshire (Formerly known as Moreton or Marchington)	Home Office	PFI	Signed	48
London Regional Transport - Croydon Tramlink	DTLGR	PFI	Signed	205
Fazakerley Prison/ HMP Altcourse	Home Office	PFI	Signed	88
Fire Fighting Training Units for the Royal Navy (NRTA)	Ministry of Defence	PFI	Signed	22
Falkirk Council - 5 Schools	Scottish Executive	PFI	Signed	65
Portsmouth Hospitals NHS Trust - Queen Alexandra Hospital	DoH	PFI	Pre-Qualification / Bidder Stage	100
East of Scotland Water Authority - Almond Valley and Seafield Waste Scheme	Scottish Executive	PFI	Signed	140
Westminster CC - Residential Home	DoH	PFI	Signed	5
Sandwell MBC - Housing	DEFRA	PFI	Shortlist	28

Bangor and Kinnegar Sewage Treatment	DEFRA	PFI	Signed	20
Walsall Metropolitan Borough Council (MBC) - Public Lighting Services	DEFRA	PFI	Preferred Partner	n/a
Edinburgh City Council - Schools	Scottish Executive	PFI	Signed	80
London Underground PPP	Transport	PPP	Preferred Partner	7,000.00
Total Capital Value (million)				£17,035
Total number of projects: 132				