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Call for 'radical' rethink of PFI

Andrew Woodcock | Wednesday 2 May 2012 07:54 BST | [0 comments](#)



An influential committee of MPs today demanded a "radical" rethink of the Government's Private Finance Initiative, branding the model for attracting private cash into public sector projects expensive and unsustainable.

Some 700 projects have been delivered under PFI since its introduction 20 years ago, and the taxpayer is committed to spending of around £200 billion in contracts covering as much as 30 years.

But the Commons Public Accounts Committee (PAC) warned that, in too many cases, investors have made "eye-wateringly high" profits while taxpayers are trapped in expensive and inflexible contracts.

And it said that the contracts - which require fixed payments every year - are forcing public sector bodies such as NHS trusts to make deeper cuts to services during the current period of austerity.

The Treasury announced in December that it would carry out a "fundamental reassessment" of PFI in order to develop a new delivery model that draws on private sector innovation at a lower

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the true level of risk taken on by private companies.

Under the current set-up, investors have made annual returns as high as 60% by selling their shares in PFI projects, and there is evidence of "excess profits" being built into the initial pricing of contracts, said the report.

The PAC quoted a study suggesting that annual PFI charges paid by the public sector are 3%-5% higher than necessary because of inefficiencies in the way that the cost of providing equity is priced into the deals.

Public bodies using PFI to fund the construction and servicing of projects like hospitals, prisons or schools are required to show that the scheme will deliver better value for money than conventional procurement methods.

But the report said that the scheme had been treated by many as "the only feasible procurement route", in part because it allowed the cost of projects to be kept off the balance sheet.

Once the long-term contracts have been signed, it is "very difficult" to make changes, noted the MPs.

NHS trusts in particular were finding it difficult to meet their liabilities out of reduced resources. The report cited the example of the Queen Alexandra Hospital in Portsmouth, where the trust cut 700 jobs and closed 100 beds in an effort to manage annual running costs of £40 million.

PAC chairman Margaret Hodge said: "When a public authority chooses to fund a project using private finance it must be able to demonstrate that this was the best way to deliver real value for money for the taxpayer, not just a way to keep the project off the balance sheet.

"For too long, public sector authorities have treated 30-year PFI contracts as the only game in town. This has to end.

"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.

"Thirty-year contracts are inflexible and don't allow managers to alter priorities or change services that have become outdated. We have even seen evidence of excess profits being priced into projects from the start.

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"The Treasury review must find a private finance funding model that allows flexible delivery of public services and ends the era of investors receiving eye-wateringly high rewards while taking ever decreasing risks.

"Private companies benefiting from taxpayer-funded contracts must be transparent over the use of public money so that the public can be assured that value is being secured from the investment."

A Treasury spokeswoman said: "We welcome the PAC's support for the Government's fundamental review of private finance.

"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.

"This will ensure a fair deal for the taxpayer now and for the long term."

PA

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