

Institution: University of Manchester
Unit of Assessment: 19 (Business and Management Studies)
Title of case study: Financial Analysis of Public Private Partnerships (PPPs)
<p>1. Summary of the impact</p> <p>Unique research at the University of Manchester highlights the shortcomings of public accountability and the high cost, to the public purse, of PPPs and the Private Finance Initiative (PFI) using critical financial analysis. Lead researchers have been invited to engage in dialogue with national audit regulators, give evidence to parliamentary committees and contribute to policy debate through international roundtables. The work has been used to challenge government policy and has significantly influenced the national and international public debate about the costs, affordability and value for money of PPPs. The UK government has now renegotiated existing PFI projects to achieve cost savings, and we have given evidence by invitation to international committees concerned with public accountability and policy development.</p>
<p>2. Underpinning research</p> <p>The impact is based on research undertaken at the University of Manchester from 1993 to date. Key researchers were:</p> <ul style="list-style-type: none"> • Shaoul (1993 to date: Lecturer '93, Senior Lecturer '99, Reader '03, Prof. '04) • Stapleton (formerly Edwards) (1999 to date: Senior Lecturer '99, Reader '00, Prof. '04) • Stafford (2003 to date: RA '03, Lecturer '04, Senior Lecturer '10) <p>Our research, which is interdisciplinary in nature and covers both public and private sectors and the linkages between them, shows how financial analysis can be used to demonstrate the likely impact of public policy measures and to evaluate actual social and economic outcomes. It provides evidence drawn from detailed financial examination of UK PFI hospitals and UK and Spanish PPP roads to critique economic and political theories such as market forces and private sector efficiency that underpin public policy, extending the areas to which financial analysis is able to make an intellectual contribution. Recognising that financial statements are complex documents our emphasis is the suitability of such information for informed citizens; for example, those who sit on oversight bodies, those who engage with government to inform policy, investigative journalists and academics.</p> <p>Prior to the publication of our research it was common place for proponents of PPPs to expound their benefits, without being seriously challenged about the costs, outcomes or transparency of public reporting. Our research, which provided some of the first independent accounting evidence, was amongst the first to offer such a challenge, the main findings being:</p> <ol style="list-style-type: none"> 1. In early operational UK roads and hospitals PFI projects, risk transfer, considered to lie at the centre of the policy, did not always operate in practice in the way that had been expected in the business cases, meaning that instead of transferring to the private partner, management risk and associated costs were borne by the public sector partner or citizens. Moreover partnership working had not been achieved, projects cost more than expected, and opaque financial reporting of projects meant that accountability was not achieved [3.1,3.2] 2. There is a lack of clear, consistent and complete information, designed for use by the informed public and routinely provided across all reporting levels in both the public and private sector. [3.3] <p>In both Spanish and UK projects, financing is underpinned by various forms of public support creating risks for taxpayers. The development of the business environment has influenced the development of accounting policy, which, in the Spanish case has implications for a level playing field between international competitors, as well as overall having implications for international accounting convergence. [3.4,3.5]</p>
<p>3. References to the research</p> <ol style="list-style-type: none"> 1. Edwards, P., Shaoul, J., Stafford, A. & Arblaster, L. (2004), 'Evaluating the Operation of PFI in Road and Hospital Projects (ACCA Research Report No 84)', <i>Association of Chartered Certified Accountants (ACCA)</i>. pdf available at: http://image.guardian.co.uk/sys-files/Society/documents/2004/11/24/PFI.pdf. (This research output was the result of external

grant funding that was rigorously peer reviewed and has been cited in numerous international reports, books and articles on PPPs – Google Scholar citations - 95). – Copy available on request

2. Shaoul, J., Stafford, A. and Stapleton, P. (2008). 'The cost of using private finance to build, finance and operate hospitals', *Public Money and Management*, Vol.28 (2), pp101-108. DOI: 10.1111/j.1467-9302.2008.00628.x (PMM is a well respected peer reviewed journal with substantial crossover between academics and practitioners-Google Scholar citations - 40)
3. Shaoul, J., Stafford, A. and Stapleton, P. (2010), 'Financial black holes: The disclosure and transparency of privately financed roads in the UK', *Accounting, Auditing and Accountability Journal*, Vol.23, No.2, pp229-255. (AAAJ is a peer reviewed highly rated international journal for qualitative accounting research – Google Scholar citations - 11) DOI: 10.1108/09513571011023200
4. Stafford, A., Acerete, B. and Stapleton, P. (2010), 'Making concessions: political, commercial and regulatory tensions in accounting for European roads PPPs', *Accounting and Business Research*, Vol. 40, No.5, pp.473-493, pdf available via escholar (ABR is a well-established main stream peer reviewed international accounting journal – Google Scholar citations - 6) – Copy available on request
5. Shaoul, J., Stafford, A. and Stapleton, P. (2011), 'NHS capital investment and PFI: from central government responsibility to local affordability', *Financial Accountability and Management*, Vol.27, No.1, pp1-17. (FAM is a highly regarded peer reviewed journal focusing on financial-related research in public sector organisations with a wide international reach – Google Scholar citations - 6) Doi: 10.1111/j.1468-0408.2010.00508.x

The research has been published in the form of leading global chartered accounting institute monographs and in key international peer reviewed accounting journals. All outputs are the result of peer reviewed external grant funding.

4. Details of the impact

Context

Our impact arises from contributing to the agenda of holding government to account. By its nature it is therefore critical of government policy. Consequently governments do not cite our work directly. Instead we demonstrate our impact through our influence on public debate, and related pathways to impact, with evidence that this has led to change in government policy.

We are the only international academic researchers carrying out this type of systematic critical financial analysis. Since 2008 we have built on and extended our previous research to provide new independent accounting evidence relating to public accountability and governance issues in a wide range of PPP/PFI projects in health, transport and education. Whilst we have particularly focused on the UK, and to a lesser extent Spain, our findings have international relevance as the UK has been at the forefront of PPP development for many years. We have called for changes to be made in terms of better guidance to public authorities, improved quality of information provided by both public and private partners, and improved scrutiny of projects on an ongoing basis, so that the public may be kept better informed as to the costs and risks of these projects [5.1].

Pathways to Impact

We have worked with stakeholders to urge policy makers to consider our evidence on the high cost and lack of transparency of PPP projects. These include Unison, who has cited our work in evidence submitted to a parliamentary committee [5.2] and the National Alliance Against Tolls, on whose behalf we gave evidence at the Mersey Gateway public hearing [5.3]. In Quebec, Canada, public sector trade unions SCFP, CSQ, CSN, FNEEQ, and FSSS sponsored two speeches sharing the UK's experiences of PPPs in February 2013 [5.4].

We have influenced public debate through interaction with oversight bodies. We have taken part in invited seminar debates with Audit Scotland, the Director of the Scottish Futures Trust and the Northern Ireland National Audit Office, have explained our findings to the UK National Audit Office, the UK Office of National Statistics, the Dutch Court of Auditors and the New South Wales Audit Office. Our evidence has been cited in opinion articles in the press, e.g. in the Economist, by

George Monbiot and others [5.5], and we have contributed as experts to media investigatory programmes such as the BBC's 'File on Four'. We have therefore influenced the change in public opinion about the cost and transparency of PFI.

The reach and significance of our impact:

The significance of our impact is that our work is part of a body of evidence that has changed policy makers' perspectives about the cost and transparency of PPP. We give one specific example in relation to the additional cost of PFI for the first 12 English PFI hospitals. We showed that by 2005, private finance was 61% higher than would have been the case under public debt [3.2]. Out of the 12 hospitals, The Queen Elizabeth Hospital Greenwich and the Bromley hospital had the highest percentage of PFI payments to income at 18% and 22% respectively for 2005. Thus we highlighted affordability problems, with Bromley's problem exacerbated by its on-balance sheet accounting treatment. A statement [5.10] from the Head of Public Sector at ACCA on this research impact reads: "*In our view the research was instrumental in influencing public policy in this area. It provided evidence to critique economic and political theories such as market forces and private sector efficiency that underpin public policy.*" Building on our previous work we have recommended [3.3] that there needed to be more transparency of financial information so that the public could easily see the full cost, and also the profits being earned by the private sector from PFI [5.1].

In June 2012 when the South London Healthcare NHS Trust, of which these two hospitals are part, was put into administration due to the size of its deficit, the press reported that this was in part caused by its large PFI payments. The government now accepts that PFI has been an expensive way of doing business that does not necessarily provide value for money and that greater transparency of financial information is needed. HM Treasury recently renegotiated existing PFI contracts, saving the taxpayer £2.5 billion over their lifetime, and it will in future publish more information about PFI liabilities.

In the UK our work has been cited in evidence to the Economic Affairs Committee House of Lords on their report 'Private Finance Projects and Off-Balance Sheet Debt' (Session 2009-10) in relation to the high additional cost of PFI which leads to affordability gaps as well to the lost capital charges flowing out of the system [5.6]. Our work has similarly been cited in evidence to the Treasury Committee House of Commons report 'The Private Finance Initiative' (Session 2010-2012) [5.6], where the Committee concluded that PFI should be used infrequently until cost and value for money problems had been tackled. Following these reports the UK government has now issued a new PPP policy PF2 which takes account of these points. Long term operation and maintenance is excluded from new contracts and private sector partners must demonstrate more transparency by disclosing their profits earned from the contract [5.7]. Our work on the high cost of shadow tolling and the lack of transparency around the cost of PFI was cited in evidence to the Welsh Affairs Committee report on the Severn Crossings Toll [5.6], which recommended there was a strong case for significantly reducing the cost of the tolls at the end of the concession period projected for 2017.

Our work has contributed to the development of PPP policy internationally, as demonstrated by two further examples:

(i) The Western Australia (WA) Public Accounts Committee (PAC) requested us to act as an expert witness as part of their study visit to the UK while investigating the letting of a PPP contract at a WA hospital. Their report [5.8] makes several positive references to unnamed UK sources, with numbers 5, 6 and 8 out of their eight recommendations being consistent with our evidence as presented [3.5].

(ii) We were invited by the International Transport Forum (ITF), an inter-governmental organisation within the OECD, a think tank for global transport policy, to give one of four introductory commissioned papers to a Roundtable of 30 experts deliberating on PPP transport policy (September 2012). The Roundtable's brief was to provide the basis for discussions between transport Ministers of 54 member countries at their Summit on Funding Transport in May 2013. The outcome of the Roundtable is a summary paper authored by the chair [5.9].

Impact case study (REF3b)

5. Sources to corroborate the impact

All sources cross-referenced in section 4.

1. ICAS – letter to support our recommendations (from Director of Research).
2. Unison: <http://www.unison.org.uk/file/B4785.pdf>
3. Evidence given on behalf on National Alliance Against Tolls at Public Hearing for Mersey Gateway project, July 2009:
http://www.merseygateway.co.uk/publicinquirydocs/OP_docs/NAAT/NAAT-3-1P.pdf
4. Canadian Trade Union sponsored speeches:
http://www.vrm.ca/Stapleton_conferences.asp?No
5. Press op ed references
 - a. Guardian March 19th 2010: <http://www.guardian.co.uk/commentisfree/2010/mar/19/pfi-hospitals-private-finance-projects>
 - b. The Economist, 'Singing the blues', July 2nd 2009:
<http://www.economist.com/node/13962464>
 - c. George Monbiot in the Guardian: <http://www.monbiot.com/2009/05/26/the-real-expenses-scandal/>
 - d. Independent on Sunday, 24th January 2010:
<http://www.independent.co.uk/news/uk/politics/iiosi-special-investigation-how-government-squanders-billions-1877276.html>
 - e. The Times 1st April 2008:
<http://www.thetimes.co.uk/tto/business/industries/publicsector/article1833419.ece>
6. Citations in evidence to parliamentary committees
 - a. Economic Affairs Committee House of Lords – Private finance projects and off-balance sheet debt , referred to in supplementary evidence:
<http://www.publications.parliament.uk/pa/ld200910/ldselect/ldeconaf/63/63ii.pdf>
 - b. Treasury Committee House of Commons, Private Finance Initiative, referred to in supplementary evidence from the BMA:
<http://www.publications.parliament.uk/pa/cm201012/cmselect/cmtreasy/1146/1146vw.pdf>
 - c. Welsh Affairs Committee – Severn Crossings Tolls, referred to in supplementary evidence:
<http://www.publications.parliament.uk/pa/cm201011/cmselect/cmwelaf/506/506.pdf>
7. HM Treasury (2012), 'A new approach to public private partnerships': http://cdn.hm-treasury.gov.uk/infrastructure_new_approach_to_public_private_partnerships_051212.pdf
8. Western Australia PAC:
[http://www.parliament.wa.gov.au/publications/taledpapers.nsf/displaypaper/3814955adfe197b0b4edbcf48257a240030cd85/\\$file/4955.pdf](http://www.parliament.wa.gov.au/publications/taledpapers.nsf/displaypaper/3814955adfe197b0b4edbcf48257a240030cd85/$file/4955.pdf)
9. Preparation for 2013 Summit on 'Funding Transport' - Better Regulation of PPPs for Transport Infrastructure: Report of the Roundtable on Sources of Funding, Managing Risk and Optimism Bias.
10. Letter from Head of Public Sector at ACCA