

‘Quasi PFI’ in the Higher Education Sector: Accounting and Economic Aspects – a case study approach

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Abstract

The PFI debate has conventionally been couched in terms of a clear distinction between public and private entities, an approach which arguably has failed to encapsulate fully the nuances occasioned by the blurring between public and private within the ‘New Public Management’ paradigm. This study focuses on entities and transactions that illustrate and express this blurring, using the term ‘quasi-PFI’ to encompass a variety of non-standard transactions, in particular projects whose parties do not obviously correspond to the public-private axis and whose financing does not necessarily displace public finance. A case study methodology is employed, drawing primarily on reported or other public information of both purchasers and providers, located in two universities (as purchasers) and their mutual partner, a housing association. Adopting an economic perspective leads to the conclusion that entity reporting is not sufficient to obtain a full picture of the transactions studied. The reader cannot reliably identify the existence of reporting gaps (Collier, 2005) let alone the substance of these complex transactions. The study highlights the information value of parallel reading of purchaser and provider reports, and provides some support for wider reporting of supplier identity in partnering or similar complex transactions.

Keywords: PFI, quasi-PFI, higher education.

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**Previously held a finance post in one of the institutions examined in this study, and as a result has some familiarity with one of the cases reported here. The impact on this study lies primarily in enabling us to confirm the existence of a relevant transaction and the identity of the counterparty. No confidential information pertaining to the previous role has been available to us or incorporated in this paper.

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Introduction

The development and initial financing of public sector capital projects by the private sector under the overarching banner of the Public Finance Initiative (PFI) (more recently encompassed within the less specific term of Public Private Partnerships (PPP)) has, over the last fifteen years,¹ engendered both political controversy and a significant academic literature. Whereas the political debate has focused on both macro level issues relating to the perceived manipulation of the public sector borrowing requirement and micro level issues as to whether PFI initiatives have delivered value for money in specific instances, the academic perspective has been wider taking in both the manner in which PFI has been situated within the more general aspirations and philosophy of 'New Public Management' and also considerations as to the motivations, beyond those purely economic, of the participants both 'providers' and 'purchasers' within the PFI umbrella.

This literature has been valuable and insightful, but it has not necessarily been even handed in its scope and focus. The high political profile of the health sector and the number of PFI projects carried out therein (Allen, 2003) has given rise to a number of studies both in relation to specific projects and to wider issues as to the impact of PFI on accountability and performance management within the sector. The study of PFI in other public sector activity, such as transport and education, while growing is less comprehensive, and beyond the classic public sector similar projects have received still less attention. In our chosen setting of UK higher education, forms of PFI, or perhaps more accurately 'quasi PFI', have been increasing in importance in recent years – but to date these activities have received little attention in either the political arena or the academic literature. We argue that this sector offers an opportunity to improve understanding of key decision-making and accountability issues associated with PFI in an array of public sector and quasi-public entities. It is also arguable that the research questions addressed have focused primarily on perceived issues of value for money, with a lesser focus on either the motivations of those responsible for entering into PFI arrangements or reporting considerations, specifically how one should account for PFI projects - and indeed whether the potential for a variety of accounting treatments does indeed contribute to decisions as to whether or not to enter into PFI projects.

¹ The Private Finance Initiative was announced by the then chancellor, Norman Lamont, in his 1992 Autumn Statement (Allen, 2003).

It is also true that with few exceptions (for example Broadbent and Guthrie, 1992) the PFI debate has been conventionally couched in terms of a clear distinction between public, i.e. government or entirely government funded, bodies operating primarily as a public service, and private, i.e. profit seeking bodies funded by risk bearing capital, and thereby has failed to encapsulate fully the nuances occasioned in particular by the blurring between public and private within the ‘New Public Management’ paradigm. In its most straightforward, archetypal formulation PFI involves long term contractual agreements between entities representing these clearly defined axes, in which typically, the ‘public’ purchaser makes annual payments of an agreed sum or to an agreed formula (such as that relating to a demand guarantee). Arguably, what the contract entails can be described and understood from two perspectives, one asset-focused the other service-focused. The private sector supplier both provides an asset for the use of the public sector ‘purchaser’, and operates or manages the asset over the long term (typically 20 to 30 years) as the setting for the public service carried out by the purchaser. However, the alternative perspective characterises PFI as simply the provision to the public sector of a service which supports the delivery or performance of a primary public service; buildings or other assets are in this case seen as inseparable parts of the unitary service though their acquisition is not considered the purpose of the project. Although we make use of these two perspectives on the transactions in question, we look beyond the archetypal formulation to projects understood by their participants or sector as PFI or similar to PFI. Here ‘purchasers’ may have both mixed public and private funding and be striving to meet both public service and ‘profit’ seeking objectives. Private sector ‘providers’ may be effectively locked in to a symbiotic relationship with the public sector which distinguishes them from the market driven enterprises of conventional economic theory – or as in the cases that we study – be wholly or partially ‘not for profit’ organisations.

This focus on what may be seen as ‘mainstream’ or classic PFI has also limited the attention given to the range of transactions and contractual agreements between parties which contain elements of the capital cost, financing and long-term operating agreements as are found in classic PFI contracts but are not themselves conventional PFI contracts, and where it is not always that straightforward to distinguish the ‘purchaser’ from the ‘provider’ - as in the case of some of the contracts and arrangements that we consider below. In acknowledgment of these two sources of

potential ambiguity, we use the term ‘quasi-PFI’ broadly. We intend it to encompass both a variety of non-standard contractual terms and related transactions, and projects whose parties do not obviously correspond to the public-private axis and whose financing does not necessarily displace public finance.

Against this background the contribution of this paper is a case study based investigation of ‘quasi PFI’ transactions within the higher education sector. We examine the experience of two higher education institutions and their common partner, a housing association, which have, in recent years, entered into such transactions with a particular focus on the way in which they were accounted for and reported. Here we seek to ascertain potential underlying economic drivers for the transactions and, insofar as publicly available information allows, to interpret the suitability of the accounting and reporting practice against this analysis. We acknowledge the argument that “correctness” of accounting treatment of specific transactions cannot be evaluated without access to the full contract documentation describing them (Heald, 2003). Nonetheless, we take the view that, even taking into account competing perspectives on the essence of PFI, the range of possible underlying economic motivations is limited, and accounting treatments that in principle support or are consistent with those should be capable of identification. Our analysis thus focuses on the extent of overlap between such norms and the observed reporting of the group of transactions studied, with a view to identifying and interpreting apparent gaps in accounting and narrative reporting.

Beyond this introduction the paper is structured as follows: first we provide a brief overview of those wide ranging perspectives and interactions between political philosophies and practical issues of funding, management and control which have over the years been loosely characterised as constituting ‘new public management’. In this context we provide a more detailed review of the nature of PFI and its role within this framework and of the related academic and professional literature relating to PFI; second we provide background to the environment of accounting and financial reporting in higher education and in universities in particular; the third section sets out the case study material itself including a detailed review of the accounting for the various projects; the fourth seeks to examine the transactions from an economic perspective and discusses the interaction with the chosen accounting practice; in the

fifth section we offer further observations and reflection ahead of a brief final summary and conclusion.

New Public Management, PFI and the margins of the public sector.

The Private Finance Initiative, and the even less precisely defined Public Private Partnerships, sit firmly within the ‘new public management’ (NPM) paradigm. Among the difficulties of analysing both content and practical import of this context is the ideological (or political or even quasi-religious) dimension of NPM (Ferlie *et al*, 2005; Hood, 1995; Pollit, 2003), underpinning an apparently rationalist ‘improvement’ agenda. Though by now longstanding in the UK, it is by no means clear that it is an established (i.e. static) context, some authorities arguing that the ideology or its expression show signs of phased development, in which privatisation and ‘marketisation’ achieve early dominance (Ferlie *et al*, 2005), expressed by means of efficiency-related characteristics, such as: cost control and audit systems; accountability via performance indicators; financial transparency; separability of policy and execution; autonomisation of organizational sub-units; decentralisation of control and management authority. From this perspective change in emphasis, for instance to a rhetoric of choice or excellence rather than value-for-money, can be accommodated within the paradigm and is consistent with varied application of NPM ideas in different countries (Ferlie *et al*, 2005; Hood, 1995). In outsourcing capital projects and the ongoing provision of services, prioritising financial appraisal and value for money, and its capacity to absorb changes in emphasis (e.g. from control of public finance to the ‘delivery’ of service excellence), PFI arguably exemplifies the development and persistence of new public management.

On the topic of PFI itself, there is by now a well developed and wide-ranging accounting literature, which can conveniently be grouped into three interlinked strands, overlapping with key research issues identified by Broadbent and Laughlin (1999a) in their review of the general development of PFI policy. The first of these looks at particular contexts and is concerned with the substance of value for money claims made in respect of PFI projects, and thus links accounting with performative impacts (Gaffney and Pollock, 1999; Hodges and Mellett, 1999; Edwards *et al*, 2004; Edwards and Shaoul, 1999, 2003). A second strand is concerned with analysis of procedures and their underlying assumptions (Shaoul, 2005; Broadbent *et al*, 2003;

Heald, 2003; Froud and Shaoul, 2001), where a recurrent theme is the ambiguity of the formal emphasis on risk transfer.

The issue of when off-balance sheet treatment is justifiable is the primary concern of the third strand; it is addressed directly by Kirk and Wall (2001) and is a central theme of several studies of the process by which the ASB came to adopt its 1998 application note to FRS 5 *Reporting the Substance of Transactions*, dealing with accounting for PFI and similar transactions.² Hodges and Mellett (2005) draw attention to the close linkages between public and private sector accounting policies in the UK, formalised in the *Government Resources and Accounting Act 2000*, which both places responsibility for public sector policies with the Treasury,³ and requires them to follow UK GAAP insofar as meaningful and appropriate.⁴ Against this background, the Treasury is not a disinterested party (Broadbent and Laughlin, 2002); its input to the consultation process preceding this application note dominates the (virtually identical) public sector responses (Hodges and Mellett, 2002, 2005).

The consultation process highlighted alternative interpretations of PFI, and their contrasting accounting implications (Hodges and Mellett, 2005; Rutherford, 2003; Kirk and Wall, 2001). In brief, the Treasury viewed such contracts as procuring a stream of services, with the effect that the ‘purchaser’ could not capitalise the contract, i.e. underlying assets and their related financial obligations would not be recognised on the public sector balance sheet. To take the alternative view, that the contracted payment stream is made up of an element relating to capital assets and another relating to the associated services, may instead lead to a requirement to recognise the asset element on the balance sheet of the purchaser. The second view forms the basis of the ASB approach, and received a critical reception from industry groups and the Treasury, while various accounting profession sources qualified their general support by referring to specific issues, e.g. concerning the components of risk or indicators of separability. (Broadbent and Laughlin, 2002; Hodges and Mellett, 2002). To Broadbent and Laughlin these responses illustrate the ASB’s failure to

² *Application Note to FRS 5: Private Finance Initiative and Similar Contracts*; Accounting Standards Board, September 1998. Latest version available at:

<http://www.frc.org.uk/asb/technical/standards/pub0100.html> [accessed 29.5.2007].

³ Initially in the form of the Resource Accounting Manual, since withdrawn and replaced by the Government Financial Reporting Manual, available at: <http://www.financial-reporting.gov.uk/> [accessed 29.5.2007].

⁴ s5, *Government Resources and Accounts Act 2000*, HMSO

resolve fundamental differences in views and threaten to undermine the ASB's role as legitimators, while others note that the form in which the standard has been operationalised in the public sector represents a compromise between the ASB and the Treasury that avoids undermining the latter's understanding of the essence of PFI (Kirk and Wall, 2001; Hodges and Mellett, 2005).⁵ More broadly, Rutherford (2003) suggests that a debate framed by the language of 'substance over form' was in essence engaged in construing new meanings of 'substance' itself, rather than simply its application to assets and liabilities. Hence the debate might be expected to have an impact beyond the particular issue of PFI. Outside the UK, these aspects of the debate are likely to have continued relevance in those jurisdictions considering standardising accounting for forms of public-private partnership (for example Grimsey and Lewis, 2002).

A clear picture emerging from this strand of accounting literature to date, insofar as it addresses the UK, is the status of the Treasury as the dominant representative of PFI purchasers in the standard-setting process. In these studies, recognition (in the naming of the final application note) of the wider possibilities of similarly structured projects between private sector, or even less clearly defined entities, gives the appearance of an afterthought. The ASB is not alone in its initial public-sector focus. Beyond the process itself, analysis of the reporting of, and thus accountability for, PFI projects has been largely focused on either central government or the NHS, where the questions of the suitability of reporting policy adopted overlapped, at least until the *Government Resources and Accounts Act 2000*, with uncertainty as to which bodies could claim to regulate public sector reporting (Hodges and Mellett, 1999; Broadbent and Laughlin, 2002) as well as the broader debate about the extent to which it is appropriate to transfer private sector GAAP to central government and other parts of the public sector (Barton, 2005, Ellwood, 2003). Although the value-for-money strands of the literature have covered wider ground, they too remain focused on the classic public sector, with little exploration of the decision process in other entities. Similarly, with few exceptions (for instance Grubnic and Hodges, 2004) little attention has been directed at the supplier side of the transaction in any of these strands.

⁵ Put into practice in the public sector via the Treasury's Technical Note 1 (Revised): '*How to account for PFI Transactions*' 1999.

This gap in the accounting literature is not confined to PFI; Collier (2005) noted the relative lack of coverage of ‘quasi-public organisations’ in his study of an English housing association. As a result the forms of accountability in such organisations, particularly accounting’s role in shaping them, may be poorly understood. Collier develops Roberts’ (1991) distinction between ‘calculative accounting’ and ‘sense-making narrative’ by examining the ‘hidden spaces’ between them, where narrative does not wholly or completely explain or expand upon the more limited calculative accounting. He argues that in the quasi-public organisation the latter, as a hierarchical form of accountability reinforced by regulatory activity, may take precedence over socialising forms that could better illuminate some of these hidden spaces. We consider this approach further in our concluding discussion.

Though it is not our intention to attempt in this paper a comprehensive classification or definition of this amorphous collection of organisations, we locate contemporary UK universities among them, (factors influencing this approach including, at the most formal level, their combination of private law constitution, charitable objects and heavy reliance on public funds). Perhaps not surprisingly given their ease of access as a research site, universities as organisations have received considerable academic attention, in particular in the context of the impact of various aspects of NPM-style reforms on the culture or management of the university in various countries (Deem, 2002; Davies and Thomas, 2002; Coy *et al*, 2001). However, despite this interest in the imposition of quasi-market reforms on ‘public’ universities, for instance in Swedish universities (Modell, 2006, 2003) or the tension between this and increased government control over universities as supposedly ‘private’ entities (Court, 2004), academic study of PFI-style projects in this sector (McWilliam, 1997) has been relatively sparse. Absence of projects cannot account for this: for instance, the Higher Education Funding Council for England (HEFCE) has been running pathfinder projects in English universities since 1996, and though a pathfinder scheme no longer operates at the date of its last published review (KPMG, 2002) 29 projects were listed as receiving support funding, 8 having proceeded to award of contract. Although these covered a range of functions, the report also reveals a noticeable concentration on residential projects (ten of these pathfinders, and four of the completed projects had some residential element), leading KPMG to characterise deals for residential accommodation as a ‘mature market’, and HEFCE to draw back from awarding pathfinder status to further residential projects. HEFCE seems to have seen no need to

distinguish between classic PFI and other types of PPP projects in its pathfinder scheme: by the time the scheme was launched, public funding had long since ceased to be available for student accommodation in the UK system, and so these residential projects did not displace public funding or have any impact on the PSBR. The present situation is less well documented; no subsequent report has been published by HEFCE, while the Higher Education Council for Wales (HEFCW) has published no reports of its involvement in such activity in Wales. However, continued PFI activity in the sector is suggested by a subsequent report for the Scottish Funding Councils, which noted an active programme of 18 PFI/PPP supported projects in the sector, with a further 6 developing business cases (Grant Thornton, 2006). Activity in the sector itself is not confined to pathfinder schemes, thus total numbers of such projects are likely to be greater in all locations.

Discussion or promotion of PFI or PPP deals in higher education is also largely absent from the publications and websites of government offices and related bodies, such as the Office of Government Commerce (OGC).⁶ This absence may be founded partly on the acknowledgement that HE funding councils in essence bear the responsibility for ensuring value for money (VFM) in institutions,⁷ and partly on the constitutionalist view that universities are private bodies and as such their financial arrangements and contracts are outside the scope of such agents (KPMG, 2002). This second position is partially undermined by the anxious urging by funding councils, via circular letters, other publications and specialist units, that universities should be aware of the need to comply with related UK and European law governing public (sector) procurement, suggesting that they share some kind of public-sector status. Nonetheless, the sector-specific monitoring role of the funding councils in practice means that PFI projects in higher education are subject to less pressure to achieve efficiency by means of uniformity: the OGC, for instance publishes a standard form contract and the Treasury (and subsequently the OGC) has always taken close interest in and indeed had a role in determining the methodology for evaluating value for money with respect to a public sector comparator. By contrast HEFCW has no PFI unit at all, while HEFCE no longer has a PFI advisory unit nor a pathfinder scheme; it has published case studies in the past but does not publish or suggest standard form documents.

⁶ The OGC has responsibility for procurement issues in government.

⁷ Derived from the authority to arrange for 'studies designed to improve economy, efficiency and effectiveness in the management or operations of an institution'; *Further and Higher Education Act 1992*, s 83(1), HMSO.

The Higher Education Reporting Environment

Until recently financial reporting in the higher education sector was far from uniform between institutions and frequently diverged significantly from the practice of accounting and reporting in the private sector.⁸ In the 1990s, under the influence of the Department of Education and the Funding Councils, universities moved toward a more consistent framework for reporting as set out in the Statement of Recommended Practice (SORP) *Accounting for further and higher education*⁹ a framework that was, and is, closely aligned with that for profit seeking enterprises.¹⁰ At the same time the level of financial monitoring and control by the funding councils increased markedly and much of this monitoring was, and is, based on the information contained in the financial statements of individual universities.¹¹ In Wales HEFCW both sets overall financial benchmarks and also ‘grades’ individual institutions in respect to their financial health. Institutions which are considered to be in relatively poor shape are subject to more extensive and intrusive monitoring than those which are considered to be sound. Not surprisingly against this background the management of individual institutions are keenly aware of the importance of the picture portrayed by their financial statements both in terms of income numbers and balance sheet ratios.

In PFI contracts the accounting concerns at the individual entity level are linked to the distinction, discussed above, between service and asset-based interpretations. In financial reporting terms, this crystallises into whether the asset supporting the contracted services and the associated liability (in terms of the stream of associated future payments to the provider) should be reflected on the balance sheet of the purchaser if it is to provide a picture of the true economic situation of that entity and how, if this treatment is adopted, best to break down the annual payments to the provider as and between financing charges, repayment of capital and operating expense. There is also, from the perspective of the provider, the question of to what

⁸ Reporting in the sector thus shares the disparity observed in public sector accounting during the same period (Ellwood, 2003).

⁹ First issued in 1994, a revised version was issued in 2000 and another in 2003.

¹⁰ The Preface to the 2003 version of the SORP states (at p.3): ‘The financial statements of institutions should, as far as possible, be prepared on a consistent and comparable basis. They should, where possible, be prepared on a similar basis to the accounts of other corporate organisations, and should follow all relevant accounting standards...The concept of the ‘true and fair view’ is regarded as of paramount importance.’

¹¹ HEFCW publish on an annual basis a collection of comparative data based upon reported financial statement numbers see http://www.hefcw.ac.uk/FinanceAssurance_Docs/W0528HE_circ.pdf for the most recent available.

extent profit on the contract should be recognised ‘up front’ and to what extent it should be recognised over the lifetime of the contract. However, neither the SORP nor the various Funding Councils’ Accounts Directions¹² provide any specific guidance as to accounting for PFI type contracts in the higher education sector and therefore to determine what is the ‘appropriate’ accounting it is necessary to consider the wider provisions of FRS 5 *Reporting the Substance of Transactions* (ASB, 1994) and the relevant PFI application note to FRS 5 *Private Finance Initiative and similar contracts* (ASB, 1998)¹³.

FRS 5 is an all encompassing standard designed to counter both off balance sheet financing and the use of artificial transactions to achieve required financial reporting objectives. Its primary requirement is that the substance of an entity's transactions are reported in its financial statements which in turn requires that the commercial effect of a transaction and any resulting assets, liabilities, gains and losses are shown and that the accounts do not merely report the legal form of a transaction. The PFI application note, which as noted above was developed against a background of debate between the ASB and the Treasury and attracted widespread criticism from outside the profession, was widely perceived as seeking to ensure that more PFI contracts were accounted for on the balance sheet of the purchaser. In essence it took issue with over-reliance on the service-based interpretation, which emphasises the unitary nature of payments for integrated services. The ASB’s basic approach is to highlight the potential for separability and to focus on the underlying asset. As a result it casts as the main accounting issue whether the risks and rewards of the transaction lie with the purchaser or the provider¹⁴ and requires where possible contracts to be ‘unbundled’ between components which may be seen as financing, normally the property element, and those which do involve transfer of risks and rewards, normally the charge for services. The Treasury guidance¹⁵ while stating support for the ASB’s application

¹² E.g. (2006 version) available at http://www.hefcw.ac.uk/FinanceAssurance_Docs/W0624HE_circ.pdf#search=%22HEFCW%20Accounts%20Direction%22 but it contains little additional to the requirements of the SORP with regard to accounting treatment.

¹³ Available at <http://www.frc.org.uk/images/uploaded/documents/FRS%205%20Amendment.pdf>

¹⁴ The ‘operator’ in the parlance of both the Application Note and the Treasury guidance.

¹⁵ Available at http://www.dh.gov.uk/ProcurementAndProposals/PublicPrivatePartnership/PrivateFinanceInitiative/InvestmentGuidanceRouteMap/InvestmentGuidanceArticle/fs/en?CONTENT_ID=4132512&chk=RGbXIb

note has been seen as allowing more scope for PFI transactions to be treated as the equivalent of operating rather than finance leases in that it is more inclined to accept a unitary charge approach whereby finance and service costs are considered inseparable.¹⁶

Although the traditional leasing/PFI concerns relate to balance sheet treatment by the lessee and profit and loss statement treatment by the lessor,¹⁷ our examples also illustrate a wider range of income recognition issues both in relation to the contribution by a ‘purchaser’ of assets to a PFI deal (as in both the University X transactions); and whether the transfer of rights over future income, with or without transfer of the interest in the property, should be treated as a gain in the income statement (as in both University W transactions). Here again neither the specific sector related guidance nor that developed for the wider commercial environment is of particular assistance. Revenue recognition has been a contentious issue in financial reporting for many years. Carsberg and Noke (1989) were sceptical as to the possibility of achieving an agreed framework in respect to revenue recognition and to date the ASB has not succeeded in producing a comprehensive standard focusing specifically on revenue recognition. In 2003 an application note to FRS 5 *Reporting the Substance of Transactions: revenue recognition* was issued, covering this issue.¹⁸ The application note advocates an approach to revenue recognition based upon whether there has been a transfer of risks and rewards between the relevant parties – but again does not specifically cover transactions of the nature which we consider below.

¹⁶ It should be noted that it is intended that government will move to reporting under IFRS from 2008/9, with the effect that public sector treatment will no longer follow the treatment outlined here, which it has done so much to influence. It is unclear at the time of writing what impact, if any, this will have on the timetable for convergence of UK standards. (HM Treasury, *Budget Report 2007*, 6.59). Available online at: www.hm-treasury.gov.uk/budget/budget07/bud_budget07_repindex.cfm [accessed 9th August 2007].

¹⁷ Examples of over enthusiastic profit recognition by the lessor include Atlantic Computers (DTI 1994) in the UK and more recently Xerox in the US (SEC, 2003)

¹⁸ Available at <http://www.frc.org.uk/images/uploaded/documents/Amends%20%20to%20FRS5.pdf>

The Case Study

The Nature of the Study

The research methodology employed in this study lies within the mainstream of case study based research¹⁹ comprising investigation and comparison of four significant ‘quasi PFI’ transactions undertaken by two institutions of higher education, University X and University W, with a particular focus on the manner in which these transactions have been accounted for and reported. In this paper the primary sources of information have been archival, chiefly the financial statements of the parties to the various transactions over the relevant time periods. This has been supplemented by use of other publicly available information, including the entities’ websites and review of publicly available minutes of meetings. Use of internal information has been limited to verbal, and in the University W case also documentary, explanations provided by accounting professionals in each of the parties in response to direct enquiries, since this paper is directly concerned with what has been publicly reported and the information required by a user in order to interpret it. However, we cannot be certain that all such enquiries would meet with similar co-operation.

The transactions that we consider have significant similarities: they each relate primarily to student residential accommodation; they are each long term arrangements in which the provider has management (i.e. service) responsibilities; in each considerations of capital cost, financing and ongoing operating agreements are of critical importance; in each transaction the counterparty, the ‘provider’, was the same entity, a large housing association; the ‘purchasers’ University W and University X, are quite similar in size and are engaged in very similar activities in terms of teaching, research and related ancillary endeavours. The accommodation in question continues to be offered by each institution to its students, directly marketed via each website as university accommodation, and so presumably retaining strategic significance for each.

¹⁹ For a general overview of methodological issues relevant to the use of case study research in the widely drawn field of accounting and finance see Ryan *et al.* (2002).

The Parties

University X

University X is a medium sized university situated in Wales. It currently has nearly 10,000 full time students²⁰ and in 2005 it reported an annual income of £108m and total net assets of £53m.²¹ It reported an historical cost surplus, varying between £0.7m and £3.4m in the years between 1999 and 2004 before reporting a deficit of £1.8m in 2005. It offers 2,800 places in halls the great majority of which are situated on or adjacent to the main campus.

University W

University W is slightly smaller than University X. It currently has approximately 7,000 full time students and in 2005 it reported an annual income of £76m and total net assets of £144m.^{22, 23} In 1999 it reported a historical cost deficit of £1m but achieved surpluses of between £0.7m and £4.0m in the years between 2000 and 2005.²⁴ It has a substantial stock of residential accommodation for students both in the town itself, and a much larger provision on its campus. In total approximately 3,500 hall places are available.

HA group

HA Group is a not-for-profit housing, welfare and community organisation based in Wales. Founded in 1973, in 2005²⁵ the group reported an annual income of £32m and

²⁰ In addition to the full time students both institutions have substantial cohorts of part-time students. HESA enrolment statistics for 2003/4 are available at

http://www.hefcw.ac.uk/FinanceAssurance_Docs/AV0304_Section_1_text_and_tables.pdf

²¹ In 1999, the year of the first transaction considered below, income was £78m and net assets £39m (university financial years end on 31 July and in this paper all references to year end figures for University W and University X relate to those at 31 July in that year).

²² In 1999 income was £56m and net assets £121m.

²³ A significant factor underlying the disparity in net assets between University W and University X is that in 1993 University W revalued almost all of its land and buildings giving rise to a revaluation surplus of £77m whereas University X has continued to adopt a strictly historical cost approach to accounting for land and buildings.

²⁴ On a quasi 'current cost' basis (consequent to its 1993 and 1994 revaluation of fixed assets) University W reported a deficit of £1.4m in 2001. For each year under consideration the underlying difference between the historical cost depreciation and 'current cost' depreciation was approximately £2m.

²⁵ For the year ending 31 March 2005.

net assets £89m.²⁶ It claims to be the largest such organisation in Wales with an anticipated capital development programme which will exceed £100m in the three years from 2006. HA Group operates through five subsidiaries; of these H, a fully owned subsidiary formed in 1995, is the principal company through which the transactions discussed below have been channelled. According to its website, in 2006 H held and managed over 2,300 student rooms.

The Transactions: arrangements and accounting

Here we outline on a chronological basis the nature of the arrangements entered into the mode of accounting for and the disclosure thereof for the four separate transactions that we examine. For ease of reference we shall refer to the four transactions as: X1, W1, X2 and W2.

X1

In 1999 HA undertook the refurbishment and redevelopment for University X of student and 'key worker' housing, the completed project providing accommodation for 132 postgraduate students and 33 flats for 'key' workers. According to the HA website the project:

‘saw the investment of over £4,000,000 to the mutual benefit of both organisations. [X1] is a Grade II listed building, formerly owned by the University, and until 1996 was home to around 100 students. With the building requiring substantial updating, the University was keen to draw upon the expertise of [HA] , a well established Registered Social Landlord. The partnership arrangement was consolidated through a Management Agreement and property lease. This allowed [HA] to carry out refurbishment works to existing buildings, add new units of accommodation and provide long term management services.’

In respect to the land and premises to which the X1 transaction relates it is understood that these were fully written down ahead of the accounting for this transaction and consequently their carrying value was not transferred to prepayments (as in the X2 transaction below).

²⁶ HA group has expanded rapidly in recent years. For the year end March 1999 income was less than £13m.

The X1 transaction is disclosed in the University X accounts in an addendum to the ‘Other Operating Expenses note’ which states:

‘The student accommodation leasing charges relate to a lease/leaseback arrangement with [HA] group Housing Association. The arrangement commenced during the year and will remain in place for a period of 30 years.’²⁷

From 2004 onwards this disclosure was slightly amended to take into account the X2 transaction (which is described in more detail below):

‘The student accommodation leasing charges relate to arrangements with [HA Group] Housing Association. The first arrangement commenced in 1999/00, whilst the second commenced in 2003/04. Both will remain in place for a period of 30 years from their commencement.’

There is also disclosure in a ‘Financial Commitments’ note of an annual commitment under a non cancellable lease expiring in over five years of £374,000. This disclosure continues through 2001-2005 with the relevant amount increasing to £1.9m in 2005 consequent to the X2 development.²⁸

W1

In 2000 seven student accommodation properties held by University W on leases of various terms were disposed by means of an agreement with HA Group,²⁹ whereby HA Group purchased for £1.5m University W’s interest in the leases of the buildings. Relying upon HA Group’s website, we conclude that their interest was subject to a nomination agreement in which University W retained the ability to ‘nominate’ tenants. Typically such agreements involve a guarantee of occupancy levels on the part of the purchaser of the service (W) and may also cap the rents payable by third parties (student tenants), but there is no statement indicating whether this is the case here. In respect to this disposal the 2000 accounts included in the income statement an exceptional item £0.7m (£1.1m on an historical cost basis) reflecting the surplus on disposal.

²⁷ The annual charge which was £374,000 in 2000 rose to £398,000 in 2001 and then declined to £389,000 in 2003. As the X2 transaction came on stream the charge rose sharply to £1,238,000 in 2004 and £1,929,000 in 2005.

²⁸ Although the difference is small it is not clear why the disclosed amount of £374,000 should be less than the amount in subsequent years.

²⁹ Because the leasehold of these halls were transferred to HA immediately following reconstruction, it is clear that an agreement must have been in place during or prior to reconstruction, though the financial statements are silent on when this agreement was made.

In respect to these halls the outline terms of the agreement with HA group were known at the time of finalising the 1999 accounts and there were at this point in time discussions between University W and their auditors as to the appropriate accounting treatment to be followed in respect to the 1999 year end and that for 2000. These discussions led to an internal paper, supplied to us on request, which recommended that the gain representing the difference between the payment from HA Group and the net book value of the seven halls should be recognised in full in 2000 as:

‘the University will have in substance handed over the risks and rewards of ownership of the seven properties’.

There was no disclosure in the 1999 accounts of the intention to dispose of these properties, and in neither the 2000 accounts nor subsequently has there been any reference to University W’s obligations, actual or contingent, under the nomination agreement.

X2

In 2003 HA succeeded in winning a contract to build and manage three new blocks of student accommodation at University X’s campus. The contract also includes a commitment for the repair, refurbishment and management of three existing blocks. The arrangements covering both the new and the refurbished blocks run for a thirty year term with the freehold for both the new and the refurbished blocks being held by University X.

Similar to X1 the arrangement is accounted for as an operating lease with neither the new or refurbished halls nor any associated liability being shown on the University X balance sheet. On making direct enquiries of the university, we were able to establish a difference from X1 in that the existing three blocks were categorised as a contribution to the transaction and as such, and in accordance with para 54 of the ASB’s application note, transferred at book value from fixed assets to prepayments. This prepayment is being written off as an annual charge against income over the thirty years of the lease. This is disclosed in the 2003 financial statements both in the Accounting Policies note:

‘Under finance arrangements whereby the University benefits from lower service payments as a result of contributing an existing property, the carrying value of the

property is reclassified as a prepayment and charged as an operating cost over the period of the reduced finance payments'.³⁰

and in the fixed assets note (note 12)

'The University has entered into an agreement with [H], a wholly owned subsidiary of [HA Group], to construct and maintain new and refurbish and maintain existing student accommodation on campus for a period of thirty years. The agreement has been accounted for in accordance with Financial Reporting Standard 5: reporting the substance of transactions. The net book value of existing accommodation, representing the University's contribution to the transaction, has been transferred to prepayments and will be amortised over the period of the scheme'.³¹

W2

In 2004 University W entered into an agreement with H whereby, in return for the payment of £16.9m from H to University W, H received the rights to the income from W2 for a period of twenty five years, these rights being constrained in terms of H's ability to raise student rentals and H being protected by guarantees from University W as to the number of students and the income obtained therefrom. In the 2004 University W Annual Report this transaction was described in the Treasurer's Report as follows:

'The sale of a 25-year leasehold interest to a wholly owned subsidiary of [HA group] resulted in the receipt of a capital sum of £16.9M. Following the full repayment of the outstanding loans ... (£10.2M) the University was left with net receipts of £6.7M'.

This transaction was not treated as a disposal, the land and buildings remained on the balance sheet at their written down value and the cash received was credited to a deferred income account. The intention is that over the twenty five year period of the agreement the buildings will continue to be depreciated³² over their estimated life and there will be an annual release from the deferred income account to the income account until, after twenty five years, the deferred income account is exhausted. In the Annual Report this is disclosed in Note 15 to the accounts which states:

³⁰ 2003 financial statements p.15.

³¹ 2003 financial statements p.20 - the note details a transfer of £2.5m from fixed assets to prepayments, although in total the prepayment is shown as £3.1m with another £0.1m as debtors falling due within one year.

³² On a straight line basis over an estimated forty year life commencing for the most part in 1994.

‘The Deferred Income from the ... Lease [£16.3m] relates to the consideration received on the 25 year lease of student accommodation to [H]. The consideration is released on a straight line basis over the period of the lease’.

Economic and Accounting Perspectives

Because the transactions reviewed above, and particularly the University W transactions, are not directly covered by the SORP or any specific accounting standard requirements it is necessary to go back to the general principles set out in FRS 5 and seek to determine what factors might contribute to understanding the true commercial effect of the transactions and how these might best be reflected in terms of financial reporting. However, there are potential complications arising both because of the nature of the transactions and because neither of the parties involved is a typical profit seeking commercial entity. With respect to the latter, although HEFCW sets targets in terms of a suitable ratio of operating surplus to turnover ultimately, as charities, universities are non-profit making organisations, though the standard financial memorandum between institutions and the funding council does specify full cost recovery with respect to non-education activity such as residential accommodation.³³ As far as it is possible to judge from the financial statements, both University W and University X were reporting significant surpluses on their residential and catering accounts for the period under consideration.³⁴ HA group is a not for profit entity and, as far as one can establish from its web site so is H , furthermore as a group originating in (and still primarily engaged in) the activity of a registered social landlord, HA group’s basic raison d’etre is presumably the provision of social housing. Consequently we must assume that to satisfy its regulator the HA group must expect financial or strategic benefits that support its primary activity.

³³ HEFCW standard Higher Education Funding Council for Wales, *Financial Memorandum*; latest version available at: http://www.hefcw.ac.uk/FinanceAssurance_Docs/Financial_Memorandum.pdf [accessed 29.5.2007]. similarly see also Higher Education Funding Council for England (HEFCE), *Model Financial Memorandum between the HEFCE and institutions*, latest version available at: http://www.hefce.ac.uk/pubs/hefce/2006/06_24/ [accessed 29.5.2007].

³⁴ With the caveat that disclosures of residential income and expenditure are not complete from a full economic cost perspective. For example the University W residential and caterings account does not include any charge for depreciation of the halls, but does include income from vacation lettings. On this basis the account was substantially in surplus each year from 1999 though to 2005. University X do not identify a surplus or deficit on their residential and catering account but comparison of the separately disclosed income and expenditure (including substantial charges for interest and depreciation) also suggest that the account was significantly in surplus over the relevant time period.

As for the transactions themselves, the cases described here justify regarding each set of transactions as potentially sharing some of the characteristics of PFI contracts: in each case the university has not merely disposed of an interest in property in isolation, but has also entered into linked agreements covering management and nominations rights, and so in PFI terms may have entered into a linked purchase of accommodation services. However, there is no single pattern here and a number of variations from the PFI norm. For instance, not all transactions appear to involve annual payments, the legal and substantive forms of disposal vary, and the effect on their portrayal (as PFI or as simpler transactions) of surrounding asset valuation and recognition issues is complex. Even with the corroboration available from extraneous sources, the providers' accounts and both parties' websites, it is not in every case possible to establish the overall nature of the transaction sets, and as a result we base our initial analysis on broader economic perspectives to highlight the range of factors that could feasibly underlie the parties' understanding and accounting treatment.

Conventional economic theory would suggest that there might be benefits from transactions of the sort entered into if one of the parties was significantly more efficient and effective than the other. This may be the case and as we have seen in respect to the X1 transaction the HA website identifies its expertise both in project management and implicitly in terms of managing the accommodation. In itself, this factor need not generate complex forms or accounting policies, since such expertise could feasibly be enacted through stand-alone management or agency agreements, i.e. services which need have no balance sheet implications. However, it is not obvious why this factor should be dominant in these cases, given that both universities have far more experience of both construction and management of student accommodation than HA group or its subsidiaries. These individual entities' experience has been reinforced over the past 30 years by frequency of expansion-driven construction of accommodation so is unlikely to be outdated or overwhelmed. In terms of the management and maintenance of accommodation it might be arguable that in respect to the University X transactions there are possible benefits from economies of scale since HA group is based nearby – but it is much less clear why this should be so in University W, 80 miles distant, a location where, ahead of its purchase in 2000 of W1 halls HA group had no presence at all, whereas the university had a longstanding infrastructure designed to manage approximately 3,500 student rooms. One also might expect both University W and University X to suffer from offsetting diseconomies of

scale consequent to the takeover by HA group of the management of significant parts of their residential properties.

Another possible justification for the transactions derived from economic theory would be that HA group is able to raise finance more cheaply than the two universities – or has easier access to finance - giving rise to benefits that can be shared by both parties to the respective transactions. Given its similar constitution, powers and status it is not clear, and indeed quite unlikely, that HA group can in fact borrow more cheaply than the two universities, nor that either university has had any particular problem in raising finance in the past. This is of course a counter-argument to all true PFI projects, Treasury financing being at lowest cost and significantly lower than commercial providers, and it is as a result of this that the heart of a PFI case is quantifiable transfer of risks such as those encompassed within efficiency/effectiveness factors. In true PFI this will need to be significant if the project is to be worthwhile (i.e. to achieve value for money), but where access to finance is on comparable terms, as we would expect here, the ex-ante financing gap could be bridged by minimal risk transfer. As a result, while it is difficult to see any simple financing advantage, it is equally difficult to see finance as a definitive barrier or risk-adjusted disadvantage.

Absent either of these justifications for the transactions carried out, and assuming economic rationality, then one is left with the perspective that the university residential accounts are in fact profitable and, given equality of cost functions, HA group has been prepared to pay significant capital sums, whether in new build and refurbishment costs as in both University X transactions or as a straightforward payment as in both University W transactions, to access a stream of future rental income, perhaps in the form of concessionary contracts. If the transactions are premised purely on a transfer of a profitable stream of third party revenues then, on the assumption that this is recognised by both parties and built into the contract pricing, one would expect to see, at the point at which the contract is finalised, a gain reflected in the financial statements of the party which is transferring the stream of revenue, and a financial asset on the balance sheet of the provider. In only one of the transactions under consideration has this been the case. If however, the transactions are essentially finance based arrangements then, under the FRS 5 principles one would expect that the relevant asset and liability should continue to be recognised on

the books of the ‘purchaser’. This has not been the case in any of the transactions. Both University X transactions are treated as entirely ‘off balance sheet’, the University W W1 halls transaction is treated as a disposal without any disclosure of University W’s continuing commitments to the purchaser, the W2 transaction is ‘on balance sheet’ in respect to the asset but the ‘liability’ is classified as ‘deferred income’, an item which sits very uneasily within the conceptual framework set out by the ASB in its Statement of Principles. In truth from an economic perspective alone one might consider that all the transactions contain a mixture both of disposal and of financing.

In the absence of clear description of the transactions, interpretation or inference of the quasi-PFI nature of these contracts is also made more difficult by surrounding asset accounting issues. For instance, in both the University X transactions assets were contributed by University X. In X1 the assets were contributed at a zero written down value, in X2 at a written down value of £2.5m. If the transactions were to be accounted for on the basis of the disposal of the positive present value of a future stream of receipts then the asset values would be of relevance to the amount of gain disclosed. However, even if it is accepted that the contracts are archetypal PFI arrangements and should be accounted for as such then the question still arises as to whether the difference between the carrying value of the contributed halls and their value to the provider should have been reflected as a gain or loss on disposal at the point at which the transaction was agreed. In neither instance would the provider have priced the asset at depreciated historical cost when negotiating the lease terms and it is persuasively arguable that a better picture of the true cost of the lease agreement would be shown if the income statement reflected an appropriate gain or loss on disposal in respect to the contributed assets. Here the accounting for the University X transactions would appear to be premised on the, perhaps unlikely, assumption that the book value of long term property assets was equivalent to their economic value at the point of transfer.³⁵

³⁵ In 2007 H began work on a ‘quasi-PFI’ project at another Welsh university (Y). In the 2006 financial statements for University Y this activity is referred to in the Treasurer’s Report as follows: ‘Work continued during the year on the preparation of a Public-Private Partnership scheme to renew part of the residential estate which will result in the construction of over 1,000 bed spaces and the demolition of the poorest quality accommodation. The scheme received approval by Council following the year-end and therefore the impairment of asset values relating to those halls of residence which are to be demolished will be reflected in the accounts from the year ending 31 July 2007. This will have a one-off adverse impact on the Income and Expenditure Account of approximately £4.1m as these are

Eventually we have to concede that justification for some aspects of the accounting is simply not capable of interpretation without internal information.

For instance, the economic question of whether the transactions are best interpreted as disposals or as financing arrangements is highlighted most clearly by the accounting for the two University W transactions – and in particular its 2004 financial statements in relation to the W2 transaction. Such a gain could have amounted to more than £5m and would have very significantly impacted on the University W income statement. Here the issue for consideration would appear to be, as with the 2000 disposal of the leasehold on the W1 halls, whether there had been a transfer of substantially all the risks and rewards of ownership. Again, justification for the view that there had been no such transfer is set out in an internal document supplied to us by the university's auditor; an extract from which is set out below:

- '[University W] underwrites the occupancy level ... & compensates [H] for a shortfall against the planned income level – therefore the risk of obtaining tenants for the properties remains with [University W].
- [University W] retains rights over how the properties are used & [H] can only carry out alterations following agreement with [University W].
- At the end of the lease the properties revert to the University for nil consideration - [University W] retains the risk of any rise or fall in the market value of the village during the period of the lease.

These factors suggest that the risks and rewards of ownership stay with [University W] and in effect, [H] pays an amount upfront to [University W] in return for a guaranteed income stream for 25 years. The transaction is therefore deemed to constitute a financing arrangement, so the consideration is deferred and amortised in the financial statements of [University W] over the 25 year life of the agreement. The University effectively retains legal title to the properties therefore they remain in the balance sheet.'

written down. The capital value of the project is £31.9m but this will constitute an 'off balance sheet' scheme.'

Detailed consideration of this project is beyond the scope of the paper but here again there are issues as to how to most appropriately account for assets contributed to the scheme. Without further information we do not know whether the projected income and expenditure charge is the entirety of the book value of the halls to be demolished or whether there is any adjustment for land valuation. Whether the impairment should be recognised immediately (i.e. in 2006) (or perhaps have been recognised previously) is also an interesting matter for debate. More generally the scheme would appear to be similar to the X1 and X2 transactions in its conception and, in common with these schemes, be susceptible to questioning as to the suitability of 'off balance sheet' accounting by University Y in circumstances where there is likely to be asymmetry of accounting treatment between University Y and the supplier (whose identity is not disclosed in the Annual Report of University Y).

If the argument that this is purely a financing arrangement is accepted then this in turn leads to the question of how the £16.9m should be accounted for. If it is just an upfront payment by H for a guaranteed future income, effectively a loan to the University, then, as noted above, one would expect both that the credit entry in the University's balance sheet be shown as long term debt and not deferred income, and that the income statement would contain an appropriate interest charge reflecting the equivalent rate of interest on the transaction. Arguably support for this approach is to be found in the financial statements for H which, on the basis that the risks and rewards derived from the underlying asset have remained with University W, account for the transaction as a financial asset in the balance sheet. Consequently there is an annual offset to the financial asset representing repayment of capital and in the income statement there is an imputed annual interest charge.³⁶

Reflections

We have in these cases explored accounting for these partnering or quasi-PFI transactions from an economic rather than a contractual perspective, which though normative in a broad sense does not and perhaps cannot make any judgement about the correct reflection or otherwise of contractual terms. We acknowledge the argument that such judgements can only be attempted by those with access to full contractual documentation (Heald, 2003). However, it seems to us that this argument does not require scholarly withdrawal from interpretation of accounting treatment. An examination of the extent to which accountants are justified in ascribing to contract terms an indisputable objective nature, or to auditors' authority to determine them, is beyond the scope of this paper. We have a more limited interest in contract: the essence of contract that concerns us in this paper is contained not in an authoritative reading of a text but in its expression of mutually agreed meaning to the parties. This agreement we would expect to find reflected in their public reports and pronouncements, particularly at the outset when it seems reasonable to suppose agreement to be strong. Yet our cases suggest that alternative interpretations remain possible, and of particular interest to us is the extent to which these extend to the substance of the transaction as a whole. Since interpretation must include evaluation by each party of the risks accepted, expression through accounting treatment of differing understandings at an early stage in the life of a project not only raises

³⁶ HA 2004 financial statement notes 3,5,16.

questions about the ongoing operation, and thus value, of the contracts, but also has important implications for entity-focused accountability.

To highlight such implications, we can feasibly use the accounting treatment of a transaction to identify and interrogate the PFI perspectives on which it is apparently based. In the case of the University X transactions it seems clear that a service perspective on PFI has been adopted by the university, evidenced by the recording in its accounts of a single annual payment and operating lease treatment. In FRS 5 terms, the reader can only infer that the risks and rewards of the asset in property, as well as legal title, have been deemed transferred to HA. Yet this is not consistent with HA 's treatment of the same transactions, which records a financial asset rather than an asset in property, suggesting instead that University X retains significant risk. Although not referred to as such by either party, both treatments suggest that they interpret the transactions as sharing key characteristics of PFI, but their lack of symmetry clearly highlights the potential for alternative interpretation of its nature. Asymmetry cannot in this case be ascribed to the direct influence of different emphasis in Treasury reporting guidelines on the purchaser, as might be the case with true PFI transactions, since neither party reports under those rules.³⁷

Asymmetry can thus bring significant information value; here it is the comparison between parties rather than individual entity financial statements that suggest the PFI nature of the transactions. From value-for-money perspectives, lack of symmetry potentially gives rise to some concern, particularly, as Heald (2003) has pointed out, where any such party is in the public sector. Such concern seems to us justifiably extended to the quasi-public sector, given a broad interest in the financial stability of the public or charitable functions of the entities concerned. To support that interest, information enabling an evaluation of the extent to which this variety in treatment arises from differing views as to the weighting or transfer of risks and rewards relating to the property would surely be valuable.

The University W transactions are even less straightforward to interpret in terms of service and asset perspectives. Here reporting, in the form of an accounting policy note, focuses on the disposal of assets; rather than on the PFI elements of the

³⁷ As contained in the Government Financial Reporting Manual, *supra* note 3

transactions. The accounts are entirely silent on the question of service payments or other service arrangements in respect of both sets of transactions, yet in the W1 case there is also no acknowledgement of the underlying asset. While this appears to confirm the absence of an asset perspective on PFI, it does little to confirm the approach that has been taken. Without access to internal information, confirmation that this is a meaningful reporting gap rather than simple disposal of property, can only be obtained from other sources, both calculative and narrative: the accounts and website published by HA group (the latter referring to management and nomination agreements) and from University W's own website in which these properties are marketed to students by the university as part of its portfolio of 'leased and managed properties', indistinguishable from other properties of various status. The latter source may well be intended to enhance a 'seamless' customer service in a balanced supply portfolio, but at a minimum indicates that the properties apparently disposed of retain strategic value to the university.

Making the supposition that this kind of portfolio is indeed in place, where perhaps the notion of seamless delivery (i.e. blind to ownership or provider identity) even dominates the purchaser's understanding of the transaction or its communication with customers, leads to questions of broader applicability than the simple correctness or otherwise of this transaction. Extension of the same approach to financial reporting by the 'purchasing' entity, i.e. regarding partnership with third party providers as an internal or essentially administrative issue, may fail to fully portray potential financial activity (such as guarantees not yet called upon or the risk of diversion of customers from University-owned property). Likewise capacity to meet future customer demand will not be clear. Questions about completeness force one to ask to whom such entities are or should be considered accountable; this study suggests that any attempt to answer that question must ask whether the interests of all potential candidates can justifiably be considered as blind to provider identity as those ascribed, in this approach, to the customer.

Analysis based on fundamental economic perspectives essentially traces the only means available to the reader of making sense of the reported transactions in isolation. That approach allows us to conclude only that it is far from clear that any of the feasible economic motivating factors is fully reflected in the manner in which the transactions have been accounted for or in the concomitant disclosures. It is only by

cross-referencing to other published material, that we begin to find evidence of the quasi-PFI nature of the transactions studied here, though even with subsequent recourse to the limited internal information available to us the picture is not entirely clear. In adopting this approach we note the importance of disclosure practices vis-à-vis providers (suppliers); in three of the four cases the accounts identify the provider-partner to each of the transactions studied, and so a route to further analysis or confirmation of their nature. The first University W transaction was not accompanied by acknowledgement of the partner, and so an analysis beginning with these accounts would be limited indeed in the absence of informal information - or serendipity.

While each of the transaction sets contain interpretation issues that may not be replicated elsewhere, interpretation of each would be facilitated by fuller disclosure of their main characteristics. In this respect the emphasis of FRS 5 on revealing the substance of asset-based transactions nonetheless leaves scope for losing sight of the separated (whether artificially or not) service agreements, particularly where these share the characteristics of the W1 case. The question of whether such gaps, in both disclosure of substance and of providers or partners, is also found in true commercial contracts of this nature must await further research.

Summary and Conclusion

In this paper we have explored issues relating to the accounting for four quasi-PFI contracts in the context in which the 'provider' is a private sector, not for profit, housing association and the 'purchasers' are two institutions of higher education (both primarily publicly funded). We highlight the variety of accounting treatments employed and, from a normative perspective attempt to relate the suitability of these treatments to the economic underpinnings of the transactions themselves. In part we have done this on the basis of the information available in the published financial statements and the websites of the three parties involved. However we have supplemented this by means of direct enquiry of all three parties, which in the case of one of the purchasers has elicited documentary internal information.

Perhaps from a financial reporting perspective the more important implications relate to the ability of users of financial statements to access and interpret information as to transactions and arrangements entered into. Our own understanding of these

transactions and of the motivations underlying the multiplicity of accounting treatments employed is far from complete. However this understanding would have been still more imperfect if it was based purely on interrogation of the financial statements, without the benefit of web site information, direct enquiry and limited internal documentation, and informal knowledge of the sector. Relating this to the notion of hidden spaces between calculative practice and narrative explanation (Collier, 2005) we suggest that spaces in relation to these particular transactions exist in the financial statements of all three parties but particularly those of the 'purchasers'. Some of these spaces are and here interested parties can seek further knowledge by other means of enquiry (whether from the parties themselves, their auditors (subject to their duties of confidentiality to their client), or relevant regulators. In one instance in our study, the W2 transaction, this enquiry did result in a degree of infilling in that consequent to this enquiry more narrative disclosure was provided in the notes to the financial statements in the following year. Other spaces however, for example in relation to the W1 transaction were, and remain, almost completely hidden - there being no disclosure of the counter-party in the financial statements at the time of the disposal nor any disclosure (then or subsequently) of a contingent liability relating to a nominations agreement. In such circumstances it would be very difficult for an interested user, without the benefit of other knowledge, to know what questions to ask of the relevant organisation.

The initial impetus for the case study lay in concerns as to what the 'correct' accounting treatment should be in respect to the manner in which one of the transactions was accounted for by one of the parties. Although we have raised a number of issues as to the nature of the accounting and the extent of disclosure for all three parties, we acknowledge that without both a fuller knowledge of the detail of the contracts entered into and a deeper understanding of the motivations of the parties concerned one must be cautious about claims as to the superiority of one accounting treatment over another, and so emphasise the difficulties facing any well-informed reader in explaining and understanding the transactions in pure economic terms. We have in this paper explored the limitations and possibilities of our approach to contract, but are sceptical of the merits of extending this study into an attempt to define – and essentially adjudicate upon – contractual terms should they be made available to us. Maintaining the view that particular contracts are intended as an expression of mutual understanding, we see particular scope for examination of those

understandings and motivations of the parties in parallel observational case studies. The quasi-public entities that we describe, and especially quasi-PFI transactions or partnership relationships between them, have received relatively little attention from accounting scholars, and this study is far from exhaustive. However, we argue that it does identify a range of implications for accountability, suggesting a need for further research focused on similar transactions and entity relationships.

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