PFI firms should be forced to share excessive profits with councils and health trusts

Companies should be forced to share excessive profits from Private Finance Initiative deals with cash-strapped councils and health authorities, MPs have said.

Margaret Hodge MP, the committee's chairman, said: "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. Photo: Rex Features

By Christopher Hope, Senior Political Correspondent

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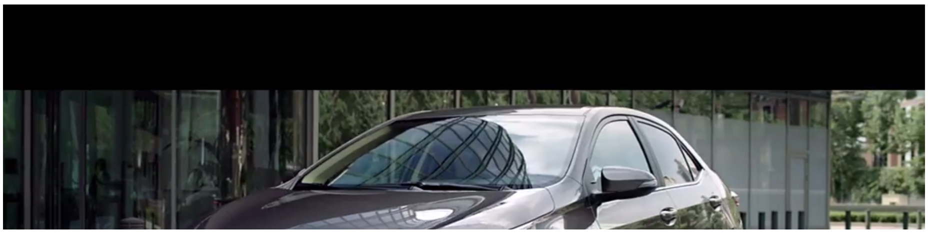
The news came after a series of disclosures in *The Daily Telegraph* about the excessive cost of PFI deals and a campaign by Tory MP Jesse Norman.

PFI schemes, which were introduced by the Tories in the 1990s and expanded under Labour, are seen as a cheaper way to get new roads and hospitals built.

However, under PFI, taxpayers are committed to pay £229 billion for new hospitals, schools and other projects with a capital value of just £56 billion.



MPs on the Public Accounts Committee said in a report published today that there should be clauses in PFI contracts to allow local authorities and health trusts to share any excessive profits.

One construction firm had made £31m out of a £12m investment in just a few years, according to the report, titled '*Equity Investment in pirvately financed project*s'.

The MPs said: “Where there is evidence that investors are making high rewards during the contract period which are out of line with the risks they bear, public authorities need mechanisms for sharing in these rewards.”

Council leaders said last night that the idea was "attractive", but pointed out there could be "practical difficulties" of making it happen.

Sir Merrick Cockell, chairman of the Local Government Association, said: “Clawing back money from those shown to have overcharged the taxpayer is an attractive idea. Councils wouldn’t hesitate to explore the possibility of reclaiming money that would be better spent on aged care or libraries.”

Last November Chancellor George Osborne committed the Treasury to overhauling PFI and finding a new way of funding the building of new schools and hospitals.

However the committee found that despite this commitment, the Coalition had agreed or was in the process of signing 71 new PFI deals since coming to power.

Margaret Hodge MP, the committee’s chairman, said: “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.

“We have even seen evidence of excess profits being priced into projects from the start. The Treasury has now embarked on a rethink and that must be radical, producing a qualitatively different policy.

“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.

The MPs dismissed claims from ministers last July that they wanted to save £1.5billion from operational PFI contracts in England.

They said: “Investors are clear that service cuts are the only way to reduce the public sector’s payments in existing contracts.”

Some hospitals were having to shut wards in order to save money to meet crippling annual PFI charges, the MPs said.

Queen Alexandra Hospital in Portsmouth, for example, had cut 700 jobs and closed 100 beds while “seeking to manage annual hospital running costs of £40million”.

They said: “NHS Trusts in particular are finding it very difficult to meet their PFI resources out of their resources.”

Last September, health secretary Andrew Lansley said he had been contacted by 22 health service trusts which claim their "clinical and financial stability" was being undermined by the costs of the contracts.

The MPs also said that PFI firms should be subject to Freedom of Information Laws about their public contracts to improve transparency.

PFI deals, which typically involved a public body paying a private firm a rental payment over a 30 years, lasted for too long, because public needs changed over time.

Sir Merrick Cockell, chairman of the Local Government Association, welcomed the suggestion that councils should be allowed to share in PFI profits.

He told *The Daily Telegraph*: “Clawing back money from those shown to have overcharged the taxpayer is an attractive idea. Councils wouldn’t hesitate to explore the possibility of reclaiming money that would be better spent on aged care or libraries.

“There are a number of practical difficulties and we shouldn’t let the excessive returns being collected in a small number of cases obscure the many examples where the PFI has brought taxpayers better hospitals, schools and roads.”