

private sector's ability to provide these services. Arguably, this comes very close to using PFI/DBFO as an explicit subsidy to the private sector. Finally, although the NAO believed that shadow tolls and private finance introduce extra costs, risk and therefore costs that offset other risks, it did not draw the conclusion that therefore all these schemes were not, in terms of the Government's own methodology, VFM. In other words, it stopped short at the very point at which it could most usefully fulfil its remit to evaluate value for money.

The Public Accounts Committee (PAC), in reviewing the NAO report, was more explicit:

*By failing to select the best qualified bidders to tender for two of the four projects, the Agency was on dangerous ground. They risked giving the message that they were more interested in spreading the contracts around than encouraging the innovative and keenly priced bids which are necessary if PFI is to deliver good value for money. (PAC 1998d, Recommendation 1)*

However, it failed to follow through the implications of both this and other limitations identified by the NAO.

In its report on the contract on the A74(M)/M74 Motorway in Scotland DBFO, now known as the M6 extension, the NAO reiterated many of the same points (NAO 1999a). The report presented very little useful financial information and showed how the present value of the DBFO option changed through the bidding process and after, given that the private partner completed construction ahead of schedule, thereby adding to the shadow tolls. The use of numerous DBFO values makes it difficult to present a consistent analysis of the relative costs of the two options.

The present value of the DBFO option at the DoT's final assessment was £193 m compared with a PSC of £210 m (at the 6% discount rate). Financing charges

accounted for 16% of the total discounted cost and were higher than under conventional procurement. The NAO's view was that, provided the finance was raised competitively, this extra cost should reflect the risk transfer. On the key issue of risk transfer, whose costs were not presented, the NAO was concerned that the use of shadow tolls created a risk that the private sector could not manage and which therefore could be expected to increase the cost of the contract to the Department. Furthermore, since the contract provided an incentive for the contractor, Autolink, to complete the construction phase as soon as possible, this increased the cost of the road by £10 m because of extra shadow tolls as a result of early opening, thereby reducing the margin between the expected price and the PSC. This, and the possibility that the Department had overstated the cost of the public sector comparator by £10 m, eliminated the DBFO's margin of superiority. Despite this and its belief that it was 'not realistic to expect a very high degree of precision and accuracy in such forecasts', the NAO's contradictory conclusion was that, while not clearly demonstrating VFM, it was likely to remain VFM. In other words, it drew conclusions that were not justified by the evidence.

The NAO's evidence from these two reports, if not its conclusions, is important because it shows that the Highways Agency was unable to demonstrate (even using the Government's methodology, which favours private finance over public finance) that these DBFO schemes had lower whole-life costs than conventional procurement. Since the discounting methodology serves to reduce the apparent cost of the DBFO option, this means that the cash cost of DBFO must be very much more than a publicly funded option and that DBFO is a very expensive way of constructing, operating and maintaining roads. This in turn means that DBFO comes at the expense of other roads and/or other public services.

There is little information about how these DBFO contracts are working in practice. A recent report,