

# **The New Management of British Local Governance**

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# 13 The Private Financing of Public Infrastructure

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## **Introduction**

A valuable starting point for an overview of the private financing of public infrastructure is to adopt Hood's (1994) distinction between 'justifications' and 'explanations'. Justifications are those arguments mobilised in support of particular policies, whereas explanations are those – possibly overlapping – factors which can be identified as having been decisive in bringing about a particular policy change. The commentator often has to impose structure on a mass of documentation which rarely respects this distinction. Moreover, there might well be motivations ('unmentionables') which are deliberately left unspoken or understated. Dobek (1993) challenged the literature on UK privatisation which had claimed there was a lack of economic rationality behind certain aspects of the Conservative government's programme, and stressed that some of these features could readily be understood in terms of building political support and eroding the support of other parties.

The issues discussed in this chapter are relevant to the whole of the general government sector, not exclusively to local government. They are, however, highly relevant to local governance because of the way in which the traditional role of UK local government as a significant operator and provider of physical infrastructure has been severely challenged, in part for budgetary reasons and in part because of a changed outlook in central government as to the appropriate spheres of the public and private sectors. In the United Kingdom, central government possesses sufficient legislative and financial instruments to impose its wishes upon local authorities.

There are three influential factors worth emphasising in this introductory section. First, as globalisation and economic integration diminish the power of traditional macroeconomic levers, OECD governments have become more concerned about improving the competitiveness of their economies by means of investment in physical and human capital. The quantity and quality of investment in physical capital now receive more attention than its ownership. Evaluation of the effects of public infrastructure investment on private sector productivity is complicated by the way in which the extensive US literature on this topic has become intricately connected with partisan debates about federal spending. However, Munnell's (1992) survey takes these productivity benefits seriously.

Second, it is widely believed that the 1980s and 1990s have witnessed a neglect of the UK physical infrastructure, in comparison with that of other large European Union countries. Such comparisons are inevitably difficult, even without the political controversy and special pleading which have characterised UK debates. Reviewing the evidence, Heald (1997a) concluded that there were indeed grounds for concern.

Third, a clear pattern has been established that UK local authorities will in future have a more limited role, if any, in the provision of large physical infrastructure. There has been no attempt by central government to remove existing infrastructure facilities from local government ownership, though in cases when capacity has to be expanded (for example, a third Dartford crossing, a second Tyne tunnel and a second Forth bridge), it is now taken almost for granted that this will be privately financed. Without credit approvals (or the Scottish equivalent of capital allocations), neither individual local authorities nor joint boards could secure the financing. For reasons of public expenditure scoring, it is unlikely that such permissions would be granted, even if there had not developed a quasi-automatic central government presumption in favour of private financing. Significantly, the role of local authorities as provider tends not to be replaced by that as regulator – a transition often deemed to be one of the features of local *governance*. Where there is private sector financial involvement, there is predictable pressure for uniform national regulation. Local authorities might then become nothing more than another – albeit well-placed – local lobby, seeking the provision of facilities without incurring any financial responsibility for their viability.

The foregoing is vital background to the arguments about recourse to private financing of public infrastructure. The remaining sections of the chapter distinguish potentially good from indisputably bad argu-

ments for private financing; consider the impact upon incentives and assess probable long-term effects; and delineate the policy issues which ought to be addressed systematically.

Before concluding this introductory section, it is useful to define some technical terms. A concession is the temporary granting by a public authority (concessioner) to another (usually private) body (concessionaire) of the right to construct, operate and levy third-party charges for a period defined either in years or in terms of some revenue or profit objective. At the end of that concession, the facility reverts to the ownership of the concessioner which can then either operate the facility itself, with or without third-party charges, or relet the concession by competition. This kind of contractual arrangement is longstanding in mainland France and francophone countries in, for example, the water and transport sectors. In terms of contemporary terminology, a concession is a BOOT scheme, standing for build, own, operate and transfer. An alternative model is the BOO scheme (build, own and operate), where reversion to the public authority does not occur (in, for example, the publicly owned Scottish water authorities).

### **Potentially good versus indisputably bad arguments**

Of utmost importance is the need to distinguish between potentially good arguments (that is, those which, if true, can be shown to be influential or decisive) and indisputably bad arguments (that is, those which are either clearly flawed or solely advanced as policy alibi). When sifting such arguments, it is particularly important to guard against an artificial narrowing of the policy problem in a way which systematically excludes options, leaving the choice set empty except for the preferred option. It is in circumstances such as this that a conspicuously cost-ineffective option can easily be canvassed as the most cost-effective.

#### *Potentially good arguments*

The literature on infrastructure investment suggests four potentially good arguments. 'Potentially good' means that these arguments contain assumptions or predictions which, if verified, would lead to them carrying substantial force, to be weighed in the balance alongside other considerations.

First, it is contended that the narrower and clearer objectives of a private infrastructure provider will more satisfactorily resolve key principal-agent problems. For example, the civil engineering contractor will know that the private sector principal faces a bankruptcy constraint in a way that a public sector principal does not. Although the cost overruns on the Channel tunnel were notoriously large, it is certainly plausible that they would have been worse if the tunnel had been a joint Franco-British governmental project. This part of the argument focuses attention on the issue of cost containment at the construction stage. Another part of the argument relates to the relationship between the principal and the bankers who supply the finance. If the Channel tunnel had been a governmental project, it would have been far more difficult for the French and British governments to stand aside and watch the banks losing their money. Their respective Treasuries and central banks, concerned about their ability to finance large public sector borrowing requirements (PSBR), would have been much more worried about sovereign creditworthiness than about this specific project. The argument here is that a private sector principal will find it easier than a public sector principal to off-load risks.

There is clearly a measure of plausibility in this argument when applied to mega-projects such as the Channel tunnel, a project with a long gestation period (Holliday *et al.*, 1991). The charges faced by travellers will be lower than would have prevailed had there been no risk transfer to the suppliers of finance. On the other hand, there have to be doubts about whether a privately financed project such as the Channel tunnel would be replicable. An obvious point is that Euro-tunnel was left exposed to a great deal of commercial risk because of the lack of constraints placed upon the cross-channel ferry operators, who have not melted away as may have been expected. In the case of such a huge project, it might well be worthwhile incurring a substantially higher cost of capital than would be the case if public funds were used, to guard against seriously adverse outcomes. If this argument holds, the relevant question becomes 'at what scale and innovativeness of projects do such net benefits disappear?' For example, would the argument apply to the second Severn crossing, or to a section of motorway, or to a new hospital? A key question is whether there is a strong element of replicability. This advantage of private involvement can be thought of in terms of reducing the total amount of risk by allocating risks to that party which is best able to manage each particular risk.

Second, as financial markets become more sophisticated and globalised, expertise in risk management grows and specific groups of financial investors may become specialists in bearing particular risks. Certain kinds of risk can be diversified away: for example, construction work on river crossings might confront unexpected geological difficulties in a proportion of cases. Those investors who finance many projects will be in a better position both to evaluate and to pool such risks. Again, this seems to point to a relative advantage for private financing in the case of atypical – as opposed to replicable – projects.

Third, it can be argued that private financing will make it easier to make user charges 'stick'. Heald (1991) showed that the crucial problem with the financing of the first Severn bridge was the lack of legislative provision for indexed tolls, a deficiency in the financial framework exacerbated by the laborious (and politically fraught) process of toll revision. Tolling can have two functions: to remunerate the costs of construction; and to act as a pricing signal. Unfortunately, these functions may conflict. There is much discussion in the literature on road-user charging about whether, in the absence of general road-user pricing, *piecemeal pricing of a particular facility* has beneficial or damaging consequences on road network utilisation. For example, tolls may divert traffic to unsuitable and environmentally sensitive roads on which there is no pricing mechanism. In the case of some tolled facilities, the marginal cost of an extra journey may be virtually zero, whilst in other cases it may be exceptionally high. Two arguments about the link between private financing and tolling deserve attention. There is some evidence that in the case of private financing more systematic consideration is given to toll regulation in advance of construction. Furthermore, those who advocate road pricing in general may believe that a dynamic benefit of private financing is that road users become more accustomed to the notion of tolling, and will be less hostile in future towards electronic tolling of the network as a whole.

Fourth, the combination of private financing and third-party charging might provide some protection against 'pork barrel' politics. The private sector would never have become involved, for example, in the financing of the Humber bridge (the construction of which was announced in the middle of the crucial 1966 Hull North parliamentary by-election); only an implausible parallel announcement of huge subsidies would have made the scheme attractive to private finance. Until February 1992, the interest which could not be serviced out of toll income was capitalised, with the result that the current debt of the Humber Bridge Board is £435 million. Since 1992, grants have been

made under the Appropriation Acts to meet the annual shortfall. Early in the 1997–98 financial year, there will be a debt write-off under the terms of the *Humber Bridge (Debts) Act 1996* (Department of Transport, 1997).

What these four potentially good arguments have in common is that it should be possible in time to bring empirical evidence from the United Kingdom and overseas to bear on their validity. Because it is universally accepted that government can borrow more cheaply than the private sector, the only way that private financing is justifiable is if its use generates savings in capital and/or operating costs which cannot be achieved in any other way (for example, by fixed-price construction contracts and/or private management of the facility).

### *Indisputably bad arguments*

Attention now turns to three arguments which are indisputably bad, either in the sense that they are logically flawed or that they have been abused. First, private finance enables projects (such as schools and hospitals) to be undertaken which the public sector could not afford (Hancock, 1993). Where there are no third-party payers, as in the case of schools and hospitals, the Exchequer will, in due course, have to meet the full service cost. Unless there are genuine efficiency gains arising from private sector involvement, this simply means the retiming of when the Exchequer incurs the cost (which will be higher than otherwise because of the excess financing costs). For this argument to have any credibility, it has to be postulated that the government temporarily lacks access to capital markets and that its intertemporal budget constraint bites more harshly in the present than it will in the future. Although there may be circumstances where this is plausible (for example, postwar reconstruction), the argument currently has no credibility. The motives for advancing this argument may themselves be dubious, whether aimed at drumming up business for financial institutions or attempting to mislead the public about affordability.

Second, there is frequently a ‘nudge-and-wink’ undercurrent to the advocacy of private finance, hinting that it represents a mechanism for manipulating public expenditure and PSBR numbers. What is frequently proposed is a cost-ineffective mechanism, on the grounds that this is the only option available. This line of argument exemplifies the danger highlighted earlier; almost anything can be made to look ‘best’ if the policy problem is formulated in sufficiently narrow terms. Decisions taken solely for public expenditure scoring are a manifesta-

tion of the dysfunctional consequences of the (inevitably) arbitrary lines which have to be drawn for statistical purposes. Despite the element of arbitrariness at the margin, public expenditure scoring rules have an important and legitimate function, in terms of recording what is happening to resource use in the economy. Respected commentators have questioned the motivations for private financing (Institute for Fiscal Studies, 1993). Governments undoubtedly do manipulate definitions to some extent, and the constraints imposed by the Maastricht rules about excessive deficits may lead to an increase in these manipulations (Heald and Geaughan, 1997). However tempting such manipulations may seem, they have opportunity costs, either in the form of cost-ineffective provision or reduced transparency about long-term affordability. It is sometimes argued that the failure to implement certain projects has large opportunity costs in the form of lost benefits. For this to be the case, it has to be held that either the total level of public expenditure is insufficient, or that its functional composition is seriously distorted. It is possible that politicians find taxing and borrowing such unpleasant subjects that they are willing to tie their own hands and then use cost-ineffective mechanisms. Even so, there is a strong case in public accountability for these circumstances to be rendered transparent.

Third, an argument which might have been classified as 'potentially good' is here classified as indisputably bad because it is consistently advanced in an insincere manner; it performs the function of policy alibi. This is the rhetoric that the UK government has stopped buying inputs or capital assets, and instead now contracts to buy outputs. In practice, there is very little interest in measuring outputs, much less in contracting to purchase them. The prominence given to this storyline is predominantly a means of keeping Private Finance Initiative (PFI) assets off the balance sheet, thereby avoiding the specific requirements of SSAP 21 (Accounting Standards Committee, 1984) and the spirit of FRS 5 (Accounting Standards Board, 1994). If genuine cases of output measurement and contracting begin to emerge, the classification of this argument could then be reconsidered.

### **Incentives and effects**

It is clearly relevant to explore the nature of the incentives created by recourse to private financing for public projects, and to assess the likely effects of this policy innovation. Deserving particular emphasis is the



way in which private finance may enable ministers to acquire capital assets without facing the budgetary discipline of having to compete for funds against the projects of other ministers within the framework of the Public Expenditure Survey, or of having to remunerate that capital by paying capital charges. There is a noteworthy contrast between the low profile of capital charging, introduced within the National Health Service in April 1991 (Heald and Scott, 1996) and now scheduled to be extended across central government as part of the Treasury's Resource Accounting and Budgeting package, and the remarkably high profile of the PFI. In the absence of third-party payers, the cost of the capital facilities and the associated operating costs become a charge upon public expenditure in future years. It is not difficult to imagine the attraction of such a mechanism to a Home Secretary seeking a dramatic expansion in prison capacity, or to an Education Secretary wishing to promise school modernisations and replacements, or to a Transport Secretary wanting to expand the road-building programme. Mechanisms such as shadow tolls as a means of remunerating the private constructors of toll-free (to the motorist) road sections are a device for posting bills to future taxpayers.

A number of effects can be identified, of which three are considered here. First, the size of the bills posted to the future is unlikely to be properly disclosed. One of the problems associated with new public management techniques is the greater emphasis placed upon commercial confidentiality as a justification for refusing to disclose financial information connected with public activities. Clearly, when organisations which have previously enjoyed monopoly status face competition, there are likely to be genuine concerns about unilateral disclosure of information potentially prejudicial to their competitiveness. More generally, PFI contracts are often surrounded by claims about commercial confidentiality, thereby raising two separate points about public accountability. The first point is that certain commitments may be given to the private consortium which are anti-competitive and/or undisclosed at the time of policy announcement; for example, the Scottish Office undertook to instruct the nationalised Caledonian Macbrayne to withdraw the ferry which served the same route as the Skye bridge and (at the very least) turned a blind eye to obstructions placed in the way of private ferries. Other possibilities are commitments not to upgrade competing road links without paying compensation, or even (as in Melbourne, Victoria) to reduce existing road capacity by lane elimination. In the case of health, there may be promises of ministerial pressure on a dominant health purchaser to

buy from the NHS trust which has a new hospital development procured from a PFI consortium.

The other point is that, if recourse to such mechanisms became quantitatively significant, the margins of flexibility on public expenditure enjoyed by future Chancellors of the Exchequer could be severely eroded. Moreover, the financial penalties attached to policy change could escalate dramatically. This danger is exemplified by the recent dramatic downsizing of the roads programme which would have been much more difficult to implement had 1990s' mechanisms been extensively applied in the 1980s. Roads provide an interesting case because there is evidence that personalities matter: Margaret Thatcher's 'enormous roads programme' received less favour from John Major (Hogg and Hill, 1995, p. 119); and Dudley and Richardson (1996) concluded that the roads programme has been profoundly affected by certain ministers. The fact that there were 11 Cabinet Ministers for Transport in the period 1979–97 brought the Department within Bogdanor's (1996) observation that some departments 'are subject to a rate of [ministerial] turnover which is bound to militate against effective government'. Walker and Smith (1995) commented that in 1993 the Department of Transport was reported to have hoped that shadow-tolled roads would lead to the *additional* annual construction of £350 million of trunk roads. Astonishingly, 1998 was reported (p. 56) at that time to be seen as the target date for the electronic tolling of all UK motorways and trunk roads.

Second, ministers have indeed seen the PFI as a means of bringing capital spending forward in time. Unquestionably, this did happen in the case of the Skye bridge and, arguably, in the cases of the third Dartford and second Severn crossings. However, it is also possible that the time-consuming nature of the PFI process – a complaint regularly made in the financial and trade press – has delayed projects beyond the date at which they would have been progressed using conventional procurement (Institute for Health Services Management, 1997). Two factors can be identified: the sheer overload caused by the decision of the four Health Departments that all NHS trusts must pursue the PFI route; and the way in which PFI contracts raise issues beyond those involved in conventional procurement (for example, concerning contract lengths, the impact on neighbouring trusts and the expansion of private patient numbers). It is a matter of judgement as to whether such difficulties are inherent in the PFI as applied to the NHS or whether they are the set-up costs characteristic of a learning process. In any case, contracting for what are loosely called 'outputs' (for example,

prison places, patients treated) commits ahead much more public spending than simply building a prison or a hospital, leaving levels of utilisation for later decision. A rather different point about timing was made by the Conservative MP Nicholas Budgen (1993) during a Treasury and Civil Service Committee hearing: he viewed much of the argument then for the PFI as really being about macroeconomic fine-tuning 'upwards', commenting that by the time of actual construction the Treasury would be mobilising counter-arguments in order to justify 'downwards' fine-tuning.

Third, in the case of project financing through the mechanism of third-party user charges, it is likely that greater weight will be attached at the stage of project design to revenue-generating potential, to the neglect of other costs (for example, environmental) and benefits (for example, non-user benefits through reduced congestion elsewhere). One of the interesting features of the Skye bridge is that the Scottish Office's evaluation revealed net benefits substantially below those achievable from other schemes within its roads programme. What differentiated the Skye bridge was the practicality of tolling. This example focuses attention back to the standard second-best concern in the public sector pricing literature, that piecemeal pricing might worsen resource allocation (Bös, 1985). Although this point applies to the piecemeal tolling of particular transport facilities irrespective of ownership, there is one reason for taking the issue more seriously in the context of private financing. Whereas a public operator is likely to have a complex range of motives (for example, meeting financing charges and promoting economic development), a private operator will – if unconstrained – wish to choose the profit-maximising toll. These more high-powered financial incentives may exacerbate the general dangers associated with piecemeal tolling. Quite apart from the technological and cost issues concerning widespread electronic tolling, it can be confidently predicted that concerns about traffic diversion to less suitable toll-free roads will feature prominently in UK debates. Ministers have unequivocally presented the case for tolls as a financing rather than capacity-rationing instrument, with the tolls being removed at some future date. Moreover, the political pressure to remove tolls from the Skye bridge has been fuelled by the large differential between tolls on different crossings and by the sense of unfairness that some crossings are toll-free. For instance, the Kessock, Cromarty and Dornoch bridges north of Inverness were regarded as integral parts of the A9 trunk road improvement, justified in part by the cost savings from route shortening.

### Issues for debate and decision

Perrin (1984) crystallised a set of policy concerns which – in less articulate and elegant formulations – would mount in intensity over the subsequent ten years. At the level of popular debate, these concerns have in common an underlying fear that the UK's physical infrastructure was rapidly deteriorating, owing in part to government neglect. Before such questions can be systematically addressed, they all require precise – inevitably, rather technical – formulation. Using the terminology of academic accounting, Perrin sought to address four questions about the public sector capital stock:

- (i) is opportunity value being acted upon (that is, do decisions about the capital stock take full account of the value of assets in alternative use)?
- (ii) is capital expenditure wisely decided and controlled (that is, do projects represent the best available value for money)?
- (iii) is the capital stock being maintained?
- (iv) is the cost of maintaining the capital stock being intertemporarily equitably shared (that is, are different generations carrying an appropriate share)?

As Perrin himself demonstrated, none of these questions is easy to answer. Capital charging has been promoted as a means of securing (i). On (ii), Flemming (1995) has been highly critical of the quality of much public sector investment, while Mayston (1993) addressed the differences between investment appraisal in the public and private sectors.

Behind each of the above questions often lies another set of questions. For example, in connection with (iii), there are conflicting notions of capital maintenance: Operating Capability Maintenance refers to the undertaking's ability to continue to produce a given level of output, whilst Financial Capital Maintenance refers to the maintenance of the financial purchasing power of the money invested by taxpayers in particular assets in public ownership (Byatt, 1986). Another consideration is that a significant part of the UK public sector has irrevocably been transferred to private ownership. As a consequence of conscious political choices by elected governments, there will inevitably be fewer public assets in 1997 than there were when Perrin was writing in 1984.

Nevertheless, these complications do not detract from the relevance of questions about what has happened to public sector net worth.

Privatisation can be viewed as a change in the public sector's asset portfolio, exchanging assets for cash. Indeed, if the private sector were better at managing certain assets than the public sector, then privatisation would lead to an increase in public sector net worth (at least before transactions costs and any one-off capital distribution to taxpayers). A recurrent concern, however, has been that insufficient attention has been given to the stewardship of continuing public assets, with excessive emphasis being placed on allowing the present generation to transform implicit asset holdings into cash. There is an obvious parallel in the cash distributions associated with demutualisation (Kay, 1991). With the public sector increasingly cast in the role of concessioner, it will be necessary to address the value of reversionary facilities when monitoring capital maintenance.

Question (iv) raises concerns about spreading the cost of public infrastructure assets across generations. There is a widely held view that assets inherited from earlier generations were in fact sold below their market value and privatisation proceeds used as a substitute for current taxes. Even if the PFI were shown to score well in efficiency terms, there would remain the issue of the present generation running down inherited assets but not then bequeathing paid-for assets to the next generation. Measurement in this area confronts formidable practical problems: for instance, the value of particular assets to future generations depends upon unpredictable factors such as future relative price changes and technological change. For example, the present generation places a much lower valuation on railway infrastructure than the Victorians might have expected, but a higher valuation on reservoirs and aquaducts. It is not easy to assess how future generations will view the motorway network. Hence, it is difficult to operationalise notions of intergenerational equity.

There are two high-level policy questions regarding infrastructure capital upon which attention should focus:

- (a) the relative costs of service provision under different procurement models; and
- (b) the extent to which contemporary political decision-makers face the true costs of their decisions.

In the former, the trade-off is primarily between the efficiency gains which are claimed for concession-type mechanisms and the higher financing costs faced by the private sector (Heald, 1997). Despite various changes of position about the use of private finance, the

Treasury has remained resolute in its view that the key to securing efficiency gains is to be found in the transfer of risk to the private sector. One of the difficulties confronting firm evaluation is likely to be the loss of credible public sector comparators, especially when it has been made abundantly clear that a publicly financed project would not be funded. Nevertheless, UK experience with explicit concession frameworks requires careful evaluation by the National Audit Office, both of concessionaire performance and of the specifics of each concession document (there are important differences in the calculations behind the determination of the reversion date). Curiously, there is contemporary media discussion of an extension of Eurotunnel's concession from 65 to 999 years as being 'costless'.

Moreover, it will be possible to absorb lessons from overseas experience of the use of a model which has received support from international bodies (OECD, 1987; European Conference of Ministers of Transport, 1989; Augenblick and Custer, 1990). In terms of post-evaluation, these schemes have the important advantages of being both large (justifying the cost) and reasonably free-standing (simplifying the factors which need to be included). Of vital importance will be the transparency of financial reporting and quality of disclosure by the concessionaire, particularly in those cases where concessions will eventually be retendered. Otherwise, genuine competition will not emerge and suspicions of corruption may develop, leading to a damaged reputation for the concession model.

Regarding the second question, as to whether present political decision-makers face the full costs of their decisions, there are grounds for serious reservations about private financing, except in those cases where there are third-party payers. One way to address these concerns is to allow private financing but to insist upon full disclosure of the present value of future commitments, score the capitalised value against the public expenditure control aggregate, and then exclude the payments when made. If shadow-tolled roads are indeed 15 per cent cheaper, as the Private Finance Panel (1997) has reported, they will be chosen in preference to conventional procurement. Unless due care is taken, efforts to impose discipline over public sector capital by means of capital charging will be undermined by access to lottery funds and to PFI assets. This is the area in which the distinction between justifications and explanations requires close attention; to cite one overseas study, Boorsma (1995) concluded that the motive for leasing in the Netherlands was almost always to avoid public expenditure controls. Bipartisan political support for the PFI has been portrayed by *The*

*Economist* (1995) as a warning to taxpayers, treating with suspicion the notion of doing good by stealth.

## **Conclusion**

Given that the structure of this chapter has been designed to draw conclusions as the argument has progressed, it will suffice to conclude with two points. First, after remarkably lax control of public expenditure aggregates in 1991–92, the 1992–97 Parliament was notable for a series of highly restrictive Public Expenditure Surveys. Whereas much of this toughness was genuine, a significant sleight of hand was effected in the planned substitution of PFI-financed investment for conventional capital expenditure. For the years 1997–98 and 1998–99, the Treasury's (1996) plans include PFI-financed investment of, respectively, £2.51 billion and £3.65 billion. This raises two issues: burdens are being transferred forward through time (Treasury Committee, 1996), and, in the case that this PFI-financed investment fails to materialise, there would be an unintended shortfall in capital spending.

Second, apart from a number of high-profile schemes which would probably have been financed privately without the PFI ever having been conceived, there is an inescapable impression that so many people have been carried away with the rhetoric that the necessary learning process has stalled. The claim that the PFI 'has come a long way since its launch in November 1992, and the publication a year later of "Breaking New Ground"' (Treasury and Private Finance Panel, 1995) remains unproven. A further area for review by the National Audit Office should be the transactions costs, which appear to have been quite substantial. These are a resource cost to the economy and – presumably – will be factored in to the prices charged by private consortia to the public in its dual capacity as third-party payer and as the ultimate funder of government purchasers.

## **About this study**

This project was titled 'Accounting for Infrastructure Assets: Financial Reporting, Project Finance and Concessions'. The project had two dimensions. The theoretical objective was to assess how UK accounting practice must develop in response to the emerging importance of the concession method of financing infrastructural development so that

financial reporting systems generate meaningful and economically relevant information for a diverse set of users. The empirical dimension consisted of the preparation of accounting life histories of existing infrastructural facilities (notably, bridges and tunnels) both *during* their periods of local authority (joint board) or central government ownership and *after* their transfer into concessions, and for new facilities originating as concessions. The methods adopted were: theoretical investigation and reflection; the conducting of accounting case studies of existing facilities; fieldwork interviews with key actors in central and local government concerned with the water and transport sectors and with key actors in the finance sector; and fieldwork interviews with those involved in estuarial crossings and in the Scottish water sector. Certain outputs from the project have been referenced below: namely, Heald (1997a, b) and Heald and Geaughan (1997). The project contributed to the public debate about the PFI, in particular through: D.A. Heald 'The Private Finance Initiative: Value for Money and Public Expenditure Control', in Treasury Committee (1996), *The Private Finance Initiative*, 6th Report of Session 1995–96, HC 146 (London: HMSO) pp. 160–71. Empirical papers will subsequently be published on the accounting life histories of tolled infrastructure and on the use of private finance in the Scottish water industry.