

This article was downloaded by:[NEICON Consortium]  
[NEICON Consortium]

On: 13 July 2007

Access Details: [subscription number 762905488]

Publisher: Routledge

Informa Ltd Registered in England and Wales Registered Number: 1072954

Registered office: Mortimer House, 37-41 Mortimer Street, London W1T 3JH, UK



## Local Government Studies

Publication details, including instructions for authors and subscription information:

<http://www.informaworld.com/smpp/title~content=t713673447>

### Public-private Partnerships

Andrew Coulson <sup>a</sup>

<sup>a</sup> Institute of Local Government Studies, The University of Birmingham.

Online Publication Date: 01 June 2005

To cite this Article: Coulson, Andrew , (2005) 'Public-private Partnerships', Local Government Studies, 31:3, 367 - 371

To link to this article: DOI: 10.1080/03003930500146930

URL: <http://dx.doi.org/10.1080/03003930500146930>

PLEASE SCROLL DOWN FOR ARTICLE

Full terms and conditions of use: <http://www.informaworld.com/terms-and-conditions-of-access.pdf>

This article maybe used for research, teaching and private study purposes. Any substantial or systematic reproduction, re-distribution, re-selling, loan or sub-licensing, systematic supply or distribution in any form to anyone is expressly forbidden.

The publisher does not give any warranty express or implied or make any representation that the contents will be complete or accurate or up to date. The accuracy of any instructions, formulae and drug doses should be independently verified with primary sources. The publisher shall not be liable for any loss, actions, claims, proceedings, demand or costs or damages whatsoever or howsoever caused arising directly or indirectly in connection with or arising out of the use of this material.

© Taylor and Francis 2007

## Review Articles

# Public-private Partnerships

ANDREW COULSON

Institute of Local Government Studies, The University of Birmingham

### **Public-private Partnerships: The Worldwide Revolution in Infrastructure Provision and Project Finance**

Darrin Grimsey & Mervyn K. Lewis

*Cheltenham, Edward Elgar, 2004, ISBN 1-840-64711-6, £59.95 hb*

### **NHS plc: The Privatisation of our Health Care**

Allyson M. Pollock

*London, Verso Books, 2004, ISBN 1-844-67011-2, £15 hb*

It would be difficult to find two books on the same topic more contrasting than these. Both are studies of the introduction of private capital into the public sector. One takes the view that this is the way forward, not just in Britain but around the globe. The other that this same process is destroying everything that is efficient and effective in the British National Health Service.

Grimsey is a partner in PricewaterhouseCoopers, Melbourne, with hands-on experience of public-private partnerships. Lewis is Professor of Banking and Finance at the University of South Australia. Their particular expertise is in transport infrastructure (roads and bridges) but they also present case studies of prisons, hospitals and water projects. They include a potted history of turnpike roads and other private provision of public assets, compare procurement through public-private partnerships favourably with conventional forms of procurement by the public sector, discuss the management of risk, explain in relatively simple terms the technical aspects of value for money tests and the public sector comparator, present interesting information on the governance of public-private partnerships and their special purpose vehicles, and conclude with a chapter which suggests that public-private partnerships are likely to play a major role in developing countries ('emerging markets') as well as developed.

Allyson Pollock, Professor of Health Policy and Health Services Management at University College, London, is a doctor who, more than anyone else, has documented the practical failings in many of the new

---

*Correspondence Address:* Andrew Coulson, Institute of Local Government Studies, The University of Birmingham.

hospitals built under the Private Finance Initiative in Britain. This book goes much farther. It argues that Britain's National Health Service, set up after World War II on the basis of free provision to everyone, is being deliberately replaced by market-led systems modelled on American practice. It has chapters on hospitals, primary care and long-term care for the elderly, showing in each case how private capital is being introduced, and the adverse consequences. There are large doses of history, and a strong chapter near the end which shows how opponents of privatisation have been attacked and marginalised.

Faced with two incompatible interpretations of the same policies, the first question is whether each shows any recognition of the points made by the other. Grimsey and Lewis, in their final two pages on 'some concerns about PPPs', do recognise some criticisms, but then dismiss most of them, much as in their earlier technical chapters on 'issues in public-private partnerships' and 'risk management', where their conclusions could be summarised as 'if you do everything correctly, then public-private partnerships are appropriate for most capital projects'. But they do accept that PPPs may not be appropriate for all, and especially not for small projects, or projects where it is impossible or difficult to specify the outputs required for years ahead. Pollock, in contrast, is so opposed to the fragmentation of services and additional costs which are incurred when fragmented units have to bill each other, and the inevitability, as she sees it, that, once money transfers are involved, the providers of health care give preference to those who have money, that she cannot conceive of any benefits from involving private interests.

The basic criticisms of PFI in the NHS are well-known: the costs of borrowing are greater, as are the costs of preparation and negotiation of the contracts, and the need to pay dividends to the shareholders of the private companies; the extra annualised costs of the PFI hospitals meant that, especially in the early years of the Labour government when budgets were very tight, hospital trusts with fixed incomes had to reduce their numbers of beds; it is difficult to enforce contractual conditions so standards may be low, especially of ancillary services such as catering or cleaning; that 30 years is too long for effective forecasts of health needs; that risk is not really transferred, because if problems in a project become insurmountable, the public sector will inevitably come in with additional resources; and that the comparison with the costs of conventional procurement is often manipulated to favour PFI.

Grimsey and Lewis have answers for these and other criticisms. The cost of borrowing is higher because the private sector takes on risks that the public sector pays for in other ways; in particular this applies to the risk of cost and time overruns in the construction of buildings. The extra payments to companies are justified because they can deliver the product more cheaply and innovate more easily; this should be taken into account in the 'public sector comparator'; moreover, in contrast to traditional procurement, most

PFI projects have been completed on time and within budget. The extra operational costs would have had to be met anyway (this issue has not arisen with local authority projects in Britain, since the local authorities get extra grant from central government to meet the extra borrowing costs). As regards contractual disputes, Grimsey and Lewis see PFI contracts as long-term partnerships, in which such issues would be worked out by agreement – but it is noticeable that much of their experience is in roads and bridges where the income to the private sector comes from tolls, where contractual disputes about the ancillary services (such as the standards of cleanliness or quality of food in hospitals) are less of an issue. They do not discuss the case where risk is not, in the event, fully transferred, as in some of the British government's large IT programmes which have had to be bailed out with extra government money. But from the way they write, it is reasonable to assume that they would have no problems with conventional procurement in a project where the public sector comparator suggested that it was the most efficient choice.

What emerges from these two books is that PFI is above all a political choice. Grimsey and Lewis see it as an inevitable development across the world, Pollock as a consequence of globalisation and the emergence of international health care companies looking for profits wherever they can find them.

Both books would be better if they were less strident. There are times when Grimsey and Lewis read like the PricewaterhouseCoopers pitch to unconvinced public sector managers (for example in their discussions of the public sector comparator). They claim that PPPs should be based on outcome measures, leaving the contractors to determine how those outcomes should be met: that may be applicable to bridges, but it is inconceivable that managers of hospitals or schools would not expect a strong input into the design and layout of their buildings, and the equipment and ICT. They do recognise (p.89) that traditional procurement can be developed to achieve many of the alleged benefits of PPP, for example through fixed-price contracts with forms of contract that give little scope for variations, or through partnering and open-book contracts, but are reluctant to pursue this line of argument. They play down the risks of very long-term contracts. A telling comment (on p.198) is that 'all long-term contracts are necessarily "incomplete"' – i.e. every detail cannot be included in the contract, and the consequences of unforeseen changes during the life of the project must be renegotiated on the basis of trust. This is to take a very benign, almost naïve, view of contractors and procurement. It is hard to think of examples from the private sector where a retailer or assembler would commit to contracting with the same supplier for 30 years.

They also fail to discuss differences in the risk profile of projects over time. Thus with a new hospital, prison or school, most of the risk is in the construction period, and once construction is complete, the remaining risk is rather small – notably that maintenance costs will turn out to be above the

level predicted. That is why the private financiers of such projects are able to re-finance them at much lower rates of interest once construction is complete, greatly adding to their profits. But there is no need for the public sector to pay so much extra to cover this kind of risk. Maybe in future negotiations this will be understood, and costs will come down, but as things stand the public sector gets a very poor deal.

Grimsey and Lewis would also have assisted if they had made clearer the differences between projects where the consortium has to estimate its levels of profit in the future and can influence them by marketing, for example a toll road or toll bridge, and those where income in the future is a fee fixed in advance subject to satisfactory levels of performance, and paid directly by the public sector, as in a school, prison or hospital. With assets for which the PFI consortium charges, such as the Millau bridge recently opened in the South of France, or the Skye Bridge (one of the first PFI projects in Britain, and one of the most controversial, where the Scottish Executive has recently bought out the PFI contractor, mainly because the level of tolls was perceived to be oppressive – surprisingly there is no mention at all of this project in Grimsey and Lewis' book) it is the public which pays for any high costs, through the tolls; the consortium will presumably budget to make a profit on its lower estimates of traffic, and hence make an extremely high profit if more traffic uses the facility. This gives them a strong positive incentive to keep on investing in the asset, maintaining it, and marketing it. They do not have this kind of incentive if their income is a fixed fee and their costs largely maintenance – and indeed their only way of increasing profit is to cut the costs of maintenance or the provision of other services such as cleaning or food in a hospital. This is not likely to lead to quality levels of provision in the long run.

Allyson Pollock would be far more convincing if she did not argue from such rigid positions. An uninformed reader might conclude from her book that everything in the old NHS was perfect, or nearly so, and any involvement of private capital a disaster. Yet the arrogance, inflexibility and often selfishness of many of the consultants who controlled the old hospitals is well documented. So is the variety in the competence of general practitioners. She seems to argue against care in the community as a concept (as distinct from the funding of it, which is evidently insufficient in many cases), when few would wish to return to the neglect of patients in the huge old mental hospitals, the stigma often attached to 'geriatric hospitals', and the almost-forced removal of many elderly people into local authority care homes when their own homes were demolished in post-war slum clearances. The new Primary Care Trusts are in a position to identify and improve the practices of inadequate general practitioners, and it makes sense to provide a wide range of services from larger practices or groups of practices. They also provide a means of putting pressure on acute hospitals (though there was no need to abolish the former Community Health Councils which could do so more independently). Nor is it true that the

profession of public health is dead or being killed off. The book also suffers from repetition, perhaps because different authors wrote drafts of key chapters, which helps to make it an unrelentingly depressing read. This is sad: for behind the polemic and despair there is a story to be told. It is a tale of a deliberate political drive to introduce private capital, and to find new ways of organising the provision of health in the UK – and how this was done by concealing failures such as those of the early PFI hospitals, and marginalising any opposition.

So – paradoxically – I have to commend both these books. Grimsey and Lewis have written the most coherent presentation of the PFI to date, and their book will be useful to those who need to defend it against its many critics. But those critics will also find plenty to get their teeth into, when the arguments are so unashamedly one-sided. Allyson Pollock's book is a landmark because it shows how so many of the changes to the NHS are being driven by private capital. It is a warning of dangers ahead, ultimately of importing the excesses, waste and appalling inequality of health care in the USA into Britain. The two books together demonstrate how the PFI is at the cusp of an ideological battleground – partly matters of economics, but much more about a belief or disbelief in the virtues of the private sector