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Determinants of the cost of capital for privately financed hospital projects in the UK

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Figure 1. Quarterly time series of PFI profitability (Net IRR, right axis) and indicators of business conditions (term spread, left panel; default spread, right panel)
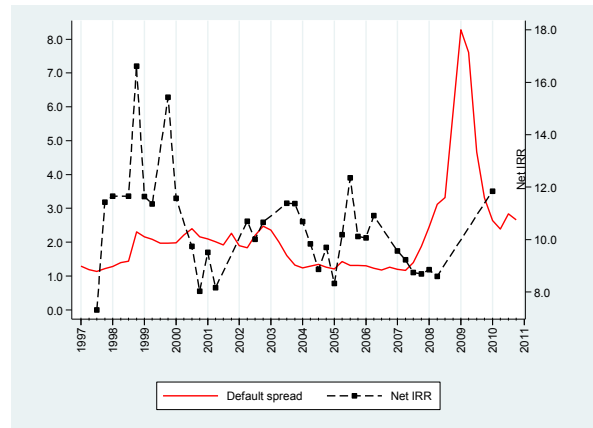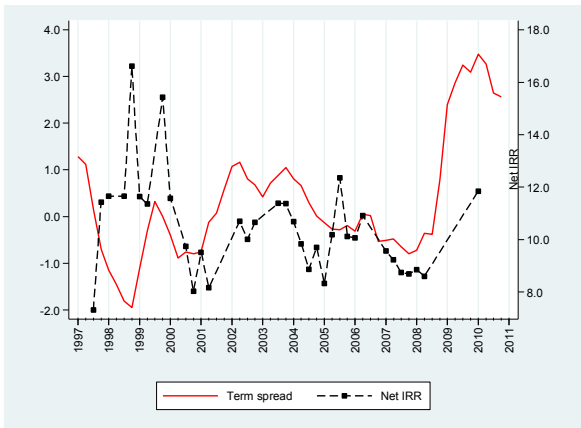
Table 1
Summary of project characteristics.

Variable	Sample (N=84)		Sole sponsorship (N=18)		Consortium			
					Two sponsors (N=36)		More than two (N=30)	
	Mean	Median	Mean	Median	Mean	Median	Mean	Median
Net IRR	10.29	10.02	9.80	9.73	10.12	9.57	10.81**	10.64*
Length	30.88	30.00	29.97	30.00	31.10*	30.00**	31.17*	30.00*
Capital	146.31	68.64	43.68	30.12	159.88***	88.39***	191.61***	86.45***
Negotiation	4.5	3.63	3.40	3.63	5.73	3.21	3.68	3.75

Differences in characteristics between sole sponsorship projects and those involving a consortium of financiers are assessed by means of t-test and Wilcoxon test.

***,**, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Table 2.
Correlation matrix between measures of sponsor reputation (size, age, number and value of recent deals).

Proxy	Ln(1+Size)	Ln(1+Age)	Ln(1+Deals-number)	Net IRR
Ln(1+Size)				0.145
Ln(1+Age)	0.392***			0.061
Ln(1+Deals-number)	0.036	0.182		-0.291**
Ln(1+Deals-value)	0.072	0.239**	0.950***	-0.211*

For a given sponsor, reputation proxies are computed as simple averages, over projects. The last column presents the correlation between reputation proxies (measured at the lead sponsor level) and the equity IRR in excess of the risk-free rate (Net IRR).

***,**, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Table 3.
Drivers of PFI performance.

Variable	Level	Size (1)	Age (2)	Deals-number (3)	Deals-value (4)
Term spread	Macro	0.840***	0.944***	0.757***	0.842***
		(0.138)	(0.102)	(0.149)	(0.161)
Default spread		-0.457**	-0.293	-0.330*	-0.274
		(0.196)	(0.173)	(0.165)	(0.171)
Ln(Length)	Project	2.335	1.667	1.237	1.412
		(1.592)	(1.880)	(1.606)	(1.725)
Ln(Capital)		0.030	0.180	0.071	0.096
		(0.135)	(0.174)	(0.169)	(0.150)
Ln(Negotiation)		0.291	0.269	0.088	0.180
		(0.292)	(0.494)	(0.317)	(0.335)
Sole sponsor		0.196	0.191	0.020	0.143
		(0.291)	(0.337)	(0.384)	(0.385)
Ln(1+Size)	Firm	0.030**			
		(0.014)			
Ln(1+Age)			0.009		
			(0.082)		
Ln(1+Deals-number)				-0.605	
				(0.395)	
Ln(1+Deals-value)					-0.074
					(0.089)
Adj. R-squared		0.440	0.415	0.441	0.400
Obs.		68	68	68	68
Unique lead sponsors		32	30	28	28

The dependent variable is the equity IRR in excess of the risk-free rate (Net IRR). Firm-level variables are measured at the lead sponsor level. Columns (1)-(4) use different measures of firm reputation. All specifications include lead sponsor industry (first two-digit SIC code) fixed effects. Robust standard errors are clustered at the lead sponsor level and reported in parentheses. ***,**, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.