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The current model of PFI is unsustainable, says PAC

The treasury recognises that the time has come for a radical rethink.

BY NEW STATESMAN

The increased costs of using private debt finance since the global financial crisis and now further evidence of inefficient pricing of equity have made continuing with the current private finance initiative (PFI) model unsustainable, according to a report from the public accounts committee (PAC) that is based on the evidence from the treasury and parties.

The current PFI model that was introduced 20 years back has been used by governments in some 700 projects. The committee that examined the risks and rewards for private equity investors in government private finance projects has reported on defects in the PFI model, including failures to demonstrate the value for money case satisfactorily, the use of long inflexible contracts and the costly contracting process.

The Treasury, which is currently reviewing the PFI model, has recognised that the time has come for a radical rethink.

The committee concludes that there is restricted access to data and insufficient transparency over the amounts the public sector pays for equity and the returns that investors make. It also noted that the PFI procurement process takes too long, costs too much and restricts the market.

Margaret Hodge MP, chair of the committee of public accounts, 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. 30 year contracts are inflexible and don't allow managers to alter priorities or change services that have become outdated.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 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.

Private companies benefitting 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.

COMMENTS