Finance

NEWS & INSIGHT FOR PUBLIC FINANCE PROFESSIONALS

PAC slams ‘excessively high’ PFI returns

| 1 May 12

The Public Accounts Committee today called for an end to the routine use of the Private Finance Initiative to pay for public infrastructure, saying some of the private sector profits were ‘difficult to justify’.

By Richard Johnstone | 2 May 2012

The Public Accounts Committee today called for an end to the routine use of the Private Finance Initiative to pay for public infrastructure, saying some of the private sector profits were ‘difficult to justify’.

In some cases, private investors were making ‘excessively high returns’, as much as 60%, the MPs found. They said the PFI model, which has been used by successive governments to pay for around 700 projects over the past 20 years, was unsustainable and ‘inappropriate’.

The committee’s report, *Equity investment in privately financed projects*, called on the Treasury to collect more data on investors’ returns in PFI schemes, and to introduce transparency to show these are in line with risks taken on.

The report follows one from the committee in September last year that concluded the PFI was ‘a better deal for the private sector than the taxpayer’.

Today, the committee said some of its earlier concerns about the PFI had still not been addressed, including the use of long inflexible contracts, typically 30 years.

As well as introducing greater transparency, the government is urged to address these ‘intrinsic flaws’ by increasing flexibility in how private finance is used, and by making procurement quicker.

Although the Treasury is reviewing the use of the PFI, 41 contracts have been concluded under the current government and more than 30 are currently being negotiated.

Committee chair Margaret Hodge said that any new PFI deals ‘must be able to demonstrate that this was the best way to deliver real value for money for the taxpayer’ and ensure this ‘is properly tested at the outset’.

She added: ‘The current model of the PFI is unsustainable. Time and again my committee has reported on problems, including the costly contracting process and the prospect of little risk being transferred but high returns being enjoyed by investors. The 30-year contracts are inflexible and don’t allow managers to alter priorities or change services that have become outdated.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.’

The Treasury 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’, she said.

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

In evidence to the committee, the Treasury maintained it had no bias in favour of the PFI and had stopped its use for housing and waste projects. However, the PAC said incentives continue to favour its use, most notably European statistical rules that mean most PFI projects are excluded from departmental capital budgets and the national debt.

Although changes to financial accounting rules now require most projects to be on balance sheet for accounting purposes, only 20% of long-term PFI liabilities are recorded as debt in the national accounts, the report added.

latest

2 Jun 17 **Labour NHS plans “most generous”, but only initially – King’s Fund**

2 Jun 17 **Wisdom of crowds: public services and crowdfunding**