



ACCA MEMBERS' SURVEY: DO PFI SCHEMES PROVIDE VALUE FOR MONEY?

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ACCA is the largest, fastest growing, global professional accountancy body, with nearly 300,000 members and students in 160 countries. ACCA headquarters is in London and it has 34 staffed offices and 34 active centres around the world. ACCA's mission is to provide quality professional opportunities to people of ability and application, to be a leader in the development of the global accountancy profession, to promote the highest ethical and governance standards and to work in the public interest.

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Executive Summary

A recent survey of ACCA members working in the UK public sector has shown that public sector accountants do not generally believe that the Public Finance Initiative (PFI) provides value for money for the public sector. Nearly 200 accountants working in the public sector returned the questionnaire which was sent to a random sample of public sector ACCA members.

Around a quarter of the respondents said that their organisation had used PFI in the last three years and so they had some direct experience of this approach to financing public sector capital projects. Only 1 in 5 of these respondents felt that their PFI projects had provided value for money. In contrast, a similar number strongly believed that the project had not provided value for money.

Only one percent of the respondents strongly agreed that PFI generally provides value for money whilst well over half of the respondents disagreed with this statement. The survey also showed that most public sector accountants believe that public sector organisations are prevented from achieving value for money as PFI is the only available option for obtaining much needed capital investment in public services. In addition, less than 1 in 7 of those returning the questionnaire felt that PFI schemes are objectively tested to see if they would provide value for money.

PFI is the route the government prefers for all major public sector capital schemes and few such schemes are now able to use traditional direct public sector procurement. Comments from the respondents to the survey, however, indicate deep scepticism with the potential benefits of the public sector adopting the PFI approach.

These comments included:

- "an extremely expensive option generated through political dogma which ought not to be necessary if central government were prepared to allow organisations to borrow money to invest"
- "I believe that PFI is a short-term quick fix, but in the longer term it is very costly to the public purse. The government itself can raise finance at the lowest rate of interest".

Introduction

The Public Finance Initiative (PFI) is one of the most important routes which the government is using to increase the level of investment in public sector infrastructure. The capital value of the PFI schemes that have been completed so far is estimated to be approximately £22 billion for the UK and there were schemes worth £14 billion where formal contacts had been signed by July 2002¹. Further schemes with an estimated capital value of £64 billion are in the pipeline.

One of the major arguments in favour of PFI is that it will provide value for money by bringing private sector expertise in to manage public services. Whether using PFI will actually provide public services efficiently is still largely a political rather than professional opinion as there is so little evidence of the outcome of such agreements. In a report² last year the Audit Commission stated that it was "too early to say whether PFI contracts generally offer the public sector long-term value for money".

In each case the costs of a proposed PFI scheme have been compared with an estimate of the costs of procuring the project by conventional means (the public sector comparator). For a PFI scheme to obtain the go-ahead, this comparison has had to show that, over the life of the scheme, the PFI option will be more economic than the public sector comparator (PSC).

Jeremy Colman, deputy controller and auditor-general was reported recently as saying that public sector comparators suffer from "spurious precision". He went on to say the value for money exercises were "pseudo-scientific mumbo-jumbo where the financial modelling takes over from thinking... It becomes so complicated that no one, not even the experts, really understands what is going

¹ OGC website July 2002

² *Building for the Future*, PFI Management Paper, Audit Commission June 2001

on". Finally he stated that "People have to prove value for money to get a PFI deal. But because that is wrongly seen to be demonstrated only by the public sector comparator, it becomes everything. If the answer comes out wrong you don't get your project. So the answer doesn't come out wrong very often"³.

Even the recent IPPR report⁴, which is convinced of the benefits of public private partnerships, calls for:

'an evidenced-based approach to policy. A commitment is necessary to pilot, monitor, and systematically evaluate a spectrum of partnership arrangements. Depending on the evidence that emerges PPPs [including PFI projects] could be rolled out or rolled back.'

Against this background, ACCA undertook a survey of its members working in the UK public sector to ascertain whether these senior finance staff, many who have been directly involved in PFI schemes felt that PFI is providing an efficient means of procuring public sector capital assets and whether they are having a beneficial effect on the public sector.

³ *Financial Times*, 5 June 2002

⁴ Institute for Public Policy Research, *Building Better Partnerships: The final Report of the Commission on Public Private Partnerships*, July 2001

ACCA Survey

In July 2002, ACCA sent a questionnaire to a cross-section of its members working in the public sector which aimed to ascertain the extent to which its public sector members, as senior financial managers, feel that the Public Finance Initiative (PFI) is providing value for money.

We were keen to identify which areas of the public sector our respondents represented. Of those who responded

- 38% worked in local government
 - 34% worked in the NHS
 - 7% worked in central government
 - 5% worked in higher / further education
- and
- 16% came from other areas.

Respondents from 'other' areas included broadcasting, the charitable sector, non-departmental public bodies, secondary education, the police, the prison service and from private organisations dependant on government funding.

SURVEY FINDINGS

25% of respondents' organisations have used PFI within the last 3 years.

42% do not think that PFI is having a beneficial effect on public services. Only 2% felt strongly that it did.

57% do not agree that PFI generally provides value for money. 19% of these disagreed strongly.

4% strongly believe that PFI has enabled the government to meet its commitments to increase investment in public services.

58% do not believe that PFI schemes are all objectively tested for value for money.

41% have no strong opinion on whether PFI enables public sector organisations to benefit from private sector expertise; 28% strongly disagree.

57% agree that public sector organisations are prevented from achieving value for money as PFI is the only available way of obtaining the necessary investment in public services.

Respondents' experience of PFI

We asked respondents to what extent they agreed / disagreed with a number of statements, specifically referring to a PFI project which they had been involved with or advised on. Our respondents had covered a range of roles in PFI projects, ranging from advisors to financial directors, project managers to accountants.

46% did not think that the PFI project provides good value for money for their organisation.

39% of respondents agree that the decision to proceed with the PFI project was based on an objective assessment of the merits of the alternatives.

39% would not again opt for private sector involvement, if their organisation were able to freely decide between the PFI scheme and direct public sector procurement and management. A further 24% were as yet undecided.

48% would not advise other organisations to use the PFI route for good value for money. Only 6% said they would definitely do so.

50% disagree that the Government is correct to promote the use of PFI for public sector investment.

31% think that the PFI scheme has had a detrimental effect on the cost of the services that we provide.

FURTHER COMMENTS

We asked our members whether they had any further comments. Some noted the apparent benefits of PFI, but these were far outweighed by the disadvantages: these being, in summary, expense, bureaucracy, the time involved in progressing schemes, the long-term implications and a number of other specific issues. Several respondents noted that PFI was the only option for many public sector entities and identified that PFI was a way to transfer risk from Government on to private companies and public sector organisations.

General observations

“If PFI is the only source of major capital for the public sector bodies, they have no choice but to ensure the business cases / public sector comparators demonstrate value for money.”

“PFI can benefit the public sector if a special set of circumstances exist that enables both private sector investors and public sector organisations to tap into a development opportunity where the private investor can gain a special return while also benefiting the public organisation. Too often, however, PFI is pursued only to access capital - with expensive revenue commitments for many years ahead.”

“The apparent value of PFI is more perceived than real. Public sector organisations can borrow at significantly cheaper levels to support capital investment than via PFI schemes.”

Benefits

“I have seen examples of PFI schemes, I am impressed with the level of quality.”

“The use of PFI assists in obtaining a more business-like and focused approach to business planning and capital investment.”

“Where capital funding is not available, PFI/ PPP provides the next best alternative, through secured revenue funding by PFI credits to meet the unitary charge, rather than through debt.”

Expensive

“An extremely expensive option generated through political dogma which ought not to be necessary if central government were prepared to allow organisations to borrow money to invest.”

“It is an economic fact that no organisation can borrow more cheaply than the Government.”

“I do not think it has been demonstrated that the total cost in revenue over 25+ years is less than the real cost of providing public sector capital from within the total public sector cash resource.”

Time-consuming

“Procurement is lengthy and complex and very expensive.”

“The PFI process takes much longer than using public sector funds.”



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Annex A: ACCA's Questionnaire



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