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# A Framework for Examining Accountability and Value for Money in the UK's Private Finance Initiative

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This paper seeks to develop a system for evaluating the implications of accountability and value-for-money (VFM) decisions in private finance initiative (PFI) projects from initiation through set-up, implementation and internal and external monitoring. By reviewing the extant literature on accountability and VFM, a model is developed for evaluating the implications of various types of accountability and VFM decisions on PFI projects. Most previous studies have considered either the accountability or VFM at the projects' initial stages; little attention has been paid to the interrelationship between accountability and VFM issues in the evaluation of various PFI processes. This paper addresses these lacunae in the literature.

- Accountability
- Value for money
- Private finance initiative
- Public-private partnerships
- Performance
- New public management
- UK
- Project management

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VER THE LAST DECADE, PUBLIC–PRIVATE PARTNERSHIPS (PPPs) HAVE GAINED momentum across the globe for delivering public services (Olson *et al.* 1998; English and Guthrie 2003; Newberry and Pallot 2003). In the UK, one form of PPP, which has been the subject of much debate and controversy, is the private finance initiative (PFI) (Broadbent and Laughlin 1999, 2003a, 2003b).

Accountability is a complex concept which has many alternative definitions as we will discuss later in this paper. For the purpose of this paper, we define accountability in its wider sense as the management of expectations of various stakeholders, often with diverse and conflicting objectives. It is seen as both ethical (Dubnick 1998) and helpful for improving performance (Barberis 1998; Cavalluzzo and Ittner 2004). Value-for-money (VFM) decisions are taken as surrogate for performance in PFI and are thus assumed to be a function of accountability. More and better accountability is therefore expected to yield improved VFM decisions (assuming resources input remains the same) in PFI. This assumed view is problematic and has received only scant attention in the extant literature (see Demirag *et al.* 2003). The purpose of this paper, therefore, is to develop a framework for better understanding the interaction between accountability and VFM at the various stages of the PFI processes.

There is seemingly a consensus for a greater degree of accountability (Mayston 1999; Cavalluzzo and Ittner 2004). However, the questions of what constitutes accountability, what form or shape it takes, and to whom accountability should be addressed, require further clarification (Gray and Jenkins 1993; Sinclair 1995; Schedler 1999; Mulgan 2000). It is these lacunae in the literature that this paper addresses.

The PFI literature has mostly examined accountability issues (Mayston 1999; Ball *et al.* 2001; Broadbent and Laughlin 2003a; Edwards and Shaoul 2003a, 2003b; Newberry and Pallot 2003; Baker 2003) and value-for-money (VFM) issues (Froud and Shaoul 2001; Kirk and Wall 2001, 2002; Heald 2003; English and Guthrie 2003; Broadbent *et al.* 2003a; Shaoul 2004; Edwards and Shaoul 2004), often dealing with them as they arise and in an ad hoc manner. While most of these studies examined these concepts in health, education, roads and information technology at the contract negotiation stage, few explored PFI as a long-term staged process.

This paper is organised as follows. The next section situates PFI in the context of new public management (NPM) reforms, explains the meaning of and the government's justification for PFI. The following sections explore the accountability and VFM literature on PFI and propose a framework for examining the types of accountability and their VFM implications at the various stages of the PFI project. The last section provides some conclusions and directions for further research.

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## New public management reforms and the UK's private finance initiative

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Over the last two decades, the UK's public sector has been swept by various waves of modernisation programmes aimed at increasing efficiency, transparency and accountability (Humphrey *et al.* 1993; Broadbent and Laughlin, 2004).<sup>1</sup> These reforms, commonly known as the 'new public management' took various forms (Broadbent and Guthrie 1992; Hood 1995).

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<sup>1</sup> The role of government in providing finance for the infrastructure of public services has been increasingly questioned by a number of authors under the UK government's modernisation agenda (Broadbent and Laughlin 2004). This has broken down the traditional boundaries between the public and private sectors.

The Finance Management Initiative was introduced in 1982 (HM Government 1982) to improve the efficiency and effectiveness of the public sector through delegation of responsibility and measuring performance (Gray and Jenkins 1993). The Next Steps Initiative was introduced in 1988 (Efficiency Unit 1988, 1991) to improve managerial and political accountability in the public sector by making public-sector chief executives directly accountable to ministers for the results and performance of their departments (Hyndman and Eden 2002). The aim of the Comprehensive Spending Review (HM Treasury 1998) and Resource Accounting and Resource Budgeting reforms (HM Treasury 2001) were to improve transparency and accountability through better management of finances and accounting for taxpayers' money (Talbot 2001; Mellett 2002).

The push to adopt the private sector 'contracting approach' to public-sector service provision can be traced back to compulsory competitive tendering (Parliament 1980), best value (DETR 1998) and more recently PFI (HM Treasury 1997) (for further analysis of the issues raised in these documents, see Broadbent and Laughlin 1999, 2003a, 2003b; Maile and Hoggett 2001; Midwinter 2001). PFI was officially introduced in 1992 by Chancellor Norman Lamont under John Major's Conservative government (House of Commons 1992) and was later embraced by Tony Blair's Labour government when it came to power in May 1997. It refers to the provision of public services such as schools, hospitals, roads, prisons and defence through a private-sector consortium, which builds and operates the required asset, the public sector purchasing its output, in exchange for a stream of revenue payments over the contract period (HM Treasury 1997). It is one form of public-private partnership (PPP). The latter is an umbrella term that refers to the various forms of co-operation and collaboration between the private and public sector, including: design, build, finance and operate (DBFO); build, own, operate and transfer (BOOT); build, operate and transfer (BOT); and PFI (Schaeffer and Loveridge 2002).

Despite this broad vision for PFI, more myopic perspectives have dominated its translation into actual policy. This is most evident in the UK Treasury's formal justification for PFI, which focused on the VFM at the point of design and procurement. For the government, PFI provides better VFM than traditional procurement. Thus, VFM may be achieved by leveraging private-sector expertise and creativity in PFI projects, the transfer of appropriate risk to the private sector, and through better scope for innovation by the private-sector contractors. The budget report (HM Treasury 2003a: 271) highlighted these justifications for PFI as follows:

In addition to requiring capital investment to be undertaken by the private sector, the ability of the private sector partner to be innovative and manage risks appropriately allocated to it can result in a specified level of service at a price that represents value for money . . . The Government is committed to developing PFI and other partnership arrangements with the private sector to further enhance the delivery of public services and to ensure the delivery of a higher sustainable level of public sector investment. The Government wants to exploit all commercial potential and spare capacity in public sector assets through a sensible balance of risk and reward.

The PFI policy has been challenged primarily because of differences in values and ethos between the public and private sector and the wider implications of the role of the private sector in the provision of welfare services (Broadbent and Laughlin 2003b). PFI is attractive to a government facing pressure to increase investment in infrastructure on the one hand and reduce public debt on the other (Mayston 1999; English and Guthrie 2003). It enables the provision of public services without the need for immediate or direct capital outlay (Grimsey and Lewis 2002; Newberry and Pallot 2003). In addition, it enables the government to avoid the 'the political costs of raising taxes' (Baker 2003: 447).

This short-sighted view of VFM shapes and drives PFI programmes and impacts accountability. As we see in the review of the literature that follows, it also wreaks havoc with the analysis of PFI.

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## Accountability in PFI

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Accountability is a complex, abstract and elusive concept (Sinclair 1995). It may be defined as 'an obligation to present an account of and answer for the execution of responsibilities to those who entrusted those responsibilities' (Gray and Jenkins 1993: 55). Accountability itself takes various forms including communal, contractual, managerial and parliamentary (Stewart 1984; Sinclair 1995; Laughlin 1996). The communal accountability process involves meeting stakeholders' needs through consultation and seeking their involvement in the decision-making process. The contractual accountability process involves entering into a legally binding agreement over standards of performance by laying them down in writing and in specific enforceable terms. It involves the creation of liabilities and obligation to comply through the judicial process (Dubnick 1998). Managerial accountability is the process of making 'those with delegated authority answerable for producing outputs or the use of resources to achieve certain ends' (Sinclair 1995: 222). These relate to internal structures that are set up to implement, monitor and evaluate programmes. Parliamentary accountability is the process of holding government executives to account for the policies they have pursued. In the UK, the National Audit Office (NAO) and the Audit Commission conduct VFM investigations and report their findings to the Public Accounts Committee. The latter acts on these reports by calling on public-sector executives to account for their (in)action in cases where they have failed to achieve VFM.

Mayston (1999: 349) criticises PFI on grounds of poor communal and managerial accountability processes at the contract negotiation stage, and suggests that the PFI 'process is unlikely to increase efficiency and accountability' in the NHS. The reasons given include: lack of freedom of public-sector managers to choose between PFI and traditional procurement; secrecy and lack of accountability; high tender costs; and the costs of risks transfer which are recouped from the public sector. Ball *et al.* (2001) argue that PFI externalises costs to the future generation of taxpayers and that the rates of return to equity holders are high because of high risk and high bidding costs which are charged back to the public sector. They also argue that the private sector lacks innovative behaviour in the case of school PFI projects.

Broadbent and Laughlin (2003a) argue that governments are in a uniquely powerful position to dictate NPM reform actions, and parliamentary institutions such as the NAO and Audit Commission act as important vehicles to legitimise their PFI policies. The accountability process here is a political rather than a managerial one.

Newberry and Pallot (2003) argue that, in the case of New Zealand, PFI provides the government with 'a means of escape' from tight constraints imposed by fiscal targets and from public and parliamentary scrutiny. They argue that PFI commitments, which are excluded from public-sector liabilities and estimates and in the process are not reported to parliament, burden future generations of taxpayers and commit future governments. In this respect, they advocate public-sector accounting reform to enable the achievement of fiscal responsibility and transparency objectives. English and Guthrie (2003) and Mayston (1999) reached similar conclusions about PFI activities in the Australian and UK public sectors, respectively.

Baker (2003) suggests that the Enron business model, which has been facilitated by deregulation in the US electricity and gas industries, is a PPP involving the private sector

supplying public utilities. He argues that Enron was a business failure as well as an accounting failure and that the government and accounting standard-setters need to reconsider their contribution to the Enron scandal and their roles in allowing certain (PFI) practices to become legitimate activities. Currently, various regulatory reforms such as the introduction of the Sarbanes–Oxley Act 2002 and tighter non-consolidation rules have been introduced in the wake of the Enron collapse to regulate accounting for special purpose companies (SPCs).

Edwards and Shaoul (2003a) argue that it is doubtful whether, in the case of school PFI projects, communal accountability processes are able to meet the needs of the school stakeholders and deliver VFM particularly where there is a conflict of interests among the stakeholders. They argue that the Pimlico School PFI failed because of the opposition by school governors who raised concerns about the VFM case, lack of information on the costs and nature of the facilities provided.

Edwards and Shaoul (2003b: 397) examined two failed information technology PPPs on an *ex post* basis to highlight the problems that arose as a result of failure of contractual and managerial accountability processes. The authors showed that PPP contracts did not transfer risks in the way that was expected primarily because they were hard to enforce, provisions for compensation were inadequate, and it was difficult for the public sector to ‘walk away’ because of the statutory nature of the services. They found that the public agencies and the public at large, and not the private contractors, bore the management risks and costs of failure. In this context Broadbent *et al.* (2003b) argue that, in practice, PFI contracts are relationships based on grounds that if the contract is invoked the working relationship may be compromised.

It can be inferred from the accountability literature on PFI that communal, contractual, managerial and parliamentary accountability processes are important to obtain VFM in PFI. These accountability processes are not distinct but are related and feed into one another. The public sector is ultimately accountable to public service consumers and taxpayers. This implies that contractual, managerial and parliamentary accountability processes need to feed back to the communal accountability process. But there is also a need for the actors to address and work within the parameters of authority and objectives set forth by the legislation, and thus to connect to parliamentary accountability. The means for accomplishing this are manifest in the contractual and managerial accountability mechanisms that emerge in the PFI process. Table 1 shows the various ways in which current studies of PFI have examined accountability issues related to these interconnected accountability systems found in different PFI contexts.

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## VFM in PFI

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*The Green Book* (HM Treasury 2003b) and ‘Partnerships for Prosperity’ (HM Treasury 1997) provide guidance on PFI appraisal and ‘how’ VFM is achieved through PFI contracting. But, as noted, the narrow perspective assumed by the Treasury does not adequately define ‘what’ is meant by VFM and ‘for whom’ VFM is to be achieved. This is a theme reflected in the academic literature on VFM (see e.g. Mayston 1999; Shaoul 2004). As we will discuss below, the government has put procedures in place to ensure that only projects that are capable of delivering VFM over their lifetimes will be approved.

Implied in VFM is the existence of—and need for—a standard by which to guide and assess PFI-related decisions and actions. Many researchers view VFM as an ‘investigation’ to determine how resources have been utilised. Glynn (1985) and Jacobs (1998) define VFM as an ‘examination’ to determine whether an organisation is performing economically, efficiently and effectively in its use of resources, operations, procedures and pur-

<i>Publication</i>	<i>Study</i>	<i>Research method</i>
Mayston 1999	Identifies a number of areas for concern over PFI contracting in the NHS	Case study
Ball <i>et al.</i> 2001	Debate VFM and the generational accountability of school PFI contracts	Case study
Broadbent and Laughlin 2003a	Examine the process of control and 'legitimation' in the public sector by using the example of the UK's PFI	Literature review
Newberry and Pallot 2003	Examine government financial management accountability processes in New Zealand that encourage PPP	Literature review
Baker 2003	Examines the unintended consequences of deregulation on PPP activities by examining Enron	Case study
Edwards and Shaoul 2003a	Explore the PFI appraisal process and the reasons why the Pimlico School PFI failed to reach financial close	Case study and interviews
Edwards and Shaoul 2003b	Examine some of the problems that the public sector faces when PFI contracts fail	Case study and interviews

**Table 1** PFI ACCOUNTABILITY STUDIES

suit of objectives (Jacobs 1998). According to Glynn (1985: 29), economy is 'acquiring resources of an appropriate quality for the minimum cost'. Efficiency is about ensuring that maximum output is obtained from a given amount of resources devoted or, conversely, that a minimum level of resources is devoted to a given level of output (Glynn 1985). Effectiveness is about ensuring 'that the output from any given activity is achieving the desired results' (Glynn 1985). Although the economy aspects of VFM are relatively easy to quantify, assessing policy efficiency and effectiveness is more difficult. This is primarily because of the difficulties involved in measuring output (to assess efficiency) and outcome (to assess effectiveness).

With its focus narrowed on design and procurement issues, the Treasury's VFM publications on PFI mostly consider the narrow 'economy' dimension of VFM at the expense of other non-quantifiable ideals. For example, the Treasury (1997: para. 3.10) states that 'value for money will need to be demonstrated by comparison of private sector PFI bids with a detailed public sector comparator (PSC)'. The PSC (also known as the reference project) is the 'purportedly neutral benchmark' of the most efficient form of public-sector delivery (English and Guthrie 2003: 504). *The Green Book* (HM Treasury 2003b) explains that the PSC is a discounted cash flow analysis of the costs to the public sector of providing the public service. Risks transferred to the private sector are added to these costs to obtain the 'risk-adjusted PSC' which is then compared with PFI bids. The difference is called VFM.

Accordingly, the NAO's VFM auditing 'analytical framework' and VFM reports are wholly dedicated to 'examining PFI projects as they are agreed between the public sector clients and the private sector suppliers' at the contract negotiation stage (NAO 1999: 1). Shaoul (2004: 8) concurs by stating that the NAO's VFM audit has 'for a variety of conceptual reasons focussed on economy rather efficiency and effectiveness'. Shaoul (2004) further argues that the VFM appraisal considers public-sector costs rather than wider societal issues and that the VFM benefits of PFI compared with traditional procurement, in the NHS, are marginal and subjective.

The bias of the myopic focus on the design and procurement stages of the PFI is most

evident in the accounting procedures established for VFM. The central concerns of the accounting mechanisms are over certain types of risk and how they are allocated between the government and the PFI contractor. From the Treasury's perspective (HM Treasury 1997: 11), there are seven types of risk involved in PFI contracting: design and construction risks; commissioning and operating risks; demand (or usage) risks; residual value risks; technology and obsolescence risks; regulation (including taxation and planning permission) risks; and project financing risks. According to the Treasury, VFM is achieved through the optimal allocation of these risks between the public and private partners (HM Treasury 1997).<sup>2</sup> However, for the purpose of PFI accounting, not all PFI risks are relevant. According to Financial Reporting Standard (FRS) 5 (ASB 1998), a party has to account for the underlying PFI assets in its financial statements if it bears the risks and benefits of the assets. The UK's Accounting Standards Board (ASB) places more emphasis on demand risks and residual value risks in determining which party owns the underlying PFI assets. Construction risks, which are relevant for VFM analysis, are not relevant for PFI accounting on the grounds that they crystallise before the PFI asset is built.

Kirk and Wall (2002) argue that because the government is keen to keep PFI off the public sector's balance sheet it would pass on risk to the private sector, which might not represent VFM. In this respect, the authors question whether the ASB's rule may have reduced VFM for PFI schemes. Kirk and Wall (2001) further argue that, although both the Treasury and the ASB might agree on PFI accounting principles, the implication of the related properties remaining off the public sector's balance sheet might mean that the objective of providing VFM to the public may not be achieved. Heald (2003) concurs by stating that PFI accounting and VFM analysis should not be concerned with the risk transferred to or shared with the private sector but with total risks and the amount of risk borne by the public sector. Nevertheless, the author argues that academic researchers cannot gain access to PFI information for a comprehensive analysis of accounting and VFM. In this respect, Broadbent *et al.* (2003a) state that this assessment should be left to parliamentary institutions as they have better access to PFI information.

Froud and Shaoul (2001) argue that the risks transfer process at the contract appraisal stage is subjective because it is difficult to identify, allocate and value risks. This problem is compounded by the fact that it is hard to assess the extent to which risks have really been transferred to private-sector contractors who use special purpose companies to limit their liabilities. The authors found that there is inadequate explanation of the methodology used for assessing and valuing risks in NHS PFI contracts.

English and Guthrie (2003) highlight the importance of parliamentary scrutiny by public-sector auditors to achieve VFM. They argue that PFI outcome depends on public policy parameters issued by PFI regulators and their implementation at the micro organisational level through interactions with PFI stakeholders. In particular, they argue that the Australian government is using PFI because of its commitment to adopt NPM reforms and the desire to reduce public debts. In addition to the PSC, the public interest test (PIT), which involves assessing the 'positive (or negative) environmental consequences' of PFI policies, is used to achieve VFM at the contract negotiation stage (English and Guthrie 2003: 504). The authors posit that, at the micro organisational level, governments are not as successful as private-sector consortia at identifying and shifting risk and hence at achieving VFM. Nevertheless, they argue that *ex post* monitoring mecha-

2 Two recent studies (see Flyvbjerg *et al.* 2002 and Mott MacDonald 2002) show that traditional procurement suffers from cost overruns and delays in relation to PFI contracts, provided that budgets for these contracts are set realistically. In this respect, Grimsey and Lewis (in this issue) argue that PFI may provide better VFM by reducing these costs and delays through better project management. However, Edwards and Shaoul (2004) found that the public sector paid a higher premium to ensure that road PFI contracts were built to budget and on time.

nisms such as parliamentary scrutiny are important for achieving VFM.

Broadbent *et al.* (2003a) also argue that monitoring of PFI projects over their lifetime (usually 25–30 years, depending on negotiation) is an important mechanism for achieving VFM. They criticise PFI on the grounds that little thought has been given to the design of post-project evaluation systems of PFI contracts and their operation. In this respect, they propose an evaluation framework, which would draw from pre-PFI implementation VFM financial and non-financial appraisal considerations to provide ‘pointers’ for relevant factors to be considered for evaluation. They argue that this system should primarily be the responsibility of the NAO and Audit Commission who have an important ‘control and legitimation’ role to play (Broadbent and Laughlin 2003a).

Surveys of public- and private-sector managers conducted by PricewaterhouseCoopers (1999), ACCA (2002) and Ernst & Young (2002) also reveal that VFM and risk transfer processes are subjective and that PFI may not be having a beneficial effect on public services. The PricewaterhouseCoopers (1999) survey of 140 senior decision-makers revealed that 74% of private-sector managers and 84% of public-sector managers believe that PFI enables the public sector to procure services that they would otherwise have to do without. Only 13% of private-sector managers and 35% of public-sector managers believe that the PFI procurement is carried out efficiently; 14% of private-sector managers and 23% of public-sector managers believe that the government has the necessary skills to procure and manage projects well; and only 24% of private-sector managers and 47% of public-sector managers believe that the public sector is capable of writing output specifications to achieve VFM.

ACCA (2002) conducted a survey of 200 of its members in the public sector. According to the survey, 42% did not think PFI is beneficial to public services; 57% did not believe that PFI provides VFM; 57% agreed that, because PFI is now the only procurement route, public organisations are prevented from achieving VFM; 58% did not believe that PFI schemes are all objectively tested for VFM; 28% strongly disagree that PFI enables public-sector organisations to benefit from private-sector expertise; 39% would not opt for private-sector involvement in future, if they were able to choose freely between PFI and traditional procurement; and 48% would not advise other organisations to use the PFI route.

Ernst & Young (2002) conducted a survey of 26 public-sector CEOs in the NHS who had procured buildings and services through PFI. According to the survey, 88% had their facilities delivered according to plan; over 50% believed that there is either no or limited knowledge sharing in PFI; over 70% perceived the relationship between themselves and the PFI provider as being average or better; only 57% of respondents believed the current output specifications, performance regimes and monitoring systems are manageable; over 85% stated that response from the public has been positive; 70% stated that the response from clinical and non-clinical staff has been positive; 85% believed that PFI is flexible in terms of variations mechanisms.

As indicated in Table 2, the PFI literature has mostly focused on examining VFM at the contract negotiation stage (PricewaterhouseCoopers 1999; Mayston 1999; Froud and Shaoul 2001; ACCA 2002; Shaoul 2004). Accordingly, these studies have criticised the financial appraisal of VFM, including the uncertainty involved in predicting future cash flows, the subjectivity involved in risks transfer processes and the discount rate used in the appraisal. English and Guthrie (2003) and Broadbent *et al.* (2003a) highlight the importance of investigations carried out by parliamentary institutions to achieve VFM. Edwards and Shaoul (2004) examined the *ex post facto* VFM and accountability issues in the context of roads PFI contracts, which they argue are under-researched. Nevertheless, we argue that most of these studies have failed to consider VFM as a long-term process and have not explored the importance of the various types of accountability

<i>Publication</i>	<i>Study</i>	<i>Research method</i>
Pricewaterhouse-Coopers 1999	Survey of public- and private-sector managers to assess their perceptions about VFM in PFI	Survey
Froud and Shaoul 2001	Examine the process of VFM appraisal in the NHS at the contract negotiation stage, mostly through a critique of the Treasury's <i>Green Book</i>	Case study
Kirk and Wall 2001	Examine accounting for PFI and the VFM implications for PFI assets remaining off the public sector's balance sheet	Analysis of comments to the ASB
Kirk and Wall 2002	Question whether the ASB's PFI accounting rule has reduced the scheme's VFM	Case studies
ACCA 2002	Survey of ACCA members in the public sector to assess their perceptions about VFM in PFI	Survey
Ernst & Young 2002	Survey of public-sector CEOs in the NHS to examine their VFM perceptions of the NHS buildings and services provided under PFI	Survey
Heald 2003	Examines the interaction between VFM and accounting for PFI	Literature review
English and Guthrie 2003	Examine the macro-economic justification for PFI and its implementation at the organisational level	Literature review
Broadbent <i>et al.</i> 2003a	Propose a framework for evaluating PFI for VFM in the NHS	Case studies and interviews
Shaoul 2004	Criticises the <i>ex ante</i> VFM appraisal of PFI contracts	Case study
Edwards and Shaoul 2004	Examine accountability and VFM on an <i>ex post facto</i> basis in the context of roads PFI contracts in the UK	Case study

**Table 2** PFI VFM STUDIES

and their VFM implications. In addition, the implications of post-implementation VFM monitoring by public-sector managers, contractors, users and other stakeholders seem to have been ignored by PFI researchers.

## Towards an understanding of the linkages between types of accountability and VFM in PFI

The analysis above shows that many studies have examined and raised numerous accountability and VFM issues at specific stages of the PFI process. The Treasury's guidance on PFI also places much emphasis on the early implementation and set-up stages at the expense of the post-implementation stages (see Appendix). No attempt has been made to link the relevant types of accountability and VFM at the various stages of the PFI processes. We have attempted to conduct such an analysis by identifying five stages of the PFI process and the VFM drivers and the forms of accountability relevant to the various stages. This is illustrated in Table 3.

PFI procurement is initiated through an assessment of business objectives, needs and

<i>PFI stage</i>	<i>Description of the stage</i>	<i>Forms of accountability</i>	<i>Value-for-money (VFM) drivers</i>
1. Initiation	Treasury guidance steps 1–3 (see Appendix)	Communal	Consensus that PFI is cheaper than the PSC
2. Set-up	Treasury guidance steps 4–13 (see Appendix)	Contractual	Fulfilment
3. Implementation	Treasury guidance step 14 (see Appendix)	Managerial	Efficiency and effectiveness
4. Internal monitoring	Progress of PFI contracts is monitored through operational review meetings with public-sector project managers, private-sector facilities managers and users of the service	Managerial	Efficiency and effectiveness
5. External monitoring	PFI contracts are assessed for VFM by the NAO and Audit Commission and findings are reported to parliament, representing public interest	Parliamentary	Policy goal achievement

**Table 3** ACCOUNTABILITY, VFM AND THE PFI PROCESSES

constraints including that of affordability. An outline business case (OBC), specifying the output requirements, is prepared by the public-sector agency in consultation with PFI stakeholders. It involves assessing the costs and benefits of the various options including do nothing, do minimum, traditional procurement (PSC) and PFI. The accountability relationship at this stage is mostly communal as it involves stakeholders specifying ‘what’ services are required to satisfy their needs. The objective of this stage is to reach consensus among stakeholders that PFI or the traditional procurement alternative represents better VFM.

The set-up stage involves the creation of a project board and project team. The project board has the power to make decisions and is usually made up of senior members from the public-sector procuring agency (for example, the CEO and project manager) and representatives from the government department providing the funding. On the other hand, the project team is responsible for taking the project forward, negotiating with the PFI contractors and ensuring that service requirements, as specified by the various stakeholders in the previous stage, are incorporated into PFI contracts. It usually comprises a project manager, representatives from the user community, consultants and members with technical expertise. The accountability relationship at this stage is mostly contractual as it involves putting performance standards in writing. The VFM drivers at this stage involve fulfilment of the needs of the public-sector stakeholders.

Once contractual terms and conditions are agreed, contracts are signed and implemented. This involves construction and delivery of the PFI assets and provision of services by the private-sector contractor. The accountability relationship is mostly managerial; it involves checking that the PFI assets and services are delivered efficiently and effectively according to terms stipulated in the contracts. The VFM drivers involve assessing the suitability of PFI services in meeting the objectives and needs identified at the initiation stage.

The progress of PFI projects is monitored internally by the public-sector procuring agency through monthly operational review meetings and quarterly strategic review meetings. The accountability relationship at this stage is mostly managerial. Operational

review meetings involve project managers, the PFI facilities manager and users, who would monitor services, change orders, complaints and maintenance issues among others. This would form the basis for paying contractors' monthly unitary payments. Quarterly meetings involve senior representatives from the public-sector and the private-sector service providers to discuss current progress and future strategic directions of PFI. At this stage, user satisfaction surveys may be carried out to assess the efficiency and effectiveness of PFI in meeting their needs.

External monitoring of PFI contracts is carried out by parliamentary institutions such as the NAO and Audit Commission. They mainly examine PFI contracts, as agreed between the public-sector and private-sector service provider and the delivery of PFI services according to terms contractually agreed. Their reports are tabled in the Public Accounts Committee and are generally available to the public. The VFM drivers at this stage relate to examining whether PFIs are achieving policy goals and whether they have applied in the public interest.

The above five-staged process may be used as a generic framework for further investigating the stakeholders involved, their accountability perceptions and VFM expectations from the PFI process. However, given the nature of PFI, VFM is necessarily a long-term and dynamic process which needs to be assessed over the life of the contract. In this respect, VFM is contingent on accommodating the changing expectations of stakeholders and would be based on a continuous assessment of how PFI is meeting stakeholders' needs over time.

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## Summary and conclusions

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The objective of this paper was to evaluate the accountability and VFM literature on PFI and to examine the relationships between these concepts. In this respect, we have proposed a five-staged framework for further researching and understanding the accountability relationships and the VFM drivers relevant at the various stages.

We argue that most PFI studies have examined the initiation and set-up stages where PFI contracts are being negotiated and very few studies have explored the accountability and VFM issues arising at the important implementation and monitoring stages. Moreover, these studies have not examined PFI as comprising various interrelated stages with different types of accountability and VFM driver.

Communal and contractual forms of accountability seem to be more dominant at the initiation and set-up stages of the PFI process. The first stage involves reaching consensus among the various stakeholders about the best procurement option to meet their expectations and needs. Service requirements are then incorporated into detailed contracts which are expected to fulfil those needs. These pre-contract stages which, in most cases, last for up to three years, have important implications for the duration of the PFI contract.

Managerial and parliamentary forms of accountability are required to ensure that PFI objectives are met. Implementation and internal monitoring processes feed back to the more specific PFI stakeholders whereas external monitoring processes feed back to the general public. Further research at these stages might involve examining the extent to which the PFI meets the VFM objectives identified at the pre-contract stages. In addition, the accountability perceptions and VFM expectations of the diverse stakeholders involved in the implementation and monitoring process may be examined.

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## Appendix: the PFI procurement process

<i>Steps</i>	<i>Description</i>
1. Establish business needs	Procurement proceeds only after a rigorous examination of business objectives, needs and constraints including that of affordability.
2. Appraise options	The cost and benefits of the various options including do nothing, do minimum, traditional procurement and PFI are examined.
3. Prepare an outline business case (OBC) and a reference project	An OBC, supporting the case for investment and for the PFI approach, based on the options appraisal, is prepared. It specifies the output specification rather than 'how' the service is to be delivered. A reference project, usually a public sector comparator (PSC), is prepared for benchmarking purposes.
4. Create a project team and project board	A procurement team, led by a full-time project manager, and a project steering board to which it reports and which can take decisions, are appointed. The project team needs to include people with the relevant skills required in the PFI negotiation process and users.
5. Decide tactics	This involves deciding how much information to request at the pre-qualification, when to seek fully costed proposals and when to select a preferred bidder.
6. Invite expressions of interest; publish <i>Official Journal of European Community (OJEC)</i> notice	Advertisement includes explanation of the project, indication of the information required for any assessment of the potential supplier's economic and financial standing and technical capacity, and the criteria for award.
7. Pre-qualify bidders	The general competence of the interested suppliers is assessed. Proposals for the particular project are not covered.
8. Shortlist bidders	Bidders are shortlisted based on specific competence (e.g. risks management). Bidders not taken forward are informed and debriefed quickly on why they were not selected.
9. Refine the appraisal	The OBC and any PSC are further refined in the light of new information. The affordability and funding arrangements are reaffirmed.
10. Invitation to negotiate (ITN)	The ITN specifies the services required in output terms; the constraints on the project scope; the proposed contractual terms (lengths and payment mechanism); the criteria for evaluation of bids and the scope for variant bids (such as variations on proposed contracts duration, risk allocation).
11. Receipt and evaluation of bids	Bids received are evaluated in accordance with the principles and criteria set out in the ITN document. From the best and final offers received, the preferred bidder is then chosen.
12. Selection of the preferred bidder and the final evaluation	The preferred bidder is selected and the PFI proposition is retested against the key VFM and affordability criteria. Risks transferred to the private sector under PFI are costed and added to the PSC. The expected accounting treatment of the contract is reconfirmed with the client's auditors.
13. Contract award and financial close	Once the contract is signed and a contract award notice placed in the <i>OJEC</i> , the contract is implemented.
14. Contract management	New processes, systems and management systems are put in place.

Source: Adapted from HM Treasury 1997, 1999

