

PPP in the UK: an update

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Definitions:

Public Private Partnerships (PPP):

are a range of business structures and partnership arrangements between the public and private sector. PPPs can cover all types of collaboration across the interface between the public and private sectors to deliver policies, services and infrastructure, including joint ventures and concessions, outsourcing and the sale of equity stakes in state-owned businesses.

Private Finance Initiatives (PFI):

is the most common form of PPP in the UK and was introduced in 1992. PFI is a procurement method where the private sector finances, builds and operates infrastructure and provides long term services and facilities management through long term contractual arrangements (sometimes referred to as concession agreements).

History of PPPs within the UK

- The Conservative governments in the 1980s to 1990s embarked on an extensive privatisation programme of publicly owned utilities such as; telecoms, gas, electricity, water and waste, airports and railways.
- The UK was the first country in the world to develop the concept of public private partnerships (PPPs) for public services projects in the early 1990s.
- PFI can be characterised as having been a continuation of privatisation programme pursued by the UK government under Prime Minister Margaret Thatcher.
- PFI projects accelerated with the election of Tony Blair's New Labour government in 1997 (with at least 45 projects a year between 1999 and 2007).

Skye Bridge, Scotland

The Skye Bridge was Scotland's first major capital project to be funded using PFI.



The bridge started construction in 1992, and officially opened in October 1995. Following an intensive campaign against the scheme, in 2004, the Scottish Executive announced the abolition of tolls on the bridge

▶ PPPs in UK

- There is no specific PPP law in the UK and for most part are promoted under the general legislative and common law powers of government and public bodies.
- PPPs have influenced almost every aspect of public infrastructure in England and Wales, for example:
 - roads, schools, universities, student accommodation, prisons, defence, healthcare and hospitals, waste to energy and waste management, public security and border control, waste water transportation, certain natural resources developments and street lighting, energy transmissions and other energy projects, including solar.
- Between 1997 and the end of 2010 in England, 102 health sector PPP contracts (or PFI) were signed compared with just 35 publicly funded health capital investment projects.



PPPs in UK

- In 2012, the government launched PF2, a revised PFI model.
- PF2 closely resembles the PFI model, but involves a number of changes designed to increase transparency, promote efficiency, ensure value for money and encourage finance from alternative sources of institutional capital e.g. infrastructure and pension funds.
- In the UK, there are currently more than 700 PFI/PF2 projects in operation with a total capital value of £57 billion.

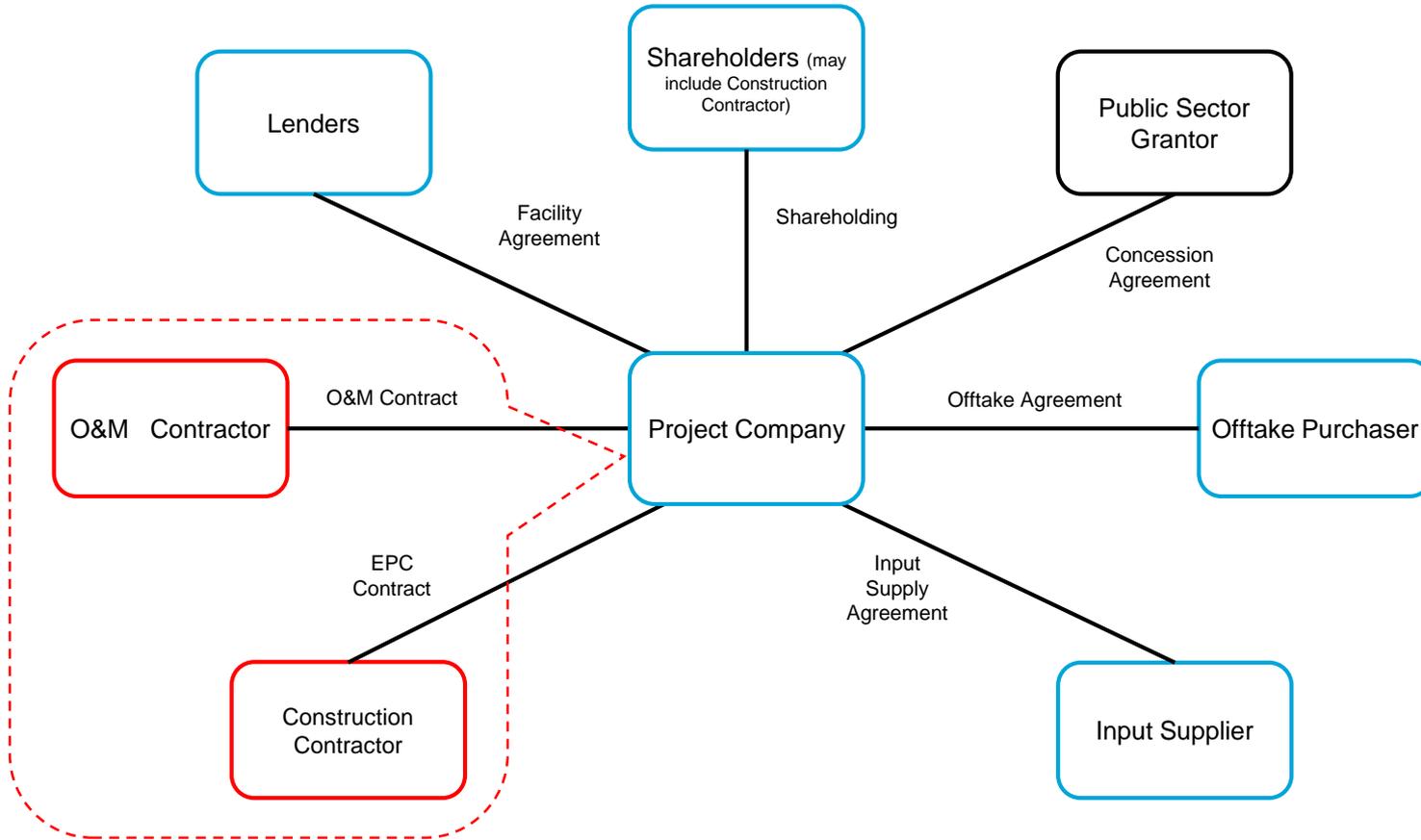


PPP projects

- In 1998 the UK Government proposed to modernise the London Underground using a PPP, and in 2002 and 2003 London Underground Limited signed three 30-year agreements with the Tube Lines and Metronet consortiums for the maintenance and renewal of the lines.
- The UK Infrastructure Bank launched in 2021, offers private and public sector financing, and has made or committed to making several investments such as South Bank Quay development, high capacity broadband to hard-to-reach UK localities, and subsidy-free solar power in Britain.

Political controversies and the Carillion insolvency events

- ❑ Over the years PFI/PF2 have been affected by changing political sentiments, and in the 2018 Budget, the then Conservatives Chancellor of the Exchequer announced that PFI/PF2 would no longer be used to deliver new infrastructure.
- ❑ The insolvency of facilities management and construction firm Carillion plc in January 2018 hardened public sentiment against PFI.
- ❑ The National Audit Office estimated that when Carillion collapsed it had 420 contracts with the public sector, including Ministry of Defence, Ministry of Justice, Network Rail, HS2 Ltd and various hospitals.
- ❑ The failure of Carillion led to considerable scrutiny of the way that public services were being contracted out to private sector businesses.
- ❑ The political perception from opposition critics was that the private sector was generating excessive profits without taking equivalent risk.



Standardisation of PFI Contracts

- ❑ The use of standardized contract documents helped to attenuate some of the risks presented by the complexity of PPP contracts.
- ❑ The Standardisation of PFI Contract (SoPC), developed by Partnerships UK plc and HM Treasury in 1999, provided standardized guidelines for PFIs, has been updated four times through 2007 (the last versions SoPC4 was succeeded by PF2 guidance).
- ❑ When drafting PFI contracts, English and Wales public authorities, including local governments, must use standardized guidance.
- ❑ In regards to the procurement of works, authorities at all levels also have had to abide by EU procurement law, which can be found in the Public Contracts Directive (2014/24/EU), the Utilities Contracts Directive (2014/25/EU) and the Concessions Directive (2014/23/EU).
- ❑ HS2 – *Bechtel Limited v High Speed Two (HS2) Limited* (2021) highlights the procurement challenges on PPP projects.
- ❑ Post-Brexit these Regulations have continued to apply; subject to modifications e.g. removal of the requirement to advertise in the EU Official Journal, in favour of a new UK e-notification service.

Conclusions

- PFI has played an integral role in delivering a great deal of social infrastructure locally and nationally in England.
- A large majority of the new infrastructure may not have occurred without private finance, and some have suggested that PFI projects tend to outperform traditional procurement in terms of cost and time.
- [PFI/PPP contracts build-up and roll-off for the next 30 years - YouTube](#)
- Existing PFI/PPP projects will continue until early 2050s, with more than £200 billion of payments to be made from the public sector to the private sector for the assets and services provided.
- While the traditional PFI/PF2 model is currently out of favour in the UK, the government is exploring new revenue support models, as well as extending the use of other existing models.
- Although it is not yet known what model will take the place of PFI/PF2, the private sector will continue to play an important role in the financing of new and existing public infrastructure in the UK.