

PFI IN THE UK & PPP IN EUROPE 2007



February 2007

Public private partnerships (PPP) have been more widely developed in the UK than anywhere else in the world. PPP has delivered new facilities in schools, hospitals, prisons and roads. The principal vehicle for delivering PPP in the UK is the Private Finance Initiative (PFI). This report covers all projects classified under PFI in the UK that are compiled by Public Private Finance magazine. It also features the developing PPP market in Europe using data from Public Private Finance and DLA Piper.

PFI IN THE UK

Up to the end of 2006, 835 PFI projects in the UK had been signed, with a capital value of £61.7bn (Chart 1). The value of the 55 PFI contracts signed in 2006 totalled £8.6bn, and was second only to 2002, the year in which the £18.2bn contracts for London Underground were signed. In other years since 2000, the annual total for the signed value of contracts has been much lower at £3bn to £5bn. Excluding LU, signed deals in 2002 were just £2bn. The 2006 total is double the £4.3bn projects signed in 2005, which in turn was down on £5.2bn in 2004. HM Treasury indicated in March 2006 that 200 projects valued at £26bn were in the pipeline and likely to be signed by 2010. DLA Piper Rudnick Gray Cary estimated that projects to the value of £18bn were being procured in the UK in March 2006 with many more at the pre-tender process. PFI contracts signed in 2006 therefore represented a major first step in taking the PFI total to over £80bn by 2010.

PFI-type projects originated in the late 1980s and early 1990s but only 21 such deals were signed in the decade up to 1995. The first major contract was £4bn for the Channel Tunnel rail link in 1996. Since 1997, typically at least 60 deals have been signed each year. The number of deals peaked at 112 in 2000 before declining to 61 in 2003. They jumped to 99 in 2004, as a result of a particularly large number of deals in the health sector - but have since dropped to 60 in 2005 and 55 in 2006.

Recent years, particularly 2006, have seen a sustained rise in the average deal size. Excluding the very large Channel Tunnel and LU contracts, average deal size over the past fifteen years has been £50m, but average contract size has risen from around £55m in 2003 and 2004 to £71m in 2005 and £156m in 2006. This is due to the greater scrutiny and focus on procurement costs which has tended to reduce the number of smaller contracts. Overall, PFI has accounted for about 10-15% of public sector capital investment since 1996, with the remainder being carried out through conventional forms of procurement.

Government departments Based on a breakdown by government department (Table 1), the biggest participants in PFI projects have been Transport, Health, Defence, Education, the Scottish Executive and the Office of the Deputy Prime Minister. Transport has accounted for 43% of the value of signed PFI contracts, partly due to the LU and Channel Tunnel contracts. Transport spans a variety of projects including roads, bridges, trams and light

International Financial Services, London

29-30 Cornhill

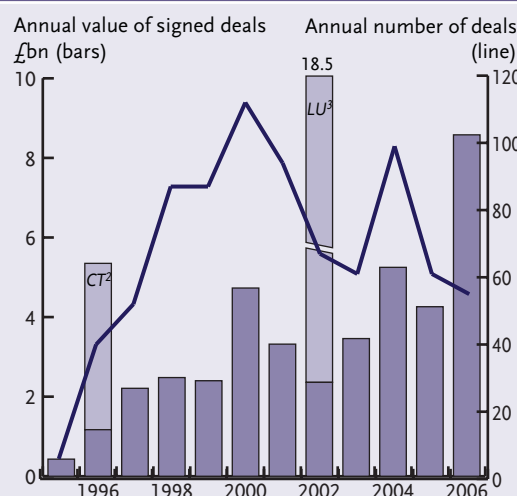
London, EC3V 3NF

Tel: +44 (0)20 7213 9100

Email: enquiries@ifsl.org.uk

www.ifsl.org.uk

Chart 1 UK PFI contracts¹



¹PFI contracts based on year contract was signed

²CT: Channel Tunnel rail link £4.2bn

³LU: London Underground £16.2bn

Source: Public Private Finance

Table 1 PFI in UK government departments

Cumulative total, 1987-2006				Average size of contract
Department	Number	£m	% share	£m
Transport	61	27372	44.4	123*
Health	247	10163	16.5	41
Defence	59	7133	11.6	121
Educn & Skills	144	4828	7.8	34
Scottish Exec.	95	4139	6.7	44
Office of Deputy PM	61	1902	3.1	31
Home Office	51	1354	2.2	27
Environment	20	1187	1.9	59
Welsh Assembly	20	566	0.9	28
Work & Pensions	7	522	0.8	75
N.Ireland Ass.	31	778	1.3	25
Trade & Industry	9	393	0.6	44
Customs & Revenue	4	353	0.6	88
Cabinet Office	2	342	0.6	171
Constitutional Affairs	12	302	0.5	25
HM Treasury	2	128	0.2	64
Foreign Office	3	101	0.2	34
Culture, Media & Sport	3	48	0.1	16
Others	3	94	0.2	31
Total	834	61745	100.0	50

*Average size of transport contract excludes LU & Channel Tunnel that totalled £20.4bn

Source: Public Private Finance

railway. By their nature such transport projects are quite large, so there have been only 58 such contracts with an average contract size of £123m even excluding the LU and Channel Tunnel projects, a much larger average than any other department. Since 2003, Transport has been less prominent and the value of contracts in both Health and Defence has grown (Table 2).

Transport projects account for 8 of the 15 PFI deals valued at over £400m over the past 20 years (Table 7, page 4). After the LU and Channel Tunnel rail link, some of the largest deals involve communications systems, such are those for air traffic control and military satellite communications. Other Transport projects include the building and operation of a motorway toll road and a number of other LU projects for new trains and a new digital communications system across the network. The largest Health scheme has been for hospital accommodation in Manchester while a schools project in Glasgow was the biggest in the Education sector. In 2006, the largest projects were in Defence, Health and Education. They related in particular to new accommodation, hospital development and the Building for Schools programme (Table 3).

The National Health Service has undertaken the most PFI projects, with a cumulative total of 247 up to end-2006, 30% of all contracts, mostly involving investment in hospitals. There were only 11 Health contracts signed in 2006, the lowest for ten years, but the £2.3bn value of these 11 schemes has only once been exceeded previously: in 2004 when the 51 contracts had a total value of £2.6bn, illustrating the growth in average deal value.

Deals in the Ministry of Defence have included simulator training equipment, communications and intelligence systems, rapid deployment ferries and accommodation. Like Transport such projects tend to be large with the 83 Defence projects totalling £7.1bn and having an average size of £121m.

Most schemes in Education have involved the building or refurbishment of schools. In the Home Office, PFI contracts have mainly been directed to prisons and police buildings, while waste management has been the main subject of contracts in the department covering environmental issues. The devolved authorities in Scotland, Wales and Northern Ireland have also initiated a variety of deals.

UK sector analysis As well as an analysis by government department, the Public Private Finance database also facilitates an analysis of activity by sector. This is very similar to departmental analysis in some areas such as education and transport, but it sheds light on other aspects of PFI relating to accommodation and telecoms services, as well as allocating the activities of the devolved administrations in Scotland, Wales and Northern Ireland. The main sectors for PFI historically have been transport, health, education, accommodation, defence, telecoms/IT and waste management/water (Table 4).

Table 2 PFI in UK government departments

Annual value of signed contracts, £m					
	2002	2003	2004	2005	2006
Transport	16198	351	735	1021	150
Health	634	667	2628	998	2324
Defence	456	925	900	654	2486
Educn & Skills	587	373	456	749	1410
ODPM	77	491	62	406	394
Home Office	279	138	74	38	---
DEFRA	111	145	35	---	450
DCA	45	---	40	---	---
Cabinet Office	12	---	---	---	---
Scottish Exec.	99	209	173	377	962
Welsh Assembly	---	---	82	---	42
N.Ireland Ass.	36	105	60	18	361
Others	---	57	---	---	---
Total	18534	3461	5245	4261	8579

Source: Public Private Finance

Table 3 Largest UK PFI contracts 2006

Capital value of signed deals, £m	Government Department	£m
MoD: Accommodation	Defence	1800
Barts & London NHS: Hospital	Health	1100
Birmingham NHS: New Hospitals	Health	560
MoD: Colchester Garrison	Defence	539
St Helens NHS: Hosp. Accommodn.	Health	380
S. Lanarkshire: Grouped Schools	Education	319
Greenwich, London: Schools	Education	290
Manchester: Schools	Education	200
Glasgow NHS: hospitals	Health	200
Cornwall: Waste Management	DEFRA	193
Lancashire: Schools	Education	185
N. Ireland: Water	N.Ireland Exec.	154
Islington, Housing	ODPM	153
Bristol: Schools	Education	150
MoD: Northwood HQ	Defence	147
M1/Westlink Road	Transport	142
Notts: Waste managemt.	DEFRA	140
Highlands: Schools	Education	132
Stirling: Schools	Education	104
Oldham: Housing	ODPM	100
Leeds: Street Lighting	Transport	100

Source: Public Private Finance

Table 4 UK PFI sector breakdown

Signed projects, £m						Cumulative	% share
Sector	2002	2003	2004	2005	2006	1987-2006	1987-2006
Transport	16179	442	457	403	142	26653	43.2
Health	606	707	2681	992	2524	11442	18.5
Accommodation:	546	332	718	443	2849	7194	11.7
Education	483	373	575	1146	2279	6699	10.8
Defence	456	775	121	600	---	3221	5.2
Waste mgt. & water	103	343	300	---	604	2252	3.6
Telecoms & IT	75	60	25	540	---	2182	3.5
Local Government	19	361	295	98	150	1060	1.7
Other projects	68	68	74	38	31	1043	1.7
Total	18534	3461	5245	4261	8579	61745	100.0

Source: Public Private Finance

Since 1987, transport contracts have totalled £26.7bn, of which £18.5bn is rail-related underpinned by the large LU contracts. Roads and bridges have contributed a further ££8.1bn. The total for health projects, largely hospitals, has reached £11.4bn, followed by accommodation £7.2bn, education £6.7bn and defence £3.2bn. After defence, telecommunications and IT is another sector to be picked up in this analysis with contracts valued at £2.2bn. Prisons have been quite a high profile area in PFI but have accounted for less than 1% of the total with £475m.

Accommodation was the largest sector in 2006, jumping to £2.8bn, of which over 90% related to residential accommodation in defence and the health service. Overall, health, education and accommodation accounted for nearly 90% of projects on a sector breakdown in 2006.

PPP IN EUROPE

The PPP market elsewhere in Europe has been expanding in recent years, with the value of signed contracts rising from €5.6bn in 2004 to €9.3bn in 2005 before falling back to €7.7bn in 2006 (Chart 2). Previously, PPP had been in the region of €1bn a year between 2001 and 2003. These figures are compiled by Public Private Finance on the same basis as PFI in the UK.

The value of signed PPP deals to end-2006 is highest in Italy €6.5bn, Spain €2.5bn and France €2.0bn (Table 5). The largest PPP signed contracts have been connected with transport infrastructure (Table 6). Roads are most prominent, particularly motorways, many of which will be tolled. Rail and other infrastructure, such as bridges and tunnels, also feature amongst the largest projects.

In addition to 137 signed contracts up to 2006, DLA Piper Rudnick Gray Cary estimates that a further 189 projects to the value of €55bn were being procured elsewhere in Europe in 2005/06 (Table 5). This estimate aggregates current projects in tender or in the process of being financed in the year to March 2006. Italy is the largest market with projects to the value of €20bn being procured. Of this about €10bn relates to motorway projects, €2.5bn to water projects in Sicily and a further €2.5bn to the Rome metro. Germany has the second largest number of deals being procured.

DLA Piper estimates that €27bn (£18bn) was being procured in the UK at this stage, about half the €55bn total for the rest of Europe (Chart 3). This

Chart 2 PPP contracts in Europe (excluding UK)



Table 5 PPP in Europe

Value of signed contracts, €m				Total number of signed deals	
	2001-06	2001-04	2005	2006	Total
Italy	890	2145	3436	6471	18
Spain	1000	1154	367	2521	30
France	0	1788	255	2043	13
Belgium	1300	480	---	1780	4
Netherlands	1302	---	431	1733	6
Germany	440	830	205	1475	21
Ireland	720	121	623	1464	9
Bulgaria	0	715	563	1278	5
Greece	0	798	450	1248	2
Austria	49	0	850	899	5
Portugal	278	---	32	310	5
Other countries	2690	1254	500	4444	19
Total (exc.UK)	8669	9285	7712	25666	137
UK	44831	6250	12586	63668	436

Source: Public Private Finance

Contracts being procured March 2006

	Value €m	Number
Italy	19761	41
Spain	2573	23
France	3045	14
Belgium	4315	7
Netherlands	1177	2
Germany	8292	24
Ireland	3092	16
Bulgaria	1115	4
Greece	6042	7
Austria	745	6
Portugal	1355	8
Other countries	3627	37
Total (exc.UK)	55139	189
UK	27333	108

Source: DLA Piper Rudnick Gray Cary

Table 6 Largest PPP contracts in Europe*

Largest signed deals, 2001-06

Country	Type of project	Year	€m	Country	Type of project	Year	€m
Italy	Bridge	2006	3000	Bulgaria	Road	2005	715
Belgium	Tunnel	2004	1300	Finland	Road	2005	700
Netherlands	Rail	2001	1200	Poland	Road	2004	680
Italy	Road	2005	860	France	Road	2005	618
Austria	Road	2006	850	France	Road	2005	590
Poland	Road	2004	840	Bulgaria	Airport	2006	563
Spain	Canal	2002	800	France	Rail	2005	550
Greece	Rail	2005	798	Italy	Waste to energy	2005	550

Source: Public Private Finance

*Excluding UK

points to the growing importance of PPP outside the UK. Additionally, the aggregate value of completed deals since 2001 in the rest of Europe rose significantly from €18bn in 2005 to €26bn in 2006. This was about 40% of the aggregate €64bn capital value of deals completed in the UK between 2001 and 2006.

LINKS TO OTHER SOURCES OF INFORMATION

Public Private Finance

www.publicprivatefinance.com

DLA Piper Rudnick Gray Cary

European PPP Report

www.dlapiper.com

HM Treasury

PFI: Strengthening long-term partnerships March 2006

www.hm-treasury.gov.uk

Partnerships UK

Report on Operational PFI Projects March 2006

www.partnershipsuk.org.uk

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IFSL Research This report on *PFI in the UK and PPP in Europe*, compiled by Duncan McKenzie, complements IFSL's report *Public Private Partnerships: UK Expertise for International Markets* produced to support the work of its PPP Export Group. All IFSL's publication can be downloaded at www.ifsl.org.uk. Further information on IFSL research, statistics and publications can be obtained from:

Duncan McKenzie, Director of Economics, Tel: +44 (0)20 7213 9124

Email: d.mckenzie@ifsl.org.uk

IFSL's PPP Export Group IFSL is taking a leading role in the promotion of PPP around the world through its PPP Export Group, chaired by Dr Tim Stone of KPMG. Working with central government and the private sector, IFSL has run seminars in many countries. It also organises meetings and visit programmes for overseas officials visiting London who come to find out more about the UK's experience and expertise in PFI/PPP. For further information on the work of IFSL's PPP Export Group contact:

Stephen Harris, Head, International Group, Tel: +44 (0)20 7213 9108

Email: s.harris@ifsl.org.uk

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Chart 3 Trends in PFI in UK and PPP in Europe



Source: Public Private Finance, DLA Piper

Table 7 Largest UK PFI contracts 1987-2006

Capital value of signed deals, £m	Government Department	Year signed	£m
London Underground Ltd	Transport	2002	16179
Channel Tunnel Rail Link	Transport	1996	4178
Project Allenby/Connaught: Accommodn.	Defence	2006	1800
Barts & London NHS: Hospital Redevelt.	Health	2006	1100
National Air Traffic Services Ltd (NATS)	Transport	2001	800
Skynet 5	Defence	2003	750
MoD: Future C Vehicles	Defence	2005	600
Birmingham NHS: Hospital	Health	2006	560
Ministry of Defence: Colchester Garrison	Defence	2006	539
Highways Agency: Nat. Roads Telecom.	Transport	2005	490
M6 Toll Road	Transport	2000	485
LUL: Connect	Transport	1999	468
Manchester NHS: Hospital accommodn.	Health	2004	415
A13 Thames Gateway	Transport	2000	411
LUL - Northern Line Trains Rolling Stock	Transport	1995	409
St Helens NHS: Hosp. Accommodn.	Health	2006	380
Coventry & Warwicks. NHS: Hospital	Health	2002	379
N. Staffords NHS: Hospital	Health	2004	350

Source: Public Private Finance

Data files

Datafiles in excel format for all charts and tables published in this report can be downloaded from the Research section of IFSL's website www.ifsl.org.uk

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