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A changing market for PFI financing: Evidence from the financiers

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ABSTRACT

Responses to a questionnaire survey received from PFI financiers, and interviews with senior managers, show that as the credit crunch took hold banks became more risk averse. The prediction of Toms et al. that collusion between the state and the private sector might cease in the face of austerity does not appear to have occurred. Rather the state has intervened to benefit the private sector. We argue that two successive UK Governments intervened in the market to protect the role of private finance in PFIs but whether such interventions represent value for taxpayers' money is a question for future research.

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1. Introduction

For many years, the UK has been a leading proponent of policy initiatives that encourage the use of private finance and the involvement of private companies in the delivery of public infrastructure and some related services. Internationally similar policies have been developed in many countries, although the precise nature of the public–private partnership (PPP) or private finance initiative (PFI) arrangements, by which the policy is generally delivered, does vary across countries.

Before the credit crunch the global PPP/PFI market was growing substantially. In Europe the value of PPP transactions that reached financial close was approximately €29.6 billion in 2008, with 136 projects signed (Burke & Demirag, 2015; Kappeler & Nemoz, 2010: 7). This growth was supported by what Tom's et al., drawing on Miliband (1969), describes as collusion between "loose alliances of monopoly capitalists and monopoly regulators" (Toms, Beck, & Asenova, 2011: 671). An entire public services industry grew up, which lobbied intensively and spent significant sums to create a sympathetic environment amongst politicians of all parties for more private involvement in public services (Gosling, 2008). But the credit crunch and the recession that followed led Toms et al. (2011) to ask whether political and fiscal momentum might be mobilised to stop that pattern of collusion.

During the credit crunch the value and number of PPP transactions that reached financial close declined substantially (refer to Fig. 1). A recent report by the European PPP Expertise Centre (EPEC, 2013) confirmed that in 2012 the volume of PPP activity was at its lowest level for 10 years. The value of deals that reached financial close was just €11.7 billion, with the

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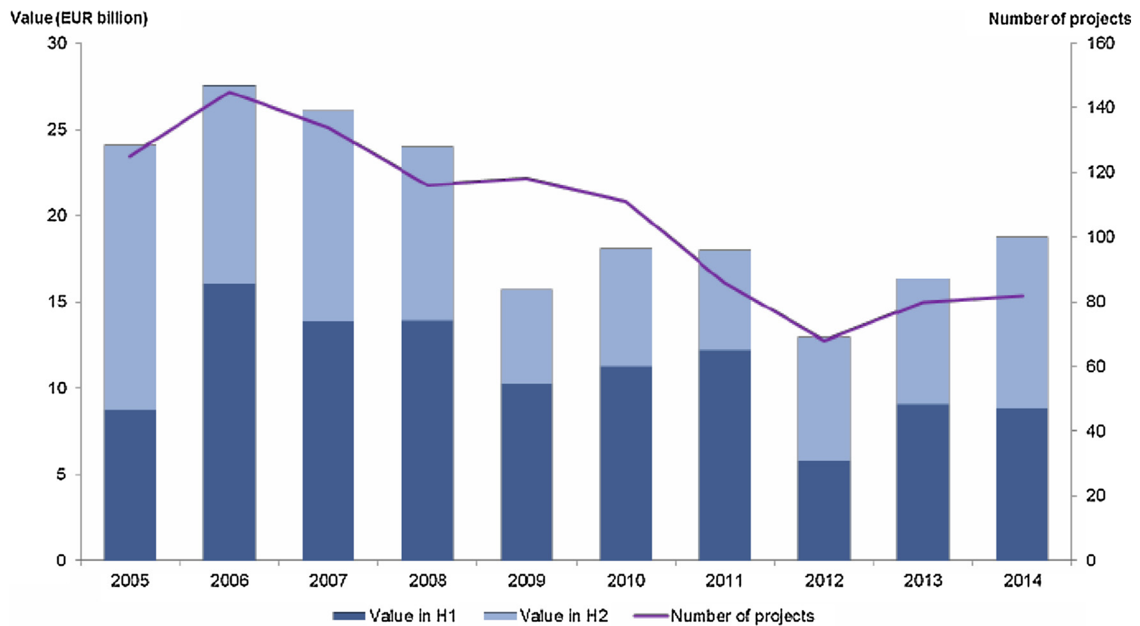

Fig. 1. European PPP/PFI market 2005–2014 by value and number of projects.
Source: EPEC (2014, p. 1) http://www.eib.org/epec/epec_market_update_2014_en.pdf

transport sector accounting for the majority of such investment (EPEC, 2013). Post 2012, the European PPP market started to recover. In 2014, the aggregate value of PPP transactions which reached financial close in the European market grew to €18.7 billion, a 15% increase over 2013 (€16.3 billion), with 82 PPP transactions reaching financial close (80 deals closed in 2013) (EPEC, 2014).

In practice, the economic environment reduced the global market for PPP finance especially senior debt and bond finance. The start of the financial crisis immediately created uncertainties in the PPP industry, to which governments responded. In the UK, governments made frequent interventions into the PFI financing market to improve investor confidence (Broadbent, Gill, & Laughlin, 2008). Due to the shortages of private finance, paradoxically, the Government was compelled to release public money to support PFI projects (House of Commons, 2009). For example, the Infrastructure Finance Unit (IFU) provided £120 million to complete a £582 million waste project. This intervention was deemed to be successful as the NAO (2010) argued that HM Treasury's willingness to lend, improved market confidence to the extent that in the following 12-month period 35 new deals were signed without further loans from the IFU. However, this optimism has not lasted and the government still perceives that there is a shortage of capacity in the market, leading to various initiatives including changes in its policies on risk transfer (HM Treasury, 2012). All of this is aimed at making the various forms of PPP/PFI more attractive to private investors.

Hence this paper's objectives are to briefly outline first, the nature and development of the private finance market in the UK. Second, it outlines the challenges in this market place that threatened the sustainability of PFI and which led to interventions from two governments (Labour until May 2010 and subsequently the Conservative and Liberal Democrats Coalition) aimed at propping up a means of providing public services to which all are ideologically committed perhaps as a credit rationing avoidance strategy (Toms et al., 2011). Third, the paper investigates how these changes affected the financiers' perceptions of risk.

This paper contributes to the PFI financing literature (Asenova & Beck, 2003, 2010; Demirag, Khadaroo, Stapleton, & Stevenson, 2011, 2012), which identifies finance capital as the driver of the private finance policy whereby the nation state acts as broker (Asenova & Beck, 2010). We examine how financiers perceive the turbulent market through a questionnaire survey and interviews. Whereas prior studies often focus on case studies in specific sectors or rely upon a relatively small number of interviews, the questionnaire survey has wider coverage. Moreover, this study focusses on the perception of financiers and differentiates between different forms of equity and debt investors, because they have differing characteristics and have been subjected to different forms of pressures post credit crunch.

This paper is organised as follows. The next (second) section explains the nature and development of PFI in the UK. The third section explains the research methods. The fourth section presents the findings. It provides insights into the repercussion of the crisis on the PFI market and examines the interventions made by governments to prop up this market. It also discusses how the financiers perceived the changing PFI market. The final section concludes the paper.

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