



European PPP Expertise Centre • European PPP Expertise Centre

# United Kingdom - Northern Ireland

## PPP Units and Related Institutional Framework





# United Kingdom – Northern Ireland

## PPP Units and Related Institutional Framework

June 2012

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## 1. Introduction - United Kingdom

The United Kingdom has historically been one of the largest markets for PPPs worldwide. However, within the United Kingdom, PPPs have been used in very different ways and at different levels of intensity.

The first PPP projects were started in the early 1990s and, despite changes of government, there was a steady increase in their use throughout that decade, with most activity being branded under the Private Finance Initiative (PFI). In addition to the PFI, the UK also makes significant use of other types of PPP, such as joint ventures, concessions and information and communication technology (ICT) PPPs. Consequently, the number and value of closed PPP projects remains high by international standards.

Post-1997 much of government policy was devolved, to varying degrees, to Scotland, Wales and Northern Ireland. Therefore, although HM Treasury (which, for comparison purposes, in fact serves as both a ministry of finance and ministry of the economy) retains overall control over tax and spending levels, the choice over how most of the money is spent within the devolved areas, and the procurement route chosen, is a matter for the relevant devolved administrations. This has led to significant differences in approach within the UK and also in how PPPs are used.

The EPEC “PPP Unit” reports for the UK are therefore structured to reflect these key differences:<sup>1</sup>

- for **England** and areas of spending that are not devolved (defence and some aspects of energy policy), the report illustrates the role of the PPP unit within Infrastructure UK (IUK), which is part of HM Treasury, in coordinating PPP policy for those areas for which it is responsible and its relationship with other key entities during the project cycle. It also sets out the history of the PFI prior to devolution;
- for **Scotland**, the report focuses on the work of the Scottish Futures Trust and its relationship with other key entities within Scotland and, where appropriate, the relationship with IUK and HM Treasury; and
- for **Northern Ireland**, the report focuses on the work of the Strategic Investment Board and its relationship with other key entities within Northern Ireland and, where appropriate, the relationship with IUK and HM Treasury.

It should be noted that in all areas of the UK there has been significant devolution to local/municipal level. This means that local authorities play a key role in the procurement of PPPs.

This report deals with Northern Ireland and has the following structure:

- Section 2 provides an introduction to PPPs in Northern Ireland;
- Section 3 describes the state of the PPP market;
- Section 4 sets out the role and structure of the central PPP unit;

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<sup>1</sup> For **Wales**, a report on the work of the Welsh Assembly Government and its relationship with other key entities within Wales and, where appropriate, the relationship with IUK and HM Treasury, has not been produced.

- Section 5 presents the role of other key public sector entities in PPPs;
- Section 6 deals with the legal framework for PPPs; and
- Section 7 provides an overview of the project cycle.

The report contains two annexes:

- Annex 1 provides an overview of the role and responsibilities of the central PPP unit in a template format; and
- Annex 2 contains an overview of key macroeconomic indicators for the UK.

### Glossary of Key Terms for the UK PPP Unit Reports

**Private Finance Initiative (PFI)** – PFI is the most common type of PPP used in the UK since the early 1990s. These are long-term contracts (typically 20-35 years) where the private sector constructs the project's assets (for example a building) and raises the required funding, usually on a project finance basis (i.e. where contractual payments from the public sector represent the primary security for funders).

**Revenue Expenditure (also called Resource) and Capital Expenditure** – government spending in the UK is often divided into revenue and capital as an accounting and budgeting tool. Revenue relates to spending on items that are consumed in the process of providing public services i.e. recurring spending, whilst capital relates to expenditure on fixed capital assets, capital grants and the acquisition of certain financial assets.

**Standardisation of PFI Contract (SOPC)** – SOPC is the standard contract on which most PFI contracts are based. SOPC is used, to varying degrees, as the basis for PPP contracts across the UK.

**Green Book** – This is the standard guidance document for evaluating projects issued by HM Treasury.

**OGC (Office of Government Commerce) Gateway Review** – a standardised review process based around the Green Book.

**SOC/OBC/FBC (Strategic Outline Case, Outline Business Case, Final Business Case)** – Stages of business case development largely standardised across the UK with some local/departmental variations. Business cases present the different options available and eventually the characteristics of a chosen project. This information is used to justify a project going ahead and consequently the successful presentation of these business cases is often linked to the approval process.

## 2. Introduction - Northern Ireland

The policy framework for the development of PPPs in Northern Ireland was developed in February 2003 within the context of the “Reinvestment and Reform Initiative” announced in May 2002.

The Strategic Investment Board Ltd (SIB) was set up in April 2003 under the terms of the “Strategic Investment and Regeneration of Sites (Northern Ireland) Order 2003”. SIB was established in law and has the lead role as the centre of excellence and expertise in PPPs. It also assists in operational work on project management and procurement for an agreed group of strategic projects.

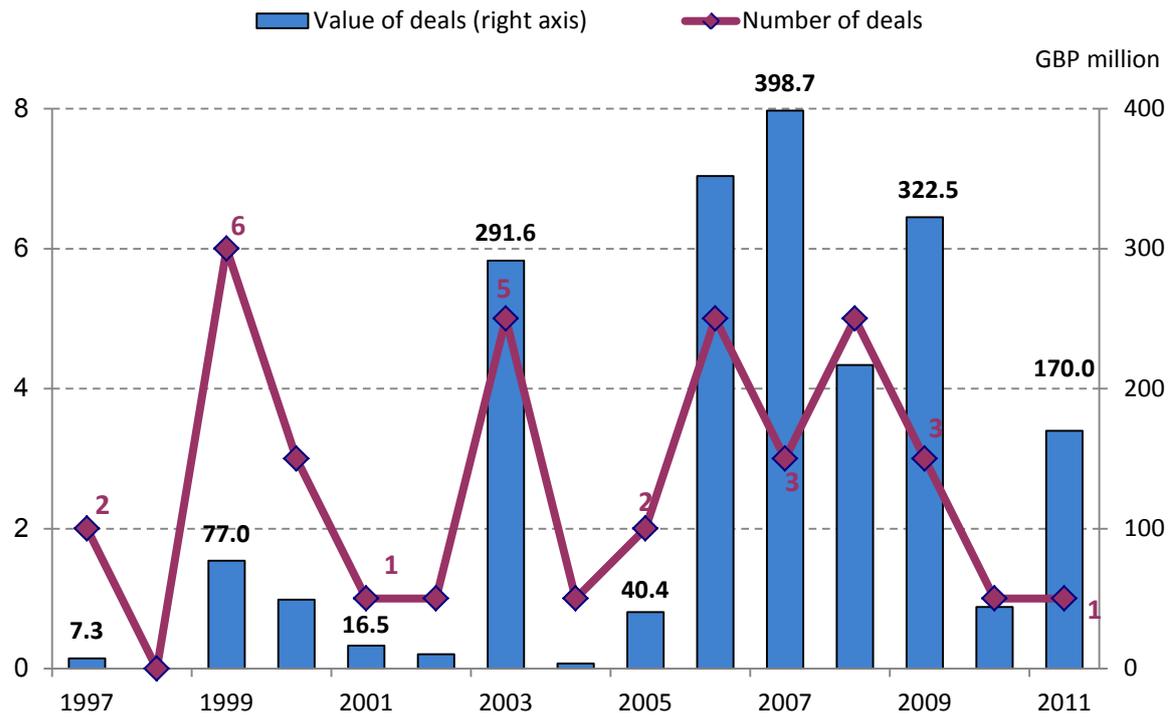
**Figure 1 - History of PPPs in Northern Ireland**

Feb 1999	First major PPP accommodation contract signed in Northern Ireland
Jul 2001	Northern Ireland Assembly’s Committee for Finance and Personnel recommends the establishment of a central investment board or procurement body to become a centre of excellence on investment and procurement
May 2002	Reinvestment and Reform Initiative established to address deficit in public sector infrastructure investment in Northern Ireland
Dec 2002	GBP 2 billion Strategic Investment Programme launched – of which GBP 700 million was expected to be delivered using PPPs
Feb 2003	Policy framework for Public Private Partnerships in Northern Ireland published
Apr 2003	Strategic Investment Board established as an executive agency
Jul 2003	HM Treasury publishes “PFI: meeting the investment challenge”

### 3. PPP Market

Figure 2 illustrates the volume of PFI deals in Northern Ireland over time.<sup>2</sup> To date, Northern Ireland has not used other forms of concession arrangements or joint ventures. The falling number of deals since 2008 reflects the impact of the financial crisis and, more recently, HM Treasury’s review of PFI.

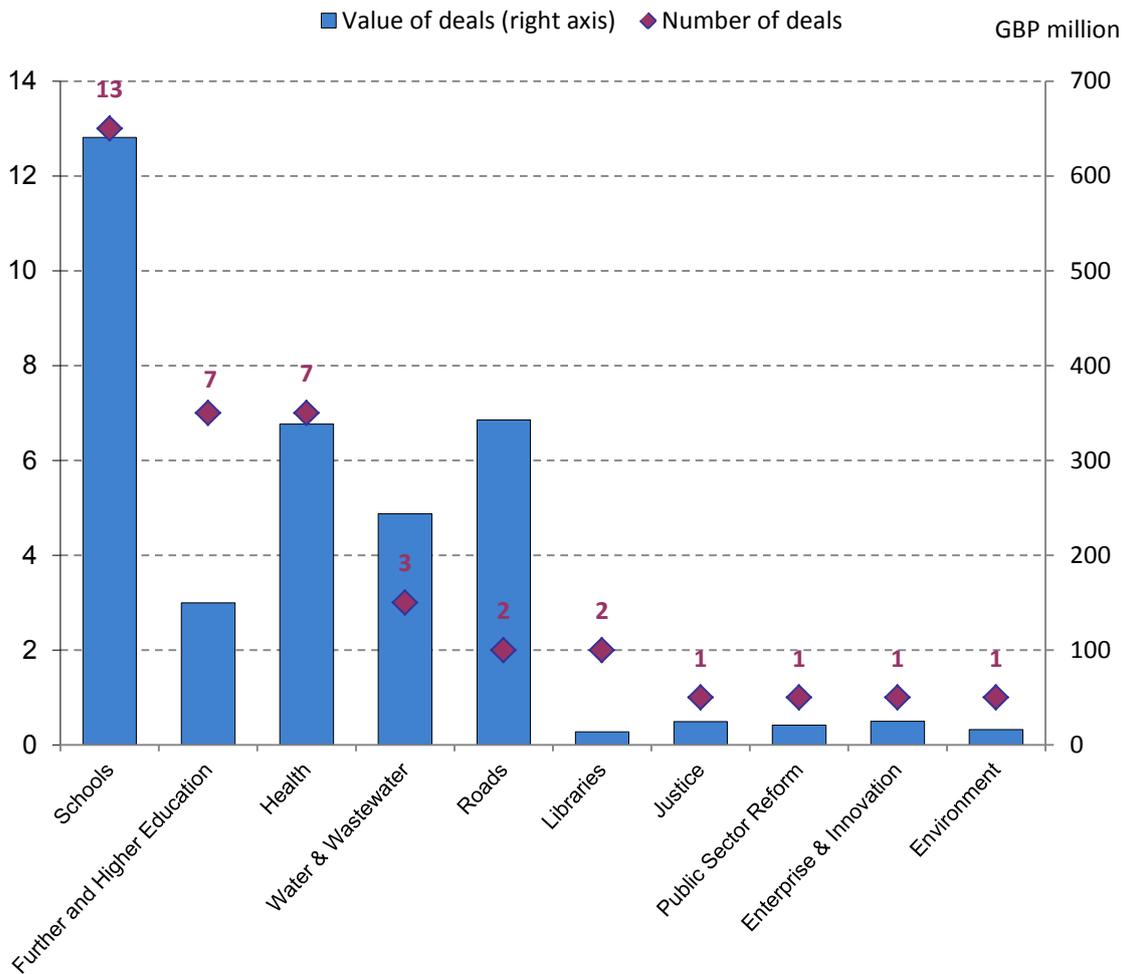
**Figure 2 - Number and value of PFI deals over time by financial year**



<sup>2</sup> Source: HM Treasury PFI signed projects list [www.hm-treasury.gov.uk/ppp\\_pfi\\_stats.htm](http://www.hm-treasury.gov.uk/ppp_pfi_stats.htm)

Figure 3 illustrates the wide range of sectors in which Northern Ireland has used PPPs. In February 1999, the GBP 40 million Laganside Courts project was the first major PPP accommodation contract signed in Northern Ireland. Prior to this, only two relatively small schemes had been procured. Over the period 2006 to 2009 deals worth GBP 1.3 billion were signed, representing the first major PFIs in Northern Ireland for water and wastewater, roads, schools and health projects

**Figure 3 - Number and value of PFI deals by sector**



## 4. Central PPP Unit

### 4.1 Background

SIB is a professional advisory company within the public sector in Northern Ireland and works wholly in the public interest. It was established in law in 2003 to bring investment expertise into the public sector in general, not just through PPPs. The SIB therefore works to accelerate the delivery of major infrastructure programmes and ensure that these programmes make good use of public money. The company is fully owned by and accountable to the Office of the First Minister and deputy First Minister (OFMDFM). SIB does not have formal policy responsibility or an approval role for PPPs as this is retained by the relevant department.

SIB is tasked by Ministers with three main roles to:

- prepare and oversee the Investment Strategy for Northern Ireland (ISNI), Northern Ireland's 10-year plan for infrastructure investment, and advise Ministers on effective implementation;
- support the procurement and delivery of major projects and programmes at the request of sponsoring departments in order to help accelerate delivery timetables and obtain better value for the taxpayer; and
- foster reform in systems and processes across the public sector through investment in better infrastructure.

### 4.2 Roles and Responsibilities

SIB has four key responsibilities which are summarised below and in greater detail in Box 1:

1. As stated above, it drafts the ISNI. This is a rolling ten-year plan describing the public infrastructure that government intends to deliver. The scope of the ISNI encompasses every area of government including education, health and transport, and reflects the Executive's priorities, as determined by Ministers. The next version of the strategy (ISNI3), has been drafted and is expected to be published in early-2013;
2. It assists the public sector in delivering large infrastructure projects and investment programmes. Working in partnership with government departments, SIB's role is to help accelerate delivery timetables and obtain better value for the taxpayer. In practice, this means that SIB deploys advisers in key project management and advisory roles within projects. Such advisers bring skills and experience in procuring major investment projects to both the private and public sectors;
3. It is responsible for asset management through its Asset Management Unit. The Executive authorised the establishment of the unit in January 2011 and gave it responsibility for realising GBP 100 million from surplus public sector assets over the period 2011-2015. The Asset Management Unit also

maintains the public sector asset database and supports departments in making effective and efficient use of their property assets; and

4. SIB seeks to encourage reform in how infrastructure is delivered. It helps build public sector capability by encouraging the development of specialist skills and the use of innovative approaches to procurement.

### **4.3 Coverage**

SIB works with the Executive's departments and agencies to help them achieve delivery of major public infrastructure projects at lower cost, with reduced risk and on a faster timescale than would otherwise be the case. In parallel, SIB works to inform the private sector about planned projects, build its confidence in the capabilities of the public sector and stimulate market interest.

### **4.4 Role of the Central PPP Unit in the Project Cycle**

SIB involvement usually occurs during the early stages of the project cycle and in advance of the procurement phase. Where a highly complex project is being taken forward, a "programme delivery unit" may be formed whereby SIB deploys advisers in key project management and advisory roles who remain in place until the project is successfully delivered and in its operational phase.

### **4.5 Location within Government and Structure**

SIB is a limited company wholly owned by the Office of the First Minister and deputy First Minister (OFMDFM) and financed from within its departmental expenditure limit. The Board of SIB is accountable to the First and deputy First Ministers.

### Box 1: Services Provided by SIB<sup>3</sup>

<p><b>Project Delivery</b></p>	<p>SIB supports projects that are complex, high risk and have high visibility and typically supports around 50 projects/programmes at various stages of development. It works directly with clients to:</p> <ul style="list-style-type: none"> <li>- identify appropriate procurement strategies (e.g. frameworks, strategic partnering, PPPs) or develop new methods to improve value for money;</li> <li>- get a better deal through effective risk analysis and commercial deal structuring; and</li> <li>- represent the public sector when undertaking commercial negotiations with the private sector.</li> </ul>
<p><b>Asset Management</b></p>	<p>The SIB's Asset Management Unit works across all Northern Ireland government departments. The unit is tasked with developing and delivering:</p> <ul style="list-style-type: none"> <li>- a region-wide "asset management strategy";</li> <li>- departmental "asset management plans"; and</li> <li>- a mandatory central asset database.</li> </ul>
<p><b>Strategic Advice</b></p>	<p>SIB works with stakeholders across the public, private, voluntary and community sectors to assist the ongoing transformation of Northern Ireland. This includes developing innovative approaches to maximise economic opportunities in an increasingly competitive global environment.</p>
<p><b>Community Regeneration</b></p>	<p>SIB works with stakeholders across the public, private, voluntary and community sectors to assist the ongoing transformation of Northern Ireland. This includes developing innovative approaches to maximise economic opportunities. The team works with stakeholders to:</p> <ul style="list-style-type: none"> <li>- evaluate regeneration opportunities, particularly the catalytic effect of public sector investment in deprived areas;</li> <li>- engage effectively with local communities to secure their input and buy-in to local investment and regeneration schemes; and</li> <li>- coordinate action at a local level. Its expertise includes programme management skills, business case development, and dealing with Northern Ireland, United Kingdom and Republic of Ireland departments and EU directorates and initiatives.</li> </ul>

<sup>3</sup> From [http://www.sibni.org/index/about\\_sib.htm](http://www.sibni.org/index/about_sib.htm)

#### **4.6 Staffing**

SIB's services are delivered by a core team of 18 "strategic advisers" who work directly with Ministers and their senior officials. Advisers bring experience of funding and implementing major investment projects from across the EU and further afield. They are selected based on expertise in key disciplines such as strategic advisory, EU procurement law, civil engineering, project finance, government accounting, commercial negotiation, and major programme/project management. The majority of these advisers have private sector experience in these areas..

#### **4.7 Funding**

SIB's activities are funded by the OFMDFM. In 2011/12 SIB's budget totalled GBP 6.5 million.

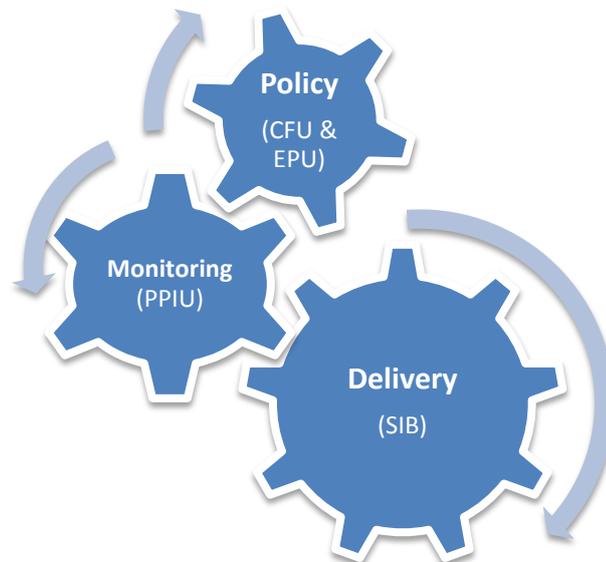
#### **4.8 Reporting and Accountability**

SIB's Board comprises a chairman and five other non-executive directors plus a chief operating officer. Members of the Board are appointed directly by, and are accountable to, the First and deputy First Ministers.

## 5. Key Entities in the PPP framework

This section sets out the respective roles and responsibilities of the key players in relation to infrastructure in Northern Ireland focusing on how PPPs would be delivered within this framework (Figure 4 provides a short illustration of this).

**Figure 4 - How Key Entities Work Together in Northern Ireland**



### 5.1 Central Finance Unit

The Central Finance Unit (CFU) within the Department of Finance and Personnel plays a key policy role in being responsible for managing borrowing and public expenditure as a whole, taking into account the use of PPPs by departments. It also provides quality assurance concerning the economic appraisal of all PPP projects and, in conjunction with the Public Private Investment Unit (see below), has responsibility for the development and co-ordination of PPP policy in the public sector in Northern Ireland.

### 5.2 Economic Policy Unit

The Economic Policy Unit (EPU) in the OFMDFM also has a policy role in providing funding and oversight and setting out the overall policy framework for PPPs. On a day-to-day basis this work is carried out by the Public Private Investment Unit (see below), which monitors the implementation of policy. SIB is responsible for delivery; the EPU works jointly with the CFU in considering the recommendations of SIB in light of wider budgetary issues and also provides advice to Ministers.

### 5.3 Public Private Investment Unit

The Public Private Investment Unit (PPIU) was established within the OFMDFM to advise Ministers on the development and co-ordination of PPP policy and to monitor and evaluate its implementation. It carries out its work in conjunction with the finance and procurement teams in the Department of Finance and Personnel and supports the work of SIB. The unit is responsible for advising Ministers on the development and co-ordination of PPPs and providing the oversight and monitoring of SIB.

### 5.4 Government Departments

Table 1 below shows which of the departments have delivered infrastructure using a PPP. None of these departments has established a departmental private finance unit and SIB performs this function across government.

**Table 1 - Usage of PPPs by Department**

Department	PPPs used to date or currently in procurement?
Office of the First Minister and deputy First Minister	No
Department of Finance and Personnel	No
Department of Education	<b>Yes</b>
Department of Enterprise Trade and Investment	No
Department of Health, Social Services and Public Safety	<b>Yes</b>
Department for Social Development	No
Department for Employment and Learning	<b>Yes</b>
Department of Justice	No
Department of the Environment	<b>Yes</b>
Department of Culture, Arts and Leisure	No
Department for Regional Development	<b>Yes</b>
Department of Agriculture and Rural Development	No

### 5.5 Local Procuring Authorities

To date, local procuring authorities have had no PPP involvement although, as authorities assume greater responsibility for services over a wider geographical area, this may change. Currently, there are 26 local councils throughout Northern Ireland. As a result of the Review of Public Administration launched by the Executive in 2002, a programme is underway to reduce the number of councils to 11 by 2015. As a result of the programme, local authorities will assume greater responsibility for the delivery of services that are currently undertaken by central government departments (e.g. road maintenance).

## **6. Legal and Policy Framework**<sup>4</sup>

### **6.1 PPP-Specific Legislation**

As with the rest of the UK, there is no specific PPP legislation for Northern Ireland. The normal principles of UK law support and apply to PPPs without the requirement for general enabling legislation. Individual pieces of legislation have however been introduced to deal with particular aspects of PPP transactions (for example, the application of certain construction and insolvency laws).

### **6.2 Procurement Law**

As with all publicly procured goods and services, the procurement of a PPP project is in line with European procurement laws and recent practice has been to use the competitive dialogue process.

### **6.3 Contractual Forms**

SIB published the third edition of "Standardisation of PFI Contracts" (or "SoPCNI 3") in January 2009 to reflect the fourth version of HM Treasury's own SoPC. The latest edition incorporates new legislation and the most up to date developments in the PFI market.<sup>5</sup>

### **6.4 Financing Structures**

To date, in Northern Ireland, no joint venture or concession arrangements other than PFIs have been used.

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<sup>4</sup> More information on the UK's approach to the legal and policy framework is contained in the UK-England PPP Unit Report.

<sup>5</sup> The detailed guidance is available at: [www.sibni.org/index/about\\_sib/available\\_information/content-sopcni.htm](http://www.sibni.org/index/about_sib/available_information/content-sopcni.htm).

## 7. Overview of the project cycle

As set out in Table 2, the project cycle in Northern Ireland follows a similar pattern to that followed in other parts of the United Kingdom.<sup>6</sup> As set out in Section 4, SIB plays a strong advisory support role within the project cycle but does not, apart from approving the tendering documentation, have a formal policy or approval role. As set out in Section 5, individual departments are ultimately accountable for the progress of their PPP projects.

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<sup>6</sup> Although there are local and Departmental differences the broad approach to the project cycle is set out in more detail in the UK-England PPP Unit report.

**Table 2: Key Steps in the Northern Ireland Project Cycle**

PPP PROJECT CYCLE		
Phase	Key Stages	Key Steps
1. Project Identification	1.1 Project selection and definition	<ul style="list-style-type: none"> <li>• Identification</li> <li>• Develop output specification</li> <li>• “Strategic Outline Case” submitted for approval</li> </ul>
	1.2 Assessment of options	<ul style="list-style-type: none"> <li>• Affordability</li> <li>• Risk allocation</li> <li>• Accounting and budgeting treatment</li> <li>• Bankability</li> <li>• Value for money and affordability</li> </ul>
APPROVAL OF STRATEGIC OUTLINE CASE BY SPONSOR DEPARTMENT AND DEPARTMENT OF FINANCE		
2. Detailed Preparation	2.1. Getting organised	<ul style="list-style-type: none"> <li>• Formalise project team</li> <li>• Arrangements in place for advisory support</li> <li>• Plan and timetable developed</li> <li>• Preferred option identified – value for money and affordability reconfirmed</li> <li>• “Outline Business Case” submitted for approval</li> </ul>
	2.2 Pre-tender actions	<ul style="list-style-type: none"> <li>• Detailed PPP design</li> <li>• Procurement approach developed</li> <li>• Evaluation criteria set</li> <li>• Key elements of contract developed</li> </ul>
APPROVAL OF OUTLINE BUSINESS CASE BY SPONSOR DEPARTMENT AND DEPARTMENT OF FINANCE		
3. Procurement	3.1 Bidding process	<ul style="list-style-type: none"> <li>• OJEU notice and prequalification</li> <li>• Invitation to tender</li> <li>• Negotiation/competitive dialogue</li> </ul>
	3.2 PPP contract and financial close	<ul style="list-style-type: none"> <li>• Preferred bidder notified (subject to approval of “Appointment Business Case”)</li> <li>• “Full Business Case” submitted for approval</li> </ul>
APPROVAL OF FULL BUSINESS CASE – LEADING TO CONTRACT AWARD		
4. Project Implementation	4.1 Contract management	<ul style="list-style-type: none"> <li>• Management responsibilities</li> <li>• Monitoring service outputs</li> <li>• Changes to the PPP contract</li> <li>• Dispute resolution</li> <li>• PPP contract termination</li> </ul>
	4.2 Benefits realisation	<ul style="list-style-type: none"> <li>• Project evaluation review</li> <li>• Post- project review</li> </ul>

## **ANNEX 1 - Overview of the Central PPP Unit (the Strategic Investment Board) and its institutional framework**

### **1. General structure of the Central PPP Unit<sup>7</sup>**

Location within government	Independent Executive Agency owned by Office of First and deputy First Minister
Reporting and accountability	First and deputy First Minister
Part of general procurement unit	No
Sectors	All
Coverage	Region-wide
Funding	Public
User fees	No
Success based fees	No
Staffing	Approx. 50 (PPP and non-PPP)
Secondments	Inward – 1; outward – 25
Public-private mix	Mostly private sector background
Difficulties in attracting staff with PPP expertise	No
Difficulties in retaining staff	No

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<sup>7</sup> EPEC member since 2012.

## 2. Operational Framework for the Central PPP Unit

Business Planning	
Involvement in identification/planning	Yes
Develop business case/feasibility study	Yes
Assess feasibility	Yes
Approve/qualify as PPP	No
If so, is this binding?	n/a
Provide recommendations to approval bodies	Yes
Assist in finding advisers	Yes
Sit on steering/oversight committee for the project	Yes
Sit on project team/group*	Yes

\* If project manager

Procurement process	
Act as procuring authority for the project	No
Approve tender documentation	Yes
Sit on steering/oversight committee for the project	No
Sit on project team/group	Yes
Involvement in contract negotiation	Yes
Bid evaluation	Yes
Bid approval	No
Involvement in post-preferred bidder negotiations	Yes
Involvement in financial closing (e.g. closure of the swap)	Yes
Approve final contract	No
Sign final contract	No
Approve the financing documentation	No

Project implementation	
Approve renegotiation during construction	No
Approve renegotiation during operation	No
Payment oversight	No
Contract management	No
Monitor implementation	Yes

Market development	
Determine and share best practice (guidance, lessons learned)	Yes
Develop PPP policy	No
Develop standard documentation (e.g. RFP, contracts)	Yes
Promotion of PPPs (e.g. market awareness)	Yes
Training	No
Database development and management	Yes

## ANNEX 2 – Macroeconomic indicators – United Kingdom

UK is classified as a high income OECD member by the World Bank. IMF estimates that its GDP in 2011 was USD 2,480 billion, with GDP per capita reaching USD 39,604 in the same year. Chart 1 shows GDP per capita expressed as a percentage of the average value for the EU27 group. As shown, since 2004 UK GDP per capita has been following a slightly downward trend. Nonetheless it remains above both the EU27 and the EU 15 (EU member countries which joined before 2004) average.

As shown in chart 2, UK GDP growth follows very closely the EU15 trend. UK's economy was growing at rates between 2 and 3% before the outbreak of the international financial crisis, when UK GDP growth dropped to zero in 2008 and to -4.8% in 2009. The recovery has been in line with EU averages (UK's GDP registered a +1.3% increase in 2010 and +1.1% in 2011) and IMF forecasts predict UK's growth rates to return at pre-crisis levels from 2013.

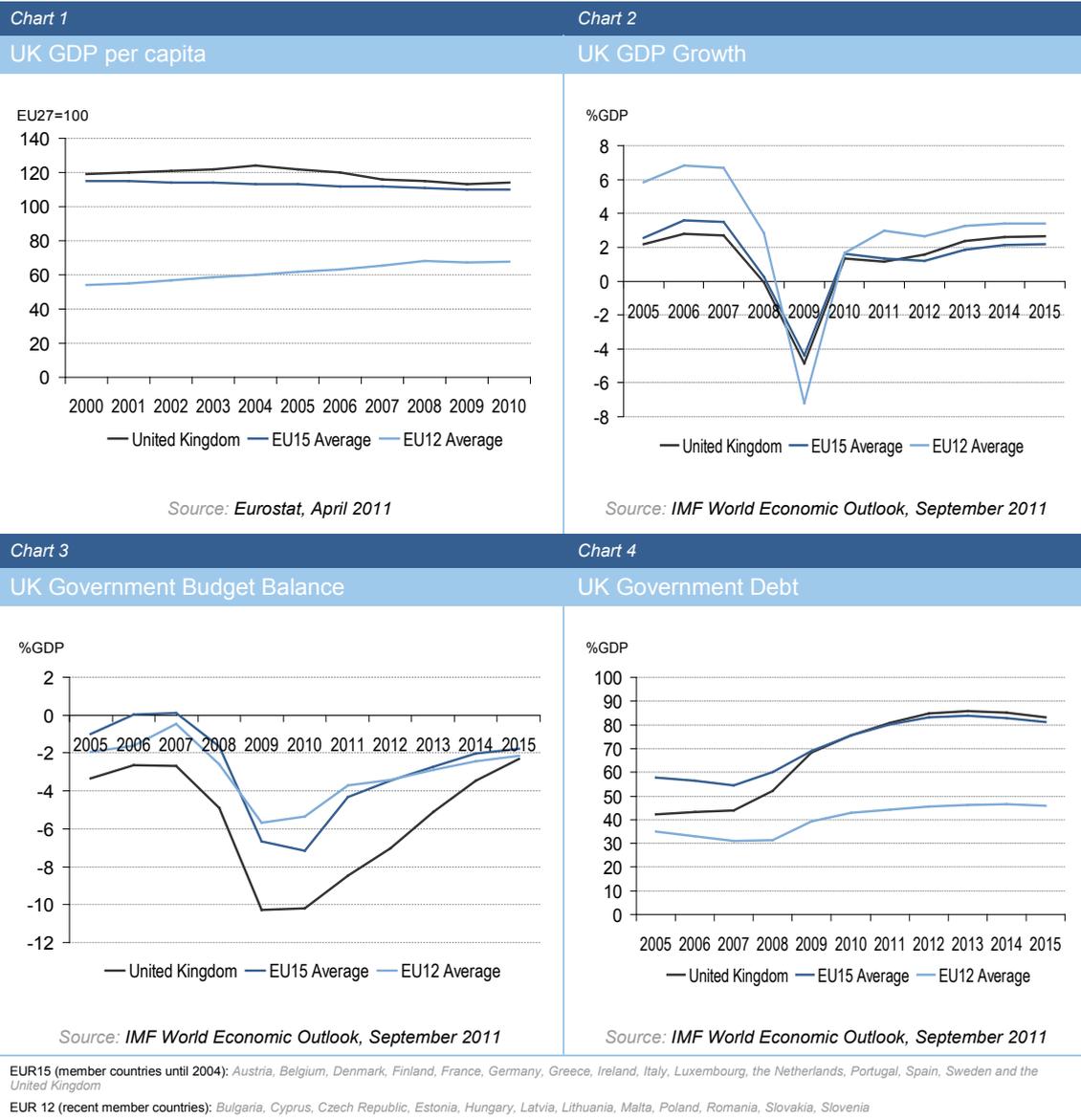
Chart 3 shows the UK Government budget balance compared with the EU15 and the EU12 average. As shown, UK has been running a significantly higher deficit than both the EU15 and the EU12 averages, both prior to and during the crisis. IMF forecasts expect the deficit to gradually decrease in the following years, remaining however consistently higher than EU averages until 2015.

UK's debt stock has been consequently influenced by the high level of deficit spending. As shown in chart 4, debt increased sharply between 2007 and 2009 (from 44% of GDP in 2007 to 69% in 2009) and now matches the EU15 average. IMF forecasts expect the UK debt to reach a peak in 2013 (85%) and then decline.

UK sovereign debt currently enjoys triple-A ratings from Fitch, Moody's and S&P. Moody's placed UK's rating on negative outlook in February, following concerns about the impact of the Eurozone crisis over growth prospects of the UK economy.

The World Economic Forum (WEF) ranks the UK economy 10th in terms of competitiveness (6th in terms of infrastructure). The 2012 World Bank Doing Business report ranks UK as 29th in terms of business regulations.

United Kingdom	
<i>United Kingdom of Great Britain and Northern Ireland</i>	
	<b>Capital:</b> London <b>Population:</b> 62,262 m <b>- growth:</b> 0.5% <b>- density:</b> 255/km <sup>2</sup>
Macroeconomic and fiscal indicators	
<b>GDP:</b>	(2011, Nominal, 09/2011, IMF estimate)
- total:	USD 2,480.98 bn
- per capita:	USD 39,604
<b>Real GDP growth:</b>	+1.13 %
Government Budget	
(% of GDP, 2011)	(02/2012, EIU estimate)
- revenue:	40.9
- expenditure:	49.5
- balance:	-8.6
<b>Public Debt:</b>	81.9
Long Term Sovereign Debt Ratings	
	(updated 21/02/2012)
<b>Fitch:</b>	<b>AAA (Stable)</b>
<b>Moody's:</b>	<b>Aaa (Negative)</b>
<b>Standard &amp; Poor's:</b>	<b>AAA (Stable)</b>
Rankings	
<b>WB Doing Business 2012 rank:</b>	<b>7</b>
- change in rank since 2010:	-1
<b>WEF Global Competitiveness 2011 rank:</b>	<b>10</b>
- Infrastructure subindex rank:	6









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