

UK government spending**Call for 'radical' change of policy on PFI**

MAY 2, 2012 by: Hannah Kuchler

The UK government should rethink its private finance initiative which often hands "eye-waveringly high" profits to investors at the expense of the taxpayer, a committee of MPs has warned.

The Commons public accounts committee urged the Treasury to use its review of PFI to produce a "radical" change in policy which reflects the low risk that investors take on in government-backed projects.

Profits could be handed back to the public authorities if they are deemed excessive, it said.

"For too long, public sector authorities have treated 30-year PFI contracts as the only game in town. This has to end," said Margaret Hodge MP, chair of the committee.

"The current model of PFI is unsustainable. Time and again my committee has reported on problems with PFI, including the costly contracting process and the prospect of little risk being transferred but high returns being enjoyed by investors."

Around 700 projects have been delivered under the model for attracting private investment in public sector projects since it was launched 20 years ago. There are about £200bn of outstanding contracts covering up to the next 30 years.

"The Treasury should introduce standard contractual arrangements to recover excess cash left after contractors have met bank requirements; and share in other investor returns above defined levels," the report said.

Contractors have previously warned that restrictions on equity returns for PFI projects risk pushing investment abroad to countries such as Canada and Australia.

The contracts, which require fixed payments every year, are forcing public bodies to make more cuts to services than they might otherwise need to make, the committee said.

Public sector projects have used PFI as the "only feasible procurement route" because the funding does not add to the national debt or an authority's capital budget.

The committee recommended that the Treasury should ensure that all new business cases demonstrate "private finance is being used because it is better than a conventional procurement and not because it is the only financing alternative".

The report also criticised the procurement process which takes "too long, costs too much and restricts the market". It often pits inexperienced local bodies without sufficient commercial and financial skills against experienced private companies, the report said.

The Treasury said: "The government has already taken action to drive savings in the use of private finance. We aim to deliver a new model, which draws on private sector innovation but at a lower cost to the taxpayer and with better value for public services."

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