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PFI — THE HOLY GRAIL?

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ABSTRACT

This paper examines the development of the Private Finance Initiative (PFI) over the last seven years in relation to the UK Government's ideological and policy objectives. It reviews the use of value for money (VFM) as one of the main criteria for approval of PFI projects, highlighting the gradual removal of the definitive yardstick of a public sector comparator which allows the wider possibility of subjective and judgmental criteria in the determination of VFM and approval of PFI projects. A consideration of the recent conflict between HM Treasury and the Accounting Standards Board (ASB) is also discussed. This relates to the interpretation of FRS 5 with regard to its implementation to UK central Government Departments' final accounts and the subsequent effect of this on the UK Public Sector Borrowing Requirement (PSBR). This suggests that the need to manage the control total is the main driver of Government policy towards the PFI rather than the stated aims of VFM and transfer of risk.

INTRODUCTION

The Private Finance Initiative (PFI) emerged in the UK in 1992 from a combination of ideology and political expediency. In ideological terms, it was a means of extending a degree of privatisation and competition into those parts of the public sector that, for a variety of reasons, did not lend themselves to wholesale privatisation. At the same time there was a political desire to find ways of financing capital projects and securing value for money (VFM) without exceeding the UK Government's control total. The UK Government was also attempting to use PFI to reduce its Public Sector Borrowing Requirement (PSBR) to facilitate compliance with the conditions of fiscal policy of the Maastricht Treaty for entry into the European Monetary Union (EMU). This required that the general Government deficit should be no greater than three per cent of Gross Domestic Product (GDP) and that total gross Government debt should not exceed 60 per cent of GDP. Put simply, PFI projects were required to demonstrate efficiency savings without increasing Government capital expenditure to unacceptable levels. This raises the question, which is the more important objective: achieving VFM or remaining within the Maastricht criteria?

This paper examines the background to the introduction of PFI, its aims and objectives and main requirements. It highlights the VFM aspect, which is of crucial importance to the PFI process (Collins, 1997) because both the Government and the public need to be convinced that effort is indeed rewarded by efficiency gains (Gray, 1997). It utilises two health sector case studies to examine the methods used to validate VFM. It is followed by a review of the HM Treasury debate with the Accounting Standards Board (ASB) over FRS 5 *Reporting the Substance of Transactions* (ASB, 1994). This suggests that VFM may not be the UK Government's main priority with regard to PFI. Finally, the article concludes that a more robust and impartial method is needed to evaluate VFM in PFI projects.

BACKGROUND

The Chancellor of the Exchequer, the Right Honourable Norman Lamont, first mentioned PFI in the Autumn Statement for 1992. It was packaged as a new initiative to attract more funding from the private sector into public sector projects and for better management of risk for capital projects. However, it can be argued that the use of private finance in the public sector had already taken place with the introduction of the 'Ryrie Rules' with regard to access to private finance for nationalised industries (HM Treasury, 1996). Sir William Ryrie (then second permanent secretary at the Treasury) established the 'Ryrie Rules' in 1981. Two rules were established:

> . . . any links with the private sector, Government guarantees or commitments, or monopoly power, should not result in schemes offering investors a degree of security significantly greater than that available on the private sector projects.
> . . . Such projects should yield benefits in terms of improved efficiency and profit commensurate with the cost of raising risk capital from the financial markets (HM Treasury 1996, p. 162).

It was argued that the 'Ryrie Rules' by their very nature were a major stumbling block to privately financed projects because they:

> . . . were designed to restrict the creation of publicly-owned assets from any source other than the Treasury. If the resources provided by the public sector were used by a public service they would count towards the Public Sector Borrowing Requirement (PSBR). The Government also insisted that 'unconventional' finance should demonstrate better value for money (VFM) than conventional funding (McCarthy, 1995, p. 3).

The result of this was that only a small number of major private finance projects were undertaken in the 1980s. However, since PFI was first announced in 1992 there has been a steady loosening of the restrictive provisions of the 'Ryrie Rules'. A new policy statement regarding PFI emerged in 1994 in a speech to the CBI annual conference by the Right Honourable Kenneth Clark, then Chancellor of the Exchequer, where he stated:

> We need to take the private finance message to the heart of all decision making in Government . . . so I am announcing today that, in future, the Treasury will not approve any capital projects unless private finance options have been explored (HM Treasury, 1994, p. 7).

To promote this policy and to encourage as wide as possible a participation in and understanding of PFI, in both the public and private sector, the Private Finance Panel (PFP) was set up as a limited company with a limited life span. The main tasks of the PFP were summarised as follows:

- To encourage greater participation in the initiative, both by public sector purchasers and private sector entrepreneurs
- To stimulate new ideas
- To identify new areas of 'public sector' activity where the private sector can get involved
- To seek solutions to any problems which may impede progress (McCarthy 1995, p. 6).

As it had signalled before the election, the new Labour Government of 1997 abolished the PFP and set up the Bates Review to examine the whole PFI process. One of the main outcomes of this was the setting up of a Treasury task force to disseminate best practice and streamline the PFI process. Separate units in Scotland and Wales have been set up to promote PFI.

Aims/objectives of PFI

The four main aims of PFI appear to be:

- Accelerating investment in the infrastructure through providing access to private capital
- Improving the way in which the facilities are designed and procured
- Enabling a better balance between capital and current spending
- To constrain public expenditure in favour of private sector expenditure.

The last aim is perhaps less obvious than the other three and is not stated in Government PFI publications. The UK Government capital expenditure counts as public expenditure in full in the year in which that expenditure is incurred. Therefore, if UK Government Departments arrange for PFI projects to be carried out, only the annual cost of the PFI project incurred by the Government will count as UK Government expenditure, and even then only when the project is fully constructed. The full capital cost of the project will remain with the private sector company (Broadbent and Laughlin, 1998). As was stated in a memorandum to the Treasury Select Committee:

> The fiscal rectitude obligations entered into under the Maastricht Treaty render comparability of fiscal data more important and also create powerful incentives to structure

> transactions in ways which evade those constraints (Heald, 1996, p. 160).

This last aim (i.e. the constraining of public expenditure in favour of private sector expenditure) has increased in prominence as the Government's view on the role of PFI has moved away from the additionality concept, of supplementing capital spending (HM Treasury, 1994, p.5), to the substitutionality concept of PFI. As the Treasury Select Committee 6th Report states:

> In our view, the Private Finance Initiative is now being treated by the Government as substitutional (HM Treasury, 1996, p. vi)

This point is further reinforced in **Table 1**, where the extent to which the Government expects PFI to replace public sector capital expenditure is shown; rising from two per cent of total publicly sponsored capital expenditure in 1995/96 to a projected 16.8 per cent in 1998/99.

Table 1: Public Sector Capital Expenditure (£ Billion)

	Actual	**Actual**	**Estimated Actual**	**Forecast**
	1995-96	**1996-97**	**1997-98**	**1998-99**
Total public sector capital expenditure	20.0	17.3	17.0	17.9
Estimated capital expenditure under the PFI	0.4	1.1	1.5	3.0
Total publicly sponsored capital expenditure	20.4	18.4	18.5	20.9
PFI as a % of total	2%	6.4%	8.8%	16.8%

Source: HM Treasury (1998). *Financial Statement and Budget Report*, pp. 4-5.

Requirements of PFI

There are two main requirements which have to be met before any PFI project will be allowed to proceed (PFP, 1995, p. 12): VFM must be demonstrated for any expenditure by the public sector, and the private sector must genuinely assume risk. It is still not clear as to what the Treasury means by VFM or transfer of risk, and this problem was not helped by the then PFP (1995) when it was argued that the (p. 12) 'significance of these two criteria differs depending on the type of privately financed project.'

Continued Government Dependence on PFI

Subsequent to 1997, the Labour Government continued the reliance placed by the previous Conservative Government on PFI to preserve capital expenditure whilst holding down spending and reducing public borrowing. At the same time they introduced prioritisation of projects as some commentators had recommended (Stewart and Butler, 1996). Figures in the *Red Book,* the Treasury's Budget Report, reveal the extent of the dependence on the PFI. Between 1997/98 and 2000/01 the Government predicts around £12 billion of private sector investment will occur in the public sector as a result of PFI projects. This will represent around 20 per cent of total publicly sponsored capital. The largest amount, £4.8 billion, will be invested in projects sponsored by the Department of the Environment (DoE), now the Department of the Environment, Transport and the Regions (DETR). Local authorities will receive £760 million over the four-year period. This represents a reduction from the £950 million included in the 1996 budget. Health will receive a total four-year investment of £1.75 billion. The DoE figure also includes some £3.6 billion for the Channel Tunnel Rail Link, although there is some doubt as to whether this will be expended. The overall total may therefore prove to be less than £12 billion.

VALUE FOR MONEY AND ASSESSING PFI PROJECTS

The PFP identified three VFM decisions that had to be taken:

> . . . whether to proceed with the project at all (i.e. to compare its likely costs and benefits with alternative options, including doing nothing)

> . . . whether to proceed using PFI or a traditional procurement route
> . . . what supplier to select to provide the asset/service (PFP, 1995, p. 17).

It is the second of these VFM decisions that requires further investigation and clarification. As the PFP argued:

> The starting point is a clear presumption that the PFI approach will generally be better than traditional procurement; the better management inherent in a PFI project will give better value for money (PFP, 1995, p. 18).

Only as more PFI projects come on stream can the validity of this statement be assessed.

The Treasury Select Committee (HM Treasury, 1996, p. vi) concluded that there 'is a potential for value for money gains to be made through PFI, although we think that the sources of these gains are not clear.' This is a surprising admission by the committee members given that VFM is an essential element of the PFI process. As stated earlier, the two fundamental requirements for a project to go forward are that VFM must be demonstrated and that the private sector must genuinely assume a significant proportion of the risk.

Defining risk and testing for VFM are crucial elements of assessing the viability of PFI projects. Many projects, which fail this screening process, have no hope of being funded due to the severe constraints on traditional methods of financing capital expenditure (Scottish Trades Union Congress (STUC), 1996, p.6). The measurement and appraisal of risk is itself proving a problematical area where in many cases more questions are raised than answers and conclusions developed. However, whereas the concept of risk has a pedigree in economics and actuarial science, VFM in public sector accounting is a fairly recent development of the past twenty years and has a somewhat more tenuous pedigree. For example, some authors have focused on the institutional relationships that shape the nature of the work done (Pollitt and Summa, 1997) while others have examined methodologies and methods used (Roberts and Pollitt, 1994). The Treasury Select Committee, while claiming that (HM Treasury 1996, p.xiii) 'the testing of VFM can be approached as a systematic and impartial science' also admitted that the 'evidence has shown that a series of subjective judgements will impinge upon the testing process.' In the light of this lack of clear agreement on methodology, how commissioners of PFI projects approach the testing of VFM is discussed below.

Testing Value for Money

The whole process of defining VFM and assessing whether it is achieved is poorly defined, as indicated above, and is also open to subjective interpretation (Glynn and Jenkins, 1996). In the absence of any prescribed or generally accepted methodology, two commonly used methods by which VFM is tested are the public sector comparator and evaluation matrices.

A public sector comparator involves the setting up of a hypothetical model of the project as if it were to be designed, built and managed in the public sector, and comparing its cost with the PFI alternative. Although the process is basically sound, there are a number of potential difficulties. It may allow subjective judgments to be exercised in favour of the PFI project. As noted above, this was a danger highlighted by the Treasury Select Committee. The public sector comparator may be costed on the basis of traditional technology and construction methods, possibly allowing private sector bids to be lower due to the use of innovative techniques. Lastly, the hypothetical comparator may not be feasible and its cost therefore impractical. Private sector bids may fail to be lower than the comparator and the project consequently deemed non-viable. Mainstream finance is unlikely and, as a result, potentially good projects can be lost.

Evaluation matrices are used to compare different bids in a context where the assessment criteria involve both qualitative and quantitative elements. The process involves: a multi-disciplinary team being established to define the desirable project features; weightings being attached to these features to reflect their relative importance; and, each project being scored against how well it fits the feature. This technique can be largely subjective and focus on the input of only a few people (as will be demonstrated in the Ferryfield House and Stonehaven Community Hospital case studies that are presented later in this paper). Also, some of the elements can be highly sensitive with marginal variations in the weightings or scores producing different results.

RESEARCH METHOD

To date, the largest number of PFI project approvals has been within the health sector. However, only a small number have actually reached the contract agreement stage, and, of these, the emphasis has been on smaller-cost PFI contracts. It is the intention of this paper to examine two of these smaller PFI contracts which have passed through the approval, contract negotiation and construction phases to reach successfully the operational stage. The two PFI projects that are examined are Ferryfield House and Stonehaven Community Hospital.

The two projects were chosen because they were in the health sector and were of similar value. The full business cases in support of these projects have satisfied the review and scrutiny of both the NHS Management Executive and the Treasury. It was decided that the best method to review these two PFI projects would be by the use of case studies as similarities and differences could be more easily established. However, it is recognised that the results obtained can only apply to the two projects chosen and cannot be applied in general to all NHS PFI projects or to all PFI projects. Despite these limitations, it is hoped that some useful empirical data will emerge which will have a reasonable degree of universal application, particularly when augmented by the results of further research in this area. The detailed information for the case studies was obtained from questionnaires, internal reports and structured interviews with members of the PFI project teams and officials in the commissioning Health Boards.

FERRYFIELD HOUSE

This is a long stay facility with 60 beds to accommodate frail elderly patients and dementia sufferers which opened in north Edinburgh in October 1996. It has the distinction of being the first design, build, fund and operate contract to be issued by an NHS Trust for a healthcare building in Scotland. The contract for the provision of Ferryfield House to Edinburgh Healthcare NHS Trust (the Trust) was signed in February 1996 with Ferryfield Limited, a Special Purpose Company (SPC) formed for this sole purpose (a consortium comprising James Walker Ltd., Gardner Merchant and the Royal Bank of Scotland) some eight months after the project was awarded to the Trust by Lothian Health Board (the Board).

The Board is responsible for the strategic overview of healthcare needs in its area and for commissioning appropriate healthcare provision from Trusts. The Trust is a provider of healthcare under an annual contract with the Board. Ferryfield Limited was responsible for the provision of the building and all non-clinical services. The contract is for a 20-year period with a break point, at the Trust's discretion, after 10 years. This 10-year period was the maximum contract period the Health Board would envisage and the minimum the SPC would accept.

Public Sector Comparator

The initial contract between the Board and the Trust was very detailed and the project was already explicitly defined. The key components of the public sector comparator were taken from the original bid by the Trust to the Board and the prices obtained from the contractor for the construction of the Trust's original design of the building. However, bidders were encouraged to include or substitute their own designs and innovations and to specify their own plans as to the level and delivery of the facilities management services. This allowed for a detailed price comparison with the original proposals and also ensured that cost reductions and quality improvements from innovative design and management could be obtained.

Evaluation of Qualitative Factors

The qualitative benefits of each bid were assessed using an evaluation matrix, which incorporated the criteria and weightings (totalling 100 per cent) shown in **Table 2**. These criteria and weightings were determined by the project team after discussion with the Trust's advisors. The project team and the advisors engaged in further discussions before allocating scores to each of the criteria. The entire process was in accordance with the NHS *Scottish Capital Investment Manual* and relevant Treasury guidance.

Table 2: Evaluation Criteria for Ferryfield House

Criterion	Weighting
Design, specification and construction	25%
Facilities management	30%
Ability to deliver	20%
Financial structure	15%
Proposals for end of contract	10%

No direct attempt was made to weigh price against benefits, although this was also a criterion and evaluated on a subjective, judgmental basis. On the basis of this appraisal, the SPC became the preferred bidder and detailed negotiations were entered into with this company to deliver the project. The project was summed up in the following fashion by John Matheson, Director of Finance of the Trust, "What will emerge is the same quality of nursing input in a much enhanced physical environment . . . partly due to close liaison between senior clinicians and the contractor" (interview 1997).

STONEHAVEN COMMUNITY HOSPITAL

This is a project to provide a new hospital in the Stonehaven area. It includes 18 long-stay beds; 12 psycho-geriatric beds; 19 GP acute beds; and new outpatient clinics run by consultants and local GPs (such as ophthalmology, gynaecology, ante-natal, dermatology, urology, diabetic and audiology). There are also X-ray and ultrasound facilities, with the potential to add on other services in the future. Integrated in the complex will be a 16-bed private nursing home unit provided, staffed and run by a company, CHS Healthcare. Acute services are provided by health service staff for all NHS patients, though CHS run the private nursing home as well as providing the facilities management services for the NHS wing.

A novel aspect of this project is that the bid which was successful in the competitive tendering process came from a public/private partnership. The winning consortium was led by Grampian Healthcare NHS Trust and included Miller Construction (who will design and build the new hospital), CHS Healthcare (providers of facilities management) and the

British Linen Bank (a subsidiary of the Bank of Scotland) who will finance the project. The consortium was selected as the preferred bidder in July 1996 and on 31 January 1997 the contract was signed between Grampian Health Board, as purchaser of health care services on behalf of the local population of the Kincardine area, and the consortium which would provide the services.

Public Sector Comparator

There appears to have been no public sector comparator produced for this project. This makes it difficult to ascertain just how operationally efficient the winning bid was. However, senior managers suggested that the operational efficiency savings would arise due to the combination of a public/private operation on the site (for example, through economies of scale and increased quality and range of services available). It was argued that these savings would not have been attainable by a purely public sector option.

Evaluation of Qualitative Factors

Grampian Health Board evaluated the three bids received for this project in line with its stated objectives to procure high-quality, cost-efficient health services for the people of Kincardine. A small multi-disciplinary team identified a set of criteria with which to evaluate and compare the submissions received. In defining the evaluation criteria, the Board sought to ensure that they addressed the key areas against which the tenders had to be considered and took into account the perspectives of the many stakeholders involved in this project.

The evaluation criteria developed by the Board fell into four main areas, as detailed in **Table 3**. The criteria, weightings and scoring against the composite elements were a matter of the subjective judgment of the relatively few managers involved. Also, some of the elements, for example, economic implications, were very difficult to define and almost impossible to quantify with any degree of precision (McKendrick and McCabe, 1997).

Table 3: Evaluation Criteria for Stonehaven Community Hospital

Criterion	Weighting
Service provision	35%
Quality of service	30%
Organisational and management structure	20%
Financial and economic structure	15%

EVALUATION OF CASE STUDIES

The case studies confirm the conclusion of Heald and Geaughan (1997) that the removal of the need to test PFI projects against a public sector comparator renders the establishment of efficiency savings more difficult. In the absence of any accepted standard measure, there has been an increased reliance on evaluation matrices. This raises several questions because of their subjective nature (as highlighted in the case studies). A comparison of the weightings and scoring exercises employed in the two case studies reveals a wide divergence. The evaluation criteria selected are very dissimilar (see **Table 4**) and this invites the conclusion that another group of stakeholders might have selected different criteria, weightings and scores. If this is indeed the case, then the impact on the resultant evaluation could be substantial.

What these two case studies illustrate clearly is the potential for deciding, on a subjective basis, different criteria, weightings and scores to evaluate similar projects and the potential for a variety of significantly different outcomes. They also raise a number of other interesting aspects. For example, the process of the establishment of VFM is suspect when different weightings and criteria are used in the evaluation of similar projects. Also, the review of the business cases and attempts by the auditor to validate the achievement of VFM will be rendered more difficult by the lack of a standard format, even when the projects themselves are similar.

Table 4: Comparison of Ferryfield and Stonehaven Evaluation Criteria

Criterion	Ferryfield Weightings	Stonehaven Weightings
Design, specification and construction	25%	
Facilities management	30%	
Ability to deliver	20%	
Financial structure	15%	15%
Proposals for end of contract	10%	
Service provision		35%
Quality of service		30%
Organisational and management structures		20%

IMPARTIAL EVALUATION OF PFI PROJECTS

As already noted in the Stonehaven example, the removal of the need for a public sector comparator has taken away the important element of universal testing of PFI projects, as well as rendering the establishment of VFM much more difficult. The Public Accounts Committee (PAC) also highlighted this problem when it considered the National Audit Office (NAO) Report on the Skye Bridge project (PAC, 1997). Previously, it was thought that the increased costs of private sector borrowing and the profit element would be offset by the efficiencies generated by private sector work practices. This would result in a neutral effect on the cost of the project, or even a reduction in cost. Combined with higher quality and innovation of provision, this would make the project worthwhile overall (Gray, 1997).

Independent reviews of PFI projects have been carried out by the NAO with interesting observations on VFM. The scope for over reliance on judgmental and subjective criteria is demonstrated by the following three examples:

- A Report on the First Four Design, Build, Finance and Operate Roads Contracts (NAO, 1998) found that benefits were overstated by £68 million and the potential for innovation was restricted by technical requirements
- The Skye Bridge Report (NAO, 1997a) recommended, on the basis of identified weaknesses in the Skye Bridge project, that advisers for PFI projects should be appointed by competition, a comprehensive risk analysis should be carried out for each PFI project, and the commissioners should obtain competition among bidders rather than rely on negotiation with the preferred bidder
- A Report on Bridgend and Fazakerley Prisons (NAO, 1997b) recommended that the department should have considered a facility in long-term contracts for prices to be compared with other providers and reviewed, and that it should have appointed advisers after competition.

There would appear to be a strong case for the rules for formal appraisal to be standardised and universally applied. Also, there is a need for an impartial evaluation to be carried out on all PFI projects, and this is increased when the requirement to test the project against a public sector comparator is removed. Another consideration is that PFI projects, due to the high tendering costs involved, often move quickly to a preferred bidder and consequently the full competitive tendering stage is often significantly truncated. This danger is raised in the NAO Report on the Skye Bridge (NAO, 1997a).

VFM AND FRS 5

As stated earlier, the two main requirements of PFI are VFM and transfer of risk. It would seem reasonable to assume that if these two requirements were being achieved then the Government would be satisfied. However, this appears not to be the case as the Government's policy also requires that PFI projects should not count against the control total and that any liabilities associated with them should remain in the private sector. It is this policy which has brought the Treasury into conflict with the ASB over the interpretation of FRS 5 *Reporting the Substance of Transactions* (ASB, 1994).

The ASB's guidance can be interpreted as pushing PFI projects back into the public domain. The ASB's 1997 exposure draft relating FRS 5 to PFI (ASB, 1997) proposes a double-stage test for determining ownership of PFI assets. First, remove the service elements of the contract. Then, assess whether or not SSAP 21 *Accounting for Leases and Hire Purchase Contracts* (Accounting Standards Committee, 1984) applies. If SSAP 21 does not apply, allocate the asset to the party bearing the risk of profit variations relating to the asset and any non-separable services.

This approach is at variance with the Treasury whose interim guidance, issued in September 1997, proposed that in most cases PFI contracts should be viewed as an inseparable entity and not separated into constituent elements. This was the commonly held opinion within the public sector. Heald and Geaughan (1997) argued that the Treasury has maintained its insistence that a sufficient amount of risk must be left with each PFI consortium and that by so doing the PFI project cannot be broken down into its service and capital financing elements. At present, the total value of assets provided under PFI contracts is around £7.5 billion. If the ASB guidance is accepted, then a significant proportion of these assets would be returned to the public sector balance sheet and their liabilities would count against the PSBR. The ASB chairman, David Tweedie, accepted that this may undermine PFI, but is adamant that transactions giving rise to liabilities for the Government must be disclosed as such and Parliament advised of future payment commitments. He was also concerned that there is too much confusion over the accounting treatment of PFI which makes it difficult to decide who is taking the risks. Furthermore, he argued that too much off-balance-sheet finance stores up problems for the future (Accountancy, 1998a).

There is a great deal of support for the Treasury position from practitioners in the field, although many of them admit to a vested interest as consultants and advisers. The consensus view appears to be that PFI has been a commercial success and is a major part of the Government's fiscal strategy, and as such it will not be sacrificed to a puritanical application of accounting rules (*Financial Times*, 3rd May 1998). The debate is further flavoured by the fact that, at present, central Government accounting follows Treasury directions and not ASB pronouncements. Other responses to the exposure draft (ASB, 1997) by CIPFA and the Confederation of British Industry indicate that there is sufficient common ground for a compromise solution to be reached, and suggest an all-out breach with the Treasury could be avoided when the ASB makes its final decision.

This debate over the interpretation of FRS 5 raises some doubt as to the main objective of PFI. Is it about VFM and the transfer of risk, or is it about keeping assets off the public sector balance sheet? The one thing that is clear in the current debate is that PFI's future depends on the outcome of this dispute.

CONCLUSIONS

During the first six years of the existence of PFI there has been a steady relaxation in the insistence by the Treasury on the need for a public sector comparator, which has systematically removed a clear measure of VFM. Such were the conclusions of Heald and Geaughan (1997). This is confirmed by the Stonehaven case study. In the absence of any definitive method of measurement, the demonstration of efficiency gains has had to rely on judgmental and subjective criteria. For example, the increasing reliance on evaluation matrices provides some evidence of this. A comparison of the matrices employed in the Ferryfield and Stonehaven case studies illustrates the potential for subjective intrusions into the evaluation process. The criteria selected can be different; the weightings used can differ; and the scores awarded can vary. In combination, these can produce very different results.

This possibility substantiates the view expressed by the Treasury Select Committee that subjective judgment would impinge on the VFM testing process. The result is a large number of substantial and long-term projects entered into on the contention that the efficiency savings which flow from private ownership will exceed the higher costs of finance which the private sector must endure, and the consequent commitment of significant revenue streams for 20 to 30 years. This also permits a narrow view to be taken of VFM as being related only to an individual project. It also ignores the wider economic and sectoral dimension, with a possible consequent diversion of resource allocation away from prime need. However, the present Government's introduction of prioritisation of PFI projects will help obviate this danger.

None the less, coupled with prioritisation of projects is the need for a much more widespread process of impartial evaluation along the lines of the audit of Best Value, and, in particular, a clear methodology for the measurement of VFM. The NAO reviews of PFI projects establish this with findings of: overstatement of benefits; lack of sufficient competition in the selection of advisers; and, failure to exploit fully the benefits of competitive tendering. There is a conflict in Government policy as to whether the prime objective is efficient use of public resources or the need for projects not to score against public expenditure. If VFM and its associated transfer of risk are the main drivers, then projects should be judged on these criteria. If not, would it be more honest to admit that preserving the control total is the prime objective? Some indication of Governmental priorities lies in the fact that progressive relaxation of the criteria for establishing VFM has been allowed. The Government is committed to a major confrontation with the ASB on the off-balance-sheet issue, the outcome of which may well determine the viability of the PFI process regardless of its ability to deliver efficiency savings (*Accountancy*, 1998b).

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