The Geography of the Private Finance Initiative

Steven Musson

Geographical Paper No. 188

The Geography of the Private Finance Initiative

Geographical Paper No.188

2009

Steven Musson

Department of Geography

School of Human and Environmental Sciences,

University of Reading,

Whiteknights

PO BOX 227

Reading RG6 6AB

United Kingdom

Email**:** s.musson@reading.ac.uk

Series Editor: A M Mannion

Email: a.m.mannion@reading.ac.uk

ABSTRACT

The Private Finance Initiative (PFI) is a form of public-private partnership that was launched in the UK in 1992. Although the idea of using private money to finance public services was then and is now controversial, PFI has gained widespread political acceptance. This paper acknowledges that existing analyses of government spending tend to exclude PFI. Using data obtained from HM Treasury, it analyses the geography of PFI and finds this to be highly spatially concentrated. It then considers the implications, for the wider geography of government spending in the UK and for the development of public-private partnership models of investment.

INTRODUCTION

The Private Finance Initiative (PFI) was launched in 1992 by the Conservative Government. It aimed to use money from the private sector to finance public therefore addressing longstanding shortfalls in public sector capital investment. This broke from the accepted rules of government finance that severely restricted the use of private money for such purposes. However, examples of public private partnership (PPP) pre-PFI introduction, particularly large infrastructure investments such as the Thames crossing at Dartford, commissioned in 1987, and the new Severn Bridge, commissioned in 1990, can be identified (HM Treasury, 2004). Chancellor of the Exchequer Norman Lamont considered it to be something of a "minor miracle" that the Dartford Bridge project succeeded, given the "extraordinarily complex and arcane" nature of the public-private finance regime in the UK at the time. It was widely accepted in Westminster that reform was necessary (House of Commons, 1992a). Although PFI was a new policy vehicle, it was ideologically associated with a wider commitment to PPP in the UK (Terry, 1996). Crucially, whereas PPP includes any private sector investment in public services, such as the transfer of council homes to housing associations and contracting out local services to private companies, PFI describes a specific contractual arrangement to design, build and manage an asset and to lease it back to the commissioning body over a long period (Batt, 2002).

PFI became synonymous with New Labour, in particular with its Chancellor of the Exchequer, Gordon Brown. In many respects, it was emblematic of the government's approach, incorporating traditional public and private providers to create a new, 'third way' of financing investment. As Anthony Giddens (1998: 125) noted: "public project partnerships can give private enterprise a larger role in activities which governments once provided for, while ensuring that the public interest remains paramount. The public sector can in turn provide resources that can help enterprise to flourish and without which joint projects might fail". In contrast, Will Hutton (1996) sounded a cautionary note, relating private sector involvement in the provision of public services to the emergence of a market society, in which: "Markets can produce perverse results. There is an inbuilt tendency to cherry-pick. Social functions are executed poorly. Short-termism becomes endemic. Markets are not value free" (ibid: 217-8). This paper explores further this relationship between the public and private sectors, with examples from PFI and the wider geography of government investment.

While the diversity of projects, in terms of their size and purpose, means that generalisations about PFI are difficult to make, the idea of mixing private sector money and public services has attracted widespread controversy. In many respects, this has been out of proportion to its relative financial value. In 2002–2003, the last financial year for which all data are available, PFI deals worth £19,088m were signed. This historically exceptional sum was still less than the £25,989m gross public sector investment from central and local government sources for the same period (HM Treasury, 2003a). In previous years PFI was less significant by comparison. Even so, the public sector trade union Unison has continued to oppose PFI strongly through its 'Positively Public' campaign (Ruane, 2000). It argues that a profit motive is incompatible with the provision of public service: "all our evidence and experience shows that once services are run for private profit, the quality of care is reduced and the public service ethos is replaced by a hard-nosed profit motive. It is about who makes the decisions about caring for your elderly relatives or your children's education or housing the homeless. [Is it] someone with their heart in the right place, or someone with an eye on the balance sheet? (Unison 2004)"

Furthermore, *The Guardian*, effectively the house journal for public service workers in the UK, devoted extensive coverage to PFI. In particular, this focuses on the performance of high profile private sector contractors such as Jarvis PLC, and on the role of PFI in the NHS and local government. In many respects, this coverage reflects a deeper unease within the Labour Party and the public sector about the relationship between private finance and public services (Monbiot, 2002). This was illustrated at the Labour Party Conference of 2002 when a Unison-sponsored motion calling for a review of the PFI was supported by 67.19% even though the National Executive Committee and senior political figures including Deputy Prime Minister John Prescott opposed it during the debate. Although the policy presentation of PFI is increasingly sensitive to trade union and grass roots unease, the government remains strongly committed to this method of investing in public services.

The political logic of PFI is such that the two main opposition parties in Westminster do not seriously contest the core issue of using private finance to fund public services. Instead, parties focus their criticisms on its effective implementation and governance. Between the electoral imperatives of maintaining public services and low taxes and the constraints of limiting public sector borrowing, there appear to be few politically acceptable alternatives. However, PFI shifts the financial burden from the point of initial investment to the longer period of service provision irrespective of the ability or willingness of future generations to meet the costs of signed contracts (Ball et al, 2002). Furthermore, in a system where political horizons rarely extend beyond the current electoral cycle, the logic of such a 'buy now, pay later' scheme is reinforced (Clark and Root, 1999).

One attraction of PFI for politicians is its short-term effect on public sector borrowing levels. The Maastricht Treaty limits government spending, measured by the public sector borrowing rate, to no more than 3% of GDP (National Statistics, 2004). PFI appears to reconcile additional investment with national economic prudence. Contracts may run for 30 years or more, so the initial cost of investment is spread more thinly over a longer period. Furthermore, Grout (1997) notes that PFI liabilities are frequently excluded from HM Treasury measures of public sector borrowing and as such fall outside the scope of the Maastricht Treaty agreement. Heald (1997: 571) cautions that: "Extensive use of private finance for public projects would necessitate a reconsideration of existing data on the fiscal deficits of governments." In spite of these implications, strong financial incentives are created for governments working in a restricted macro-economic environment.

Conservatives have focused their attack on the value for money being achieved and on the long-term sustainability of large levels public sector debt, which is largely hidden from HM Treasury measures of government borrowing (Grout 1997; Roe and Craig, 2004). Shadow Chancellor Oliver Letwin, in a speech to the Bow Group on 16 February 2004, said: "There are questions surrounding the hidden growth of long-term off balance-sheet public sector liabilities generated by PPP and PFI projects. If one is trying to measure the robustness and flexibility of the public finances in the face of a possible future slow down, these off balance sheet deficits have as much claim to be considered as the on balance sheet variety"

(Letwin, 2004). The Liberal Democrats have taken a remarkably similar view to the Conservatives. Treasury Spokesperson Vince Cable stated that: "Each PFI project needs to be looked at carefully to measure whether it is value for money. There is now abundant experience to show that many PFI projects that have been undertaken have not been value for money (Cable, 2004a)." He also claimed: "If the Government is deliberately trying to sweep public sector liabilities under the carpet it must be corrected immediately. Gordon Brown must explain his actions" (Cable, 2004b). In spite of these criticisms, the major UK political parties offer few alternatives to using private capital as a means of financing public investment.

The growth of market-oriented models of public investment in the UK can be seen in the context of wider public sector reform in advanced liberal democracies (Kerr, 1998; Pollitt, 2000). These include workfare labour market policies (Peck 2001), the privatisation of national industries (Larner and Walters, 2000) and health service reforms (Greenaway et al, 2004; Gaffney et al, 1999). Morris and Haigh (1997: 13) associate such changes with changing national political attitudes to the welfare state and to the restructuring of Europe's role in the international economy. Clarke and Root (1999) relate the introduction of PFI to historically low levels of public investment in the UK compared with other OECD nations (Clark et al, 2002). Although gross investment increased comparatively rapidly from 1989–1994, the initial base was very low. As such: "UK spending on infrastructure has fallen below comparable European countries. In particular, it falls far short of public investment spending by similarly sized countries, like France and Italy, and appears to lag behind even much smaller, middle level countries, like Belgium and Sweden" (ibid: 345).

It is argued that PFI can only be fully understood in the context of these wider changes in the role of the public sector. Its relatively limited value means that PFI has historically been seen as a small but important part of the Government's funding strategy However, as the number and value of signed deals grow, a clear and significant pattern of private investment in public services has begun to emerge. In particular, the geography of PFI is now overwhelmingly dominated by central government spending in London while other parts of the UK have received much more modest levels of investment. This may suggest that a system of public investment that depends on private capital implicitly favours core areas of the UK economy like London. However, a detailed examination of HM Treasury data reveals a more complex pattern.

THE DEVELOPMENT OF PFI IN THE UK

As Clark and Root (1999) appositely observe, most accounts of PFI begin with the retirement of the Ryrie rules in 1989. The rules, named after Sir William Ryrie, Second Permanent Secretary to the Treasury, were primarily intended to ensure fair competition between nationalised industries and the private sector, not least because governments can usually borrow money on preferential terms. Heald (1997: 572) notes that "in order to prevent the public sector from becoming over expanded because of access to cheap capital, the Treasury has [adopted a measure of] shadow-priced capital … set at levels usually well above government financing costs." Further disincentives to the use of private finance in support of public investment were created in at least two ways. First, the Ryrie rules stipulated that private investment could not be additional to public expenditure. Public spending was reduced to take into account any private investment, and as such: "The private sector usurped rather than supported the public sector: not a penny of extra funding flowed into our schools, or hospitals, or our transport infrastructure as a consequence" (Smith, 2001). Second, projects were only given the go-ahead if the private sector could be shown to offer greater efficiency benefits. A comparison was made even if there was no likelihood of the public sector carrying out the work. Clark and Root (1999) suggest that Sir William Ryrie had never intended his modest criterion for private investment to have such an enduring legacy and that the rules implicitly reinforced the power of central government by limiting the extent to which other non-centralised revenue sources could be accessed. Such restrictions on the private sector were increasingly at odds with a prevailing political ideology that the state should be limited in its scope and that urgent investment in public services was necessary, even though the required funding was not forthcoming from the public purse. As Greenaway et al (2004: 511) argue: "The origins of the PFI policy are a theoretically conventional mix of ideological, financial and political pressures, which combined to render the use of private finance as a routinised source of public capital projects a desirable option".

In response to these pressures, the Conservative government moved to encourage greater private investment. The Ryrie rules were formally retired by then Chief Secretary to the Treasury John Major at a speech to the Institute of Directors in Glasgow on 5 May 1989. This involved relatively a modest proposal to decouple private finance from a corresponding reduction in public spending, creating a funding model in which private investment could be used *in addition* to public sources. Further changes announced in the 1992 Autumn Statement by Chancellor of the Exchequer Norman Lamont established PFI on a more formal basis. The

Chancellor scrapped the rule that directly compared public and private schemes and announced that, in spite of the vale for money implications noted by Heald (1997) above: “Any privately financed project which can be operated profitably will be allowed to proceed.” Additionally, he opened the way for an increasingly complex array of partnership models, stating that: “The Government have too often in the past treated projects as either wholly private or wholly public. In future, the Government will actively encourage joint ventures with the private sector, where these involve a sensible transfer of risk” (House of Commons, 1992b). The Budget Statement of 1992 established the first priorities for PFI, including the Heathrow Express and Channel Tunnel Rail Link. As Norman Lamont enthused: “Over the years ahead, my private finance initiatives will play an ever increasing role in the modernisation of Britain's infrastructure” (House of Commons, 1993).

From the outset, PFI was characterised by government efforts to enhance its credibility and attractiveness to the private sector (Wakeford and Valentine, 2001). John Major, when Prime Minister, argued that PPP in general would reduce the administrative as well as financial burden on government. However, the lengthy tendering process and highly centralised regulatory mechanisms associated with PFI increased the workload on central departments (House of Commons, 2001). Furthermore, entry costs for private sector investors were perceived to be prohibitively high, particularly for smaller and less valuable contracts. The National Audit Office (1997) estimates these are typically a minimum of £0.5m and up to £2.5m for large and complex schemes (Ball et al, 2000). Responding to these and other criticisms, a series of strategic changes designed to improve PFI were implemented. These included the creation of a Private Finance Panel of industry advisers that aimed to promote PFI to business and a Private Finance Office within HM Treasury (IPPR, 2001). PFI was widely perceived as a centralised scheme, and local authority uptake of private finance was initially very low (Clark and Root, 1999). West Midlands Passenger Transport Executive signed the first local government PFI deal: a £145m contract for Midland Metro Line One on 2 August 1995. Lambeth LBC commissioned the first local authority PFI: a £9m contract for the provision of vehicles, on 8 April 1997 (HM Treasury, 2004). By the 1997 general election, local authorities had still signed only two of the 86 completed deals (Harding et al, 2000). Following this slow start, government policy developments throughout the mid-1990s forced more rapid uptake (Broadbent and Laughlin, 1999). For example, in November 1993 the government announced that NHS trusts would not be given capital funding until they had explored private sector options, while in November 1994 PFI became the preferred option for capital investment schemes across the public sector. No public funding would be provided until a private scheme had first been explored (Pollitt, 2000). Even so, at the end of the 1996–1997 financial year, less than a month before the general election, PFI remained limited and relatively insignificant, with contracts worth a total of £1,096m signed across the UK. In comparison, combined central and local government public sector gross investment in that year was £18,770m (HM Treasury, 2003a).

While John Major's Conservative government established many of its operating principals, the use of PFI increased rapidly following the election of the Labour Party to government in May 1997. The increase was immediate, although the new government maintained existing HM Treasury commitments during its early period in office and it seems reasonable to attribute this trend to reforms already put in place by the previous Conservative administration (Robinson 2000; Heald and Geaughan, 1997). Furthermore, as Greenaway et al (2004: 516) note: "The fact that a Labour government was returned to office made no difference to the financial and political imperatives of the PFI policy." The Labour Party's commitment to mobilise private capital to support public sector ventures was signalled as early as 1991 (Clark and Root, 1999), while Gordon Brown, Robin Cook and John Prescott had also published a paper on private involvement in public services in 1994 (Brown et al, 1994; Greenaway et al, 2004). This was recognised in the party's 1997 general election manifesto, which sought to maintain and reinvigorate PFI: "Labour pioneered the idea of public/private partnerships. It is Labour local authorities which have done most to create these partnerships at local level. A Labour government will overcome the problems that have plagued the PFI at a national level. We will set priorities between projects, saving time and expense; we will seek a realistic allocation of risk between the partners to a project; and we will ensure that best practice is spread throughout government. We will aim to simplify and speed up the planning process for major infrastructure projects of vital national interest" (Labour Party, 1997).

With this commitment in mind, the Labour Party immediately sought to reform PFI and address perceived Conservative failures to make the best use of private capital. In his 1997 Mansion House speech, Chancellor of the Exchequer Gordon Brown announced: "Malcolm Bates formerly deputy managing director of GEC, [has been asked] to undertake a thorough-going review of the Treasury arrangements for PFI projects to ensure quicker and better decision-making. We need to seek public–private partnerships to deliver better public services and investment. And I am determined that the private finance initiative has a new start" (Brown, 1997). The Bates Review reported in June 1997 and aimed to create a more simplified tendering process that would yield an increased flow of projects (Bates, 1997). The Labour Party acted on its recommendations. A Treasury Taskforce was established within HM Treasury to act as the main point of reference for PFI activities in government. It comprised a policy team of civil servants and a projects team of "highly skilled people from the private sector who are available to help public sector bodies execute PFI deals" (HM Treasury, 1999), to replace the existing Private Finance Panel and Private Finance Office (Pollitt, 2000). A second Bates review reported in 1999 and examined the progress made by the Government in the delivery of PFI (Bates, 1999). It identified the need to strengthen central control and replaced the Treasury Taskforce with a new public private partnership, Partnerships UK, which worked with the public sector to help enable a more detailed and experienced examination of potential partnership opportunities.

Although central government retained and strengthened its co-ordination and control activities, in many respects these reforms reflected the increasingly diverse range of public sector bodies making use of PFI. Earlier reviews, such as those under the Private Finance Working Group in 1993, had emphasised the need to make the system more accessible to private sector partners (Clark and Root, 1999). For example, the tendering process was streamlined and the rules which measured efficiency of projects were relaxed. However, the second Bates review aimed to help public sector bodies secure the best possible value for money. Through the introduction of Partnerships UK, the second Bates review addressed the limited capacity of local authorities and NHS trusts to deal with specialist private sector contractors.

Discussions of the workings of PFI have focused on three main questions (Grout, 1997). Firstly, to what extent does it lead to additional capital investment in public services? Ball et al (2000) identify a number of ways by which additionality can be achieved, including encouraging finance from new and innovative sources, overcoming constraints on public spending such as HM Treasury borrowing limits and enabling efficiency savings that free capital for further investment. Secondly, does PFI provide value for money public services that safeguard the interests of the taxpayer? According to Ball et al (ibid), value can be achieved through lower private sector running costs and financial penalties for failure. However, Heald (1997: 580) argues that the criteria by which value for money is assessed by government are weak, and that PFI represents an acceptance of “good rather than best value for money”. Thirdly, does it genuinely and effectively transfer risk from the public to the private sector?

The concept of risk transfer is of critical importance. As Heald (1997: 591) argues: “Without the genuine transfer of risk to the public sector, schemes for private finance look like an attempt to circumvent budgetary controls on public expenditure, whether by creative accounting around definitions or by retiming the scoring of expenditure”. Furthermore, the ability of the private sector to manage risk is central in promoting increasingly efficient service provision. Froud (2003: 568) suggests that: “The existence of risk in the sense of things possibly going wrong is, paradoxically, a positive force providing motivation for and the possibility of new forms of finance for public infrastructure.” Risk might be managed, for example, by designing alternative uses for an asset should its original purpose become redundant or through more flexible and responsive financial management of projects (Ball et al, 2000). On at least two occasions, the government has been required to limit the exposure of the private sector to risk, by acting as a guarantor for NHS contracts and as an insurer of last resort for prison projects. In spite of the extensive reforms since its conception, the principle that PFI should involve the transfer of risk has been retained.

Notwithstanding the important projects noted above and in spite of the initiative being extensively restructured, the number of PFI schemes remained very modest until after the Labour Party was elected to government (Pollitt, 2000). The absolute and cumulative values of projects by year are shown in Table 1. Prior to 1996, the value and number of projects was very limited, representing only 3.1% of the total value by the end of 2008. Since then, more widespread use has been made of private sector capital to support investment by all levels of government. In 1996, the number of projects was greater than in all previous years combined and throughout the mid-1990s the cumulative value of projects grew steadily. However, it was not until after 2002 that the annual value of PFI increased more sharply. Of particular note, the value of new projects in 2003, the year that several high-profile London Underground contracts were signed, exceeded £16 billion. While these aggregated national data show the development of the initiative over time, it is argued that they provide a broad and limited picture. The analysis of regional data shows that a highly uneven geography of investment has emerged across the UK, as is discussed below.

Table 1: Value of PFI in £m and number of projects by year (December 2008)

Year Signed	PFI Value in £m	Number of Projects	Cumulative % of total
1990	331.0	1	0.5
1992	485.0	1	1.3
1994	6.0	1	1.3
1995	71.8	2	1.4
1996	1064.0	16	3.1
1997	1827.2	24	6.0
1998	2435.1	47	9.8
1999	2237.6	54	13.3
2000	3545.0	71	18.9
2001	2302.5	52	22.5
2002	8004.5	57	35.2
2003	16338.9	56	60.9
2004	4065.6	62	67.3
2005	3498.7	48	72.8
2006	7143.9	59	84.1
2007	5744.9	61	93.2
2008	4336.5	29	100.0
Total	**40022.3**	**648**	--

Source: HM Treasury, 2009

UNDERSTANDING THE GEOGRAPHY OF PFI

The spatial distribution of government resources in the UK is a subject of long running controversy and debate. For example, the Barnet Formula, which determines levels of central funding for Scotland, Wales and Northern Ireland, is widely perceived to be in need of review by political interests in the northern English regions (McLean, 2000). The Standard Spending Assessment, through which up to 75% of revenue and capital investment for local government is allocated, is seen as a politicised process that has historically allocated disproportionate funds to the electoral heartlands of the government of the day (John and Ward, 2001). Since the creation of devolved assemblies in Scotland, Wales and Northern Ireland in 1997 and the strengthening of regional government in England, increasingly articulate lobbies have emerged. They argue for regional political and economic interests and thus debates around the allocation of funding have intensified (Cameron et al, 2004).

The regional geography of government spending generates controversy in at least three areas (ibid). The first relates to the net contribution that relatively prosperous regions, particularly London and the south east of England, make to HM Treasury. Gordon et al (2004) point to a large deficit between regional contributions and receipts through public spending and investment. They argue this deficit may have been as large as £11b per annum for London in 2004, although they note that such estimates are fraught with inaccuracies. The second area is more frequently associated with less prosperous regions such as the north east and north west of England. It is argued that government spending does not meet the economic needs of these regions in comparison with disproportionately well funded Scotland, Wales and Northern Ireland (McLean and McMillan, 2003). A similar argument is made in the more prosperous south east region, where the South East England Development Agency (SEEDA) claims that government has persistently failed to invest to overcome problems of economic success, such as skills shortages, congestion and high property prices (SEEDA, 2002). Rather, SEEDA argues that resources are channelled to regions with failing economies, threatening the economic success of the south east and as a consequence the UK economy as a whole. Thirdly, Scotland, Wales and Northern Ireland identify a 'Barnett squeeze' through which their funding is gradually being reduced McLean (2005).

Against the political background of such controversies, an analysis of the geography of PFI is increasingly relevant. Commonly used measures of government spending such as total managed expenditure (TME) are dominated by claimant-driven factors such as social services and include a very limited measure of investment (McLean and McMillan, 2003). Gross public investment accounted for less than 7.5% of TME in 2003-2004 (PESA, HM Treasury, 2004b). Significantly, PFI is excluded from financial measures such as TME. However, a rich array of data on PFI is available other sources within HM Treasury. These include detailed information on the date that contracts were signed, the name of the commissioning government department, the value of the contract, the geographical location or locations of the investment and details of its specific purpose.

The most recent HM Treasury data for PFI contracts signed by December 2008 shows a clear geographical pattern of investment (Table 2). London is overwhelmingly dominant and accounts for almost 40% of total national PFI by value. In contrast, the North East region, Northern Ireland and (outstandingly) Wales have the lowest levels of investment and none of these regions account for more than 3% of total national value. This geographical variance is equally marked when per capita investment is considered. Regional totals range from over £3000 per head in London to around £200 per head in the Wales. Indeed, investment in London appears even more exceptional when the surrounding regions, South East and East of England, are compared. This is noteworthy given the relative prosperity of these two regions and suggests that PFI uptake may not be as closely linked to the relative strength of local market forces as anticipated above. Leaving aside the case of London, considerable variance can be identified between other regions. For example, Scotland has experienced relatively high levels of investment. Almost 100 PFI projects have been commissioned and per capita investment exceeds £1000. This contrasts strongly with the neighbouring North West region, where 56 projects have been signed and per capita investment is less than £500.

Table 2: Value of PFI in £m and number of projects by region (December 2008)

Region	*PFI Value in £m*	*PFI Value per capita in £*	*% of total national value*
East Midlands	2011.5	457.2	3.2
East of England	2650.8	468.3	4.2
London	25149.3	3328.0	39.4
North East	1905.2	742.9	3.0
North West	3383.7	492.9	5.3
South East	6241.6	751.2	9.8
South West	3129.3	604.3	4.9
West Midlands	3605.3	669.9	5.7
Yorkshire & Humber	3069.4	592.9	4.8
Northern Ireland	1360.6	773.5	2.1
Scotland	6125.1	1190.7	9.6
Wales	638.0	214.1	1.0
National Projects	4534.7	74.4	7.1
Total	63804.6	1046.4	100.0

Source: HM Treasury, 2009

HM Treasury acknowledges that some PFI projects cannot be associated with one specific region. For example, a £9m programme of road improvements on the A69 between Carlisle and Newcastle can be attributed to both the North East and North West regions. In Table 2, such investments have been divided equally between the regions involved. Of greater significance are national projects, including national air traffic control systems and overseas investment such as the rebuilding of the Berlin Embassy. These account for around 7% of total national value. Ministry of Defence (MOD) projects are more likely to be 'national' in status than those of most other central departments. Almost 30% of MOD PFI by value, or £2.6 billion, cannot be attributed to a specific region. The geographical location of

MOD investment is often specified in the data and Table 2 includes details of regional defence spending wherever possible. This contrasts with other measures of government investment including TME, which give more limited information on the geography of defence expenditure. Even so, MOD spending remains difficult to account for on a regional basis (Lovering, 1991).

Although 644 PFI contracts had been signed by December, a small number of very large projects dominate the total value of investment. For example, Table 3 shows the ten largest schemes, which are worth £25.2 billion or 40% of the total national value. Four of these projects, including the three largest, are located in London. One reason why PFI investment in London is greater than elsewhere is because PPP is the method of choice for financing very large infrastructure projects. This includes the most valuable single project, the modernisation of London sub-surface rail lines. Four large *Transport for London* projects, identified in Table 3, are worth over 80% of total regional PFI for London.

Table 3: Ten largest UK PFI schemes by total capital value in £m (December 2008

Rank	*Description*	*Total Capital Value in £m*	*Commissioning Dept*	*Region*	*Year Signed*
1	Modernisation of London sub surface rail lines	6687.0	Transport	London	2003
2	Modernisation of Jubilee, Northern and Piccadilly Lines	5526.4	Transport	London	2002
3	Modernisation of Bakerloo, Central and Victoria Lines	5381.0	Transport	London	2003
4	Strategic Tanker Aircraft (Brize Norton)	2689.6	Defence	South East	2008
5	Range of satellite services including Skynet 4 and 5	1079.0	Defence	National	2003
6	St Bartholemew's Hospital	1000.0	Health	London	2006
7	Transfer of all social services buildings to private sector	990.0	Work and Pensions	National	1997
8	Development of Aldershot Garrison	628.5	Defence	South East	2006
9	Development of Salisbury Garrison	628.5	Defence	South West	2006
10	Selly Oak / Queen Elizabeth Hospitals	627.0	Health	West Midlands	2006

Source: HM Treasury, 2009

Table 4 shows that local and devolved national government has played leading roles in Scotland and Northern Ireland. Local government commissioned projects account for almost a quarter of total national value. However, wide geographical variance can be identified. For example, over half of total regional PFI value can be attributed to local government in the East Midlands, compared to 27% in the West Midlands and just 8% in London (underscoring the importance of central government investment to London and vice versa). In contrast, PFI in the West Midlands, and to an extent the North East and North West, is dominated by NHS Trust commissioned projects. Table 5 elaborates on regional PFI by commissioning body type. The value of Department for Transport investment in London is illustrated again in these data. London has a larger absolute level of local government and NHS trust investment than any other region too, although this is relatively unimportant as a percentage of the regional total value. But central department commissioned projects are of relatively limited value in other parts of England, most notably the West Midlands, the North East and North West. In absolute terms, central department projects in the East Midlands have the lowest value of any English region, currently being worth less than £175 million. In those parts of the UK where devolved government was introduced in 1997, the role of central (Whitehall) departments in commissioning projects is more limited than elsewhere.

Table 4: Value of PFI in £m by region and type of commissioning body (December 2008)

	Total PFI £m	*% Central Government*	*% Local Government*	*% Devolved Government*	*% NHS Trust*
East Midlands	2011.5	9	52	--	40
East of England	2650.8	45	23	--	32
London	25149.3	81	8	--	11
North East	1905.2	14	44	--	42
North West	3383.7	10	48	--	43
South East	6241.6	60	25	--	14
South West	3129.3	59	32	--	9
West Midlands	3605.3	20	27	--	53
Yorkshire & Humber	3069.4	25	46	--	29
Northern Ireland	1360.6	0	0	92	8
Scotland	6125.1	3	59	20	18
Wales	638.0	11	49	23	18
Total	**63804.6**	**54**	**24**	**4**	**19**

Source: HM Treasury, 2009

Using HM Treasury data it is possible to identify the precise date on which a PFI contract was signed. Table 5 divides all projects into four electoral time periods which correspond to pre-New Labour contracts and those signed during New Labour's first and second terms in office. The analysis shows that over £30 billion, or almost 50% of the total value of PFI is accounted for by contracts signed between May 2001 and April 2005. Further important differences emerge when the analysis focuses on both time period and regional geography. London has the greatest absolute value of investment in earlier time periods and almost 80% of regional PFI value has been accumulated since May 2001. As outlined above, several large *Transport for London* contracts account for the majority of this exceptional sum of investment. In general though, this spatial-temporal analysis shows the roll-out of PFI to every region since 2005. Even in regions like Northern Ireland and the North East, which saw very limited initial investment, their position has been redressed by recent heavy investment. Indeed, the most exceptional part of the UK emerges as Wales, where PFI has largely been resisted and where very few new deals have been signed. Only three new contracts, worth less than £70 million in total, were commissioned in Wales between May 2005 and the end of 2008.

Table 5: Value of PFI in £m and as % by region and electoral period (December 2008)

Region	*Total capital value in £m and percentage of regional total capital value*				
	Total PFI £m	*% before May 97*	*% May 97 – April 01*	*% May 01 – April 05*	*% May 05 – Dec 08*
East Midlands	2011.5	2	14	34	50
East of England	2650.8	5	19	37	39
London	25149.3	1	11	79	9
North East	1905.2	2	29	37	32
North West	3383.7	4	11	36	50
South East	6241.6	1	9	18	72
South West	3129.3	16	25	20	38
West Midlands	3605.3	13	23	18	46
Yorkshire & Humber	3069.4	7	16	45	32
Northern Ireland	1360.6	0	11	19	70
Scotland	6125.1	2	25	16	57
Wales	638.0	7	51	31	10
National Projects	4534.7	1	48	40	12
Total	**63804.6**	3	18	48	31

Source: HM Treasury, 2009

CONCLUSION

Many previous discussions of PFI have focused on the additional investment in public services that has been created and the extent to which value for money and the genuine transfer of risk from the public to the private sector have been achieved. It is argued that in addition to these questions, an analysis of the geography of PFI is both important and necessary. It is apparent from HM Treasury data that PFI has been rolled out in an uneven manner, both spatially and temporally. London dominates the UK in terms of investment value, while the majority of projects have been commissioned since 2001. One characteristic of PFI is that it shifts the timing of payment, from the initial provision to a longer period of service. Furthermore, because HM Treasury funds PFI contracts out of general taxation, the burden of local investment is shared by taxpayers on a national basis. Significantly, PFI is excluded from common measures of government spending such as TME and as such its impact is omitted from HM Treasury and other analyses. It is argued that, as a spatially concentrated and increasingly valuable source of investment, PFI is an important but largely overlooked component of the geography of government spending.

The extensive investment requirements of London's public transport system have largely been met using PFI and other PPP solutions. The concentration of central government, NHS and education activities in central London appears to re-enforce this geography of investment; the value of investment by local authorities and NHS trusts is also greater in London than elsewhere. These examples illustrate the extent to which private capital is employed to support the public sector in London. Although recent shifts in investment have tended to favour other parts of England, the relationship between economic success and the willingness of the private sector to invest in the economy is not clearly demonstrated as the value of PFI in absolute and per capita terms in the rest of the south east outside London remains relatively low.

Clark and Root (1999) suggest that a key factor driving the creation of PFI was the legacy of under investment in UK public services compared to other European countries. Following the creation of stronger national and regional government across the UK, debates around the spatial distribution of existing and additional investment have intensified. While regions in northern England have argued that the additional funding provided to Scotland, Wales and Northern Ireland is unjustified, some regions in southern England point to a lack of investment in the problems of economic success, such as transport congestion and skilled labour shortages, and to a large deficit between contributions to and receipts from HM Treasury. As such, the extent of relative under investment is perceived to be more acute in some regions than in others. The emerging uneven geography of PFI has served to complicate this position further. Although Gordon et al (2004) identify a large tax deficit in London using measures based on TME, high levels of PFI investment, particularly since 2001, have partly redressed the balance. In contrast, the per capita value of PFI in northern England is lower than that in Scotland in spite of wider arguments around government funding under the Barnett Formula.

A lack of political opposition to PFI in Westminster reflects the limited range of alternatives to the PFI investment model, in spite of the concerns raised by trade unions and others about the ability of markets to perform social welfare functions. Although the most valuable projects tend to be those commissioned by central government departments, PFI has become established at all levels of government and a large number of smaller and less prestigious contracts have also been signed. Over half of all PFI value is accounted for by the ten largest projects. However the data show the extent to which government bodies of all types have adopted PFI, albeit on a smaller scale. This indicates a more substantial involvement of the private sector in providing public services. Such a redrawing of the distinction between the public and private sectors in Western Europe, of the type envisaged by Morris and Haigh (1997), has been actively promoted to all areas of government, from motorway building by the Department for Transport to school library refurbishment by Local Education Authorities. However, regional differences in the development of PFI, particularly relating to the value of projects in different electoral periods and the balance of projects by commissioning body type, suggest that the initiative has not been promoted by central government or adopted on a local basis in a uniform way.

Although details of terms and conditions associated with individual PFI contracts are generally confidential, the HM Treasury data offer some important insights in this respect. Heald (1997) argues that the genuine transfer of risk from the public to the private sector is dependant on the legally defined terms of the contract and on a range of other informal social, political and economic considerations. The data show that in the North East region, 43.8% of PFI by value is commissioned by NHS Trusts. Given that central government acts as a guarantor for all NHS contracts under PFI, this has implications for the level of risk that has been transferred from the public to the private sector in the North East. However, the specific terms and conditions of individual contracts and the extent to which they are observed are also likely to be significant in this respect. As such, the data indicate regional variations in the operation of PFI at only the most rudimentary level.

The geography of PFI that has been identified here is striking. Furthermore, the implications of its omission from other analyses are also important. However, the data do not enable questions relating to the process of policy development or of its local outcomes to be addressed. For example, what is the role of political leadership and local political culture in determining PFI uptake by local authorities? How influential have government initiatives to promote PFI been in different types of organisations? To what extent do the terms and conditions of contracts vary, creating different types of PPP from case to case? While it is possible to make quantitative assessments using these data, they say little about the qualitative nature of PFI in the UK. As such, although a number of important trends have been identified, at this stage the analysis raises as many questions as it provides answers.

REFERENCES

Bates M, 1997, "Review of PFI (Public–Private Partnerships)" (London: HM Treasury)

Bates M, 1999, "Second review of the Private Finance Initiative" (London: HM Treasury)

Batt C, 2002, "Public works the private way" *The Guardian* 2 October, page 38

Ball R, Heafey M and King D, 2000, "Private Finance Initiative – a good deal for the public purse or a drain on future generations?" *Policy and Politics* **19** 95-108

Ball R, Heafey M and King D, 2002, "The Private Finance Initiative and public sector finance" *Environment and Planning C: Government and Policy* **20** 57-74

Broadbent J, and Laughlin R, 1999, "The Private Finance Initiative: Clarification of a Future Research Agenda" *Financial Accountability and Management* **15** 95-114

Brown G, 1997, Speech by Chancellor of Exchequer Rt. Hon. Gordon Brown MP at the Mansion House, 12 June

Brown G, Cook R and Prescott J, 1994, "Financing infrastructure investment: promoting a partnership between public and private finance", Joint consultative paper prepared for the Labour Finance and Industry Group Symposium on Public/Private Finance (London: Labour Party)

Cable V, 2004a, "PFI projects must be value for money", Liberal Democrats Press Release, 1 September

Cable V, 2004b, “Brown can’t sweep public debt under the carpet”, Liberal Democrats Press Release, 12 November

Cameron G, McLean I and Wlezien C, 2004, “Public Expenditure in the English Regions: Measurement Problems and (Partial) Solutions” *Political Quarterly* **75** 121-131

Clark G, and Root A, 1999, “Infrastructure shortfall in the United Kingdom: the private finance initiative and government policy” *Political Geography* **18** 341-365

Clark T, Elsby M and Love S, 2002, “Trends in British public investment” *Fiscal Studies* **23** 305-342

DTLR, 2001, “Strong Local Leadership - Quality Public Services” Cm5237 Department for Transport, Local Government and the Regions (London: HMSO)

The Economist, 1999, “Breaking the old place up” 6 November, page 6

Froud J, 2003, “The Private Finance Initiative: risk, uncertainty and the state” Accounting, Organizations and Society **28** 567-589

Gaffney D, Pollock A, Price D and Shaoul J, 1999, “PFI in the NHS – is there an economic case?” British Medical Journal **319** 116-119

Giddens A, 1998, *The third way: the renewal of social democracy* (Cambridge: Polity Press)

Glaister S, 1999, “Past Abuses and Future Uses of Private Finance and Public Private Partnerships in Transport” *Public Money and Management* **19** 29-36

Glyn A and Wood S, 2001, “Economic policy under New Labour: how social democratic is the Blair government?” *Political Quarterly* **72** 50-66

Gordon I, Stockdale J, Travers T and Whitehead C, 2004, *London’s place in the UK economy* (London: Corporation of London)

Greenaway J, Salter B and Hart S, 2004, “The evolution of a ‘meta-policy’: the case of the Private Finance Initiative and the health sector” *British Journal of Politics and International Relations* **6** 507-526

Grout P, 1997, “The economics of the Private Finance Initiative” *Oxford Review of Economic Policy* **13** 53-66

Harding A, Wilks Hegg S and Hutchings M, 2000, “Business, government and the business of urban governance” *Urban Studies* **37** 975-994

Heald D, 1997, “Privately financed capital in public services” *The Manchester School* **65** 568-598

Heald D and Geaughan N, 1997, “Accounting for the Private Finance Initiative” *Public Money and Management* **17** 11-16

HM Treasury, 1999, *Modern government modern procurement* (London: HMSO)

HM Treasury, 2003a, "Public expenditure statistical analyses 2003" Cm 5901 (London: HMSO)

HM Treasury, 2003b, *PFI: meeting the investment challenge* (London: HMSO)

HM Treasury, 2004a, "PFI signed projects list - April 2004" accessed on 12 November 2004 at http://www.hm-treasury.gov.uk/documents/public_private_partnerships/ppp_pfi_stats.cfm

HM Treasury, 2004b, "Public expenditure statistical analyses 2004" Cm 6201 (London: HMSO)

House of Commons, 1992a, House of Commons debates (Hansard) Column 1016, 12 November (London: HMSO)

House of Commons, 1992b, House of Commons debates (Hansard) Column 998, 12 November (London: HMSO)

House of Commons, 1993, House of Commons debates (Hansard) Column 195, 16 March (London: HMSO)

House of Commons, 2001, "The Private Finance Initiative", House of Commons Library Research Paper 01/117 (London: HMSO)

Hutton, W, 1996, *The State We're In* (London: Verso)

IPPR [Institute for Public Policy Research], 2001, *Building better partnerships: the final report of the Commission on Public Private Partnership* (London: IPPR)

John P and Ward H, 2001, "Political manipulation in a majoritarian democracy: central government targeting of public funds to English subnational government, in space and across time" *British Journal of Politics and International Relations* **3** 308-339

Kerr D, 1998, "The Private Finance Initiative and the changing governance of the built environment" *Urban Studies* **12** 2277-2301

Labour Party, 1997: *'Britain will be better with New Labour': the Labour Party Manifesto for the 1997 General Election* (London: The Labour Party)

Larner W and Walters W, 2000, "Privatisation, governance and identity: the United Kingdom and New Zealand compared" *Polity and Politics* **28** 361-377

Letwin O, 2004, Speech by Rt. Hon. Oliver Letwin MP to the Bow Group, 16 February

Lovering J, 1991, "The changing geography of the military industry in Britain" *Regional Studies* **25** 279-293

McLean, I , 2005, *The fiscal crisis of the United Kingdom* (London: Palgrave)

McLean I, 2000, "Getting and spending: can (or should) the Barnett Formula survive?" *New Economy* **7** 76-80

McLean I and McMillan A, 2003, "The distribution of public expenditure across the UK regions" *Fiscal Studies* **24** 45-71

Monbiot G, 2002, "Very British corruption: the Private Finance Initiative is rigged and now we have a chance to stop it" *The Guardian* 22 January, page 15

Morris D and Haigh R, 1997, "Changing the management of the changing public sectors" in Eds Montanheiro L, Haigh R and Morris D, *Understanding public and private sector partnerships* (Sheffield: Sheffield Hallam University Press)

National Audit Office, 1997, *The Contributions Agency: the contract to develop and operate the replacement national insurance recording system* (London: HMSO)

National Statistics, 2004, *Government deficit and debt under the Maastricht Treaty* (London: National Statistics)

OGC, 1996, "Forward by Home Secretary Rt. Hon. Michael Howard MP" in *Report on the procurement of custodial services for the DCMF Prisons at Bridgend and Fazakerley*, Office for Government Commerce (London: HMSO)

Peck J, 2001, *Workfare states* (New York: Guildford Press)

Pollitt M, 2000, "The declining role of the state in infrastructure investments in the UK" Cambridge Working Papers in Economics Number 0001, accessed on 18 November 2004 at http://www.econ.cam.ac.uk/dae/repec/cam/pdf/wp0001.pdf

Robinson P, 2000, "The Private Finance Initiative" *New Economy* **7** 148-149

Roe P and Craig A, 2004, Reforming the Private Finance Initiative (London: Centre for Policy Studies).

Ruane S, 2000, "Acquiescence and opposition: the Private Finance Initiative in the National Health Service" Policy and Politics **28** 411-424

Ryrie W, 1981, *Report of the National Economic Development Council Working Party on Nationalised Industry Investment* (London: National Economic Development Council)

SEEDA [South East England Development Agency], 2002, *The regional economic strategy for south east England: 2002-2012* (Guildford: SEEDA)

Smith A, 2001, "Speech by Chief Secretary to the Treasury Rt. Hon. Andrew Smith MP at the OGC PUK Annual Conference" 23 October

Terry F, 1996, "The Private Finance Initiative – overdue reform or policy breakthrough?" *Public Money and Management* **16** 9-16

Unison (2004): "The Private Finance Initiative: The Case Against PFI". Accessed at www.unison.org.uk/pfi/caseagainst.asp on 12 November 2004

Wakeford J and Valentine J, 2001, “Learning through partnership: private finance and management in the delivery of services for London” *Public Money and Management* **21** 19-25