



House of Commons  
Treasury Committee

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**Private Finance  
Initiative: Government,  
OBR and NAO  
Responses to the  
Seventeenth Report  
from the Committee**

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**Twenty-fifth Report of Session  
2010–12**

*Report, together with formal minutes*

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## The Treasury Committee

The Treasury Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of HM Treasury, HM Revenue and Customs and associated public bodies.

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### Publication

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at [www.parliament.uk/treascom](http://www.parliament.uk/treascom).

The Reports of the Committee, the formal minutes relating to that report, oral evidence taken and some or all written evidence are available in printed volume(s). Additional written evidence may be published on the internet only.

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# Private Finance Initiative: Government, OBR and NAO Responses

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## Introduction

1. Our report on the Private Finance Initiative set out a number of deep concerns about the value for money of PFI to the taxpayer. A great deal of public money may have been misallocated or wasted. Similar concerns have been expressed by the Committee of Public Accounts. The conclusions of both Committees reflect long standing criticisms from many quarters.

## Government consultation on reform of PFI

2. There have recently been encouraging signs of reform. On 15 November 2011 the Chancellor of the Exchequer announced the Government's intention to reform the PFI, saying that it "shares some of the commonly identified concerns that PFI contracts can be too costly, inflexible and opaque".<sup>1</sup> He stated that the Government needed to ensure that investment in public services was cost effective and provided taxpayers with maximum value for money. He announced that the Government would consult on a replacement for PFI that would draw on private sector innovation but at a lower cost to the taxpayer.

3. It launched its consultation on 1 December, saying that:

Central to the development of new delivery models are the objectives of long term value for money for the taxpayer, more effective use of private sector innovation and skills, reducing costs, improving flexibility and increasing transparency. The Treasury will also be looking to retain the benefits that successful PFI can deliver – in getting projects built to time and to budget and increasing the correct disciplines and incentives on the private sector to manage risk effectively.

The Government's aim is to balance these objectives in a new approach to the delivery of public facilities that:

- is less expensive and uses private sector innovation to deliver services more cost effectively;
- can access a wider range of financing sources, including encouraging a stronger role to be played by pension fund investment;
- strikes a better balance between risk and reward to the private sector;
- has greater flexibility to accommodate changing public service needs over time;
- maintains the incentive on the private sector to deliver capital projects to time and to budget and to take performance risk on the delivery of services;

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1 Written Ministerial Statement, 15 November 2011

- delivers an accelerated and cheaper procurement process; and
- gives greater financial transparency at all levels of the project, so that the public sector is confident that it is getting what it paid for and that the taxpayer is sure it is getting a fair deal now and over the longer term.

4. We welcome the fact that the Government has recognised many of the problems with PFI that we identified in our Report, which said that the PFI model:

- has a higher cost of capital than that of government bonds, and a flawed value for money appraisal process;
- involves an over-bureaucratic procurement process, which we said led to high barriers to entry and a concentrated supply market;
- has an inherent lack of flexibility; and
- is not the only way for risk transfer to the private sector to take place.

5. In addition to the present consultation on a replacement for PFI, there are also some welcome signs of progress in the Government response. For example:

- the Treasury is reviewing the value for money guidance and agrees that improvements could be made. Following the review and discussions with departments and the National Audit Office, revised guidance will be published in 2012.<sup>2</sup> We see no reason why further detail about what is being considered should not be published now;
- the Treasury is examining its Green Book guidance to departments on optimism bias adjustments to ensure value for money outcomes; it also intends to improve the collection of project outturn data in order to inform future projects;<sup>3</sup>
- the Treasury says that it will consider how to make information on PFI contracts and investors more transparent.<sup>4</sup> We will monitor the Treasury's progress on this.

6. The Government response does not, however, fully address our argument that anomalies in the system of national accounts continue to provide an incentive to pursue PFI at central government level. This incentive remains in place because, first, the current rules exclude PFI liabilities from calculations of Public Sector Net Debt, and, second, privately financed investment allows government departments to spend more than their allocated capital budgets.

7. The Treasury's response is inconsistent about whether accounting considerations play a role in financing decisions. We recommended that the form of financing which should be chosen for projects should be that which offered best value for money, regardless of accounting considerations. In its response to our recommendation in paragraph 94, the Treasury said that any consequential increase in public borrowing might compromise the

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2 See response to paragraph 84

3 *Ibid.*

4 See response to paragraph 107

achievement of the fiscal targets.<sup>5</sup> This could be taken to mean that PFI is still used, at least in part, as a means of off-balance sheet finance, rather than because it represents the best financing method available.

8. In addition, even a new system which reduced reliance on the banks, maintained incentives on the private sector to deliver projects to time and budget, transferred performance risk to the private sector and succeeded in streamlining procurement might still leave some of the inherent inefficiencies of the PFI system in place. The Government will need to make clear in due course whether its eventual proposals constitute a new form of off-balance sheet finance. It remains the case that the most cost-effective method for sourcing capital from institutional investors is to sell government gilts to them.<sup>6</sup> Inefficiencies associated with public procurement could be tackled by transferring project risk to contractors on the basis of fixed price design and build contracts, as stated in our Report.<sup>7</sup>

9. On 11 December 2011 it was reported that Transport for London had been prevented by the Government from increasing its own borrowing as it wished in order to fund investment in the Crossrail project, and that TfL had been told that the majority of the investment had to be through the PFI. It was further reported that TfL had cited the Treasury Committee's Report on the costs associated with using PFI.<sup>8</sup> We will be writing to the Treasury about this matter.

## National Infrastructure Plan 2011

10. There have been other recent indications of alternatives to PFI being developed by the Government. The National Infrastructure Plan 2011 which was published alongside the recent Autumn Statement includes over 500 projects and programmes, in total worth over £250 billion. The Infrastructure Plan states that "almost two thirds of the expected investment between 2011 and 2015 will be privately funded and the remainder will either be partially or fully publicly funded".<sup>9</sup>

11. The Government says that it:

is taking a fundamentally new approach to coordinating public and private investment in UK infrastructure ...

The UK, like other countries, faces a number of challenges in attracting this private investment. Ongoing instability in financial markets could disrupt the supply of long term bank lending for project finance. Few institutional investors have developed the capability to assess direct investment opportunities in individual infrastructure

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5 "... the Government has set a clear plan for deficit reduction and does not accept that levels of public sector borrowing should be increased. While the fiscal mandate focuses on the current budget, capital expenditure levels also impact on it through debt interest costs; and they contribute directly towards progress on the supplementary target to reduce public sector net debt as a proportion of GDP".

6 See Seventeenth Report of the Treasury Committee, Session 2010–12, HC 1146, paragraph 76

7 *Ibid.*, paragraph 95

8 *Minister blocks Boris Johnson's plan to fund £1bn Crossrail project*, 11 December 2011: <http://www.guardian.co.uk/uk/2011/dec/11/crossrail-funding-boris-johnson>

9 National Infrastructure Plan 2011, p. 6

projects. Much of the infrastructure needed in the next decade presents a higher risk profile for private investors, notably the energy infrastructure associated with a transition to a low-carbon economy.

12. The Government says that it will take a number of steps to bring in new infrastructure investors, explore new sources of revenue to support investment, allow local authorities more flexibility to support major infrastructure, and use guarantees when investors cannot accommodate certain risks. The Government:

- has signed a Memorandum of Understanding with two groups of UK pension funds to support additional investment in UK infrastructure. The Government is also working with the Association of British Insurers to set up an Insurers' Infrastructure Investment Forum. The Government says that it will target up to £20 billion of investment from these initiatives;
- will explore innovative ways of financing improvements to the A14, including tolls, which will also be investigated for other new capacity proposals;
- will consider allowing city mayors to borrow against future receipts of Community Infrastructure Levy (CIL) where this can make a significant contribution to national infrastructure;
- will, subject to affordability, consider using transparent forms of guarantee to support specific projects where this provides best value for money for taxpayers and users, recognising that the private sector cannot always bear every risk in major new projects.

With PFI projects reliant on a banking sector which can no longer provide capital at a competitive rate, the exploration of other mechanisms to engage private finance seems sensible. However, there are risks associated with the methods proposed by the Government which involve taking on further contingent liabilities or providing guarantees, which could crystallise into calls on public funds. The Committee will monitor the development of these initiatives carefully to ensure that full transparency is brought to any such call. The creation by the back door of new forms of financing which carried some of the defects of PFI would not be the right way forward.

### **PFI Credits**

13. We note that the Plan also says that the Government:

has allocated £2 billion in Waste Infrastructure Credits (formerly known as PFI Credits) to 32 waste treatment and management projects, providing publicly funded infrastructure investments using private finance. This investment is managed by the Waste Infrastructure Delivery Programme (WIDP) and will help divert an additional 1.6 million tonnes of waste from landfill in England by 2020.<sup>10</sup>

The Government response to our report, however, said that the steps it had taken to improve the cost effectiveness and transparency of PFI included “abolishing PFI credits at

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<sup>10</sup> *Ibid.*, para 3.147

the Spending Review 2010 to create a level playing field for all forms of public procurement”. Under the Infrastructure Plan, however, it would appear that PFI credits have not only survived, but have been rebadged. **The Government must make clear exactly what action it took with respect PFI Credits in 2010, and why they are apparently now being reclassified as Waste Infrastructure Credits, a term which will disguise their true nature.**

## Responses to our Report

14. The Committee published its Seventeenth Report of Session 2010–12, *Private Finance Initiative*, on 19 August 2011 as House of Commons Paper No. 1146. The Government response was received on 19 October 2011 and is published as an Appendix below, together with responses from the National Audit Office and the Office for Budget Responsibility. The Committee’s conclusions and recommendations are in bold text and responses are in plain text.

15. We are grateful to our Specialist Adviser Mark Hellowell, Lecturer at the University of Edinburgh, for his assistance with this Report.

## Appendix 1: Government Response

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**We welcome the Office for Budget Responsibility’s decision to include, in their Fiscal sustainability report, an assessment of the impact of the PFI liabilities which are currently not included in the National Accounts. We believe that the Office for Budget Responsibility should also include an assessment of such liabilities in its Economic and fiscal outlook, which assesses the Government’s performance against the fiscal mandate and the supplementary target. We recommend that the Treasury clarify its view of the remit of the OBR to ensure that the OBR include PFI liabilities in all future assessments of the fiscal rules. This would help prevent the use of PFI to ‘game’ fiscal rules. (Paragraph 24)**

The Government established the Office for Budget Responsibility (OBR) in May 2010 and put the OBR on a permanent statutory footing in March 2011 through the Budget Responsibility and National Audit Act 2011, which sets out the OBR’s role to make independent forecasts for the economy and public finances and to improve the transparency of the public finances. It is the OBR’s duty to examine and report on the sustainability of the public finances. As part of this, the OBR will produce an annual analysis of the sustainability of the public finances, the Fiscal Sustainability Report (FSR). In their Fiscal Sustainability Report 2011, the OBR presented the impact of including PFI liabilities in the National Accounts. Alongside the FSR, the Government published unaudited Whole of Government Accounts for the first time. These also transparently presented the public sector’s PFI liabilities.

The fiscal mandate is based on National Accounts measures published by the Office for National Statistics. As set out in the Charter for Budget Responsibility, the OBR makes an assessment of the extent to which the fiscal mandate has been, or is likely to be, achieved by the Government’s fiscal policy.

The Government will continue to consider ways to ensure transparency and sustainability in the fiscal position, including in respect of PFI liabilities.

**International Financial Reporting Standards (IFRS) require that most PFI projects be scored in an organisation’s financial accounts. Capital investment related to PFI projects rarely, however, scores in individual government Departments’ budgets (Departmental Expenditure Limits). This is because Departmental budgets follow the definitions used in the European Standards of Accounts (ESA), rather than those set out in IFRS. This is not only confusing, but also creates incentives to use PFIs, rather than direct capital investment by departments. We recommend that the Treasury should consider aligning the treatment of PFIs in Departmental budgets with the treatment in financial accounts. This should mean that most PFIs score within those budgets in the same way as direct capital expenditure. If this change were made it may also require an adjustment to Departmental capital budgets. (Paragraph 25)**

The fiscal aggregates, on which the Government assesses its fiscal mandate, are measured using components derived from the UK National Accounts using the European System of Accounts 1995 (ESA95) framework. This approach has been followed in the UK since 1998. Departmental budgets reconcile with the National Accounts in order to allow the effective control of spending so the Government can meet its fiscal targets. Departmental Accounts are based on the International Financial Reporting Standards (IFRS), which are in the main aligned with departmental budgets. In certain cases, ESA95 and IFRS for the public sector are not aligned and this is the case for PFI.

The Treasury agrees that value for money is of primary importance and has always been clear in guidance to Departments that it is value for money, and not the accounting treatment, which is the key determinant of whether a PFI scheme should go ahead. At the Spending Review 2010 the Government abolished PFI credits to create a level playing field for all forms of public procurement. A strict scrutiny process has been applied by the Treasury to PFI projects with the aim of ensuring that a decision to use PFI is only made where it can be demonstrated to provide value for money over conventionally procured alternatives. In April 2011, the Treasury revised its project assurance and approval processes as part of a wider programme of strengthened spending control and all major projects outside of a department's delegated authority, regardless of procurement method, now need to go through three approval points to confirm that the project will demonstrate value for money.

**We believe that a financial model that routinely finds in favour of the PFI route, after the significant increases in finance costs in the wake of the financial crisis, is unlikely to be fundamentally sound. The Treasury should seek to ensure that all assumptions in the VfM assessment that favour PFI are based on objective and high quality evidence. (Paragraph 81)**

**The Treasury should ensure that guidance regarding Optimism Bias is based on objective, high quality and, as far as possible, contemporary evidence. The Treasury should not approve the PFI projects of departments or public authorities that fail to produce such evidence in support of their Outline Business Cases. We believe that the comparison of procurement routes should take place on the basis of the PFI model and a public procurement model, in which there is a serious attempt to fix prices and therefore transfer risk. (Paragraph 84)**

The Government shares the Committee's concerns that PFI projects should only be undertaken when they demonstrate value for money for the taxpayer. We agree that projects should only be approved on the basis of strong evidence that the benefits of risk transfer to the private sector outweigh the additional cost of private finance.

The Treasury's Value for Money Assessment Guidance (the VFM guidance) sets out the different issues that procuring authorities should consider in establishing whether there is a value for money case for using private finance in their particular projects. VFM is a

relative concept which requires comparison of the potential or actual outcomes of alternative delivery and financing options. The VFM guidance comprises both a qualitative and a quantitative appraisal.

Long-term forecasting requires assumptions to be made about the future and this applies equally to conventional or PFI procurement. The VFM guidance is clear that the quantitative assessment is used as a support tool for making an overall assessment. The outputs should not be considered in isolation as a standalone case for, or against, the use of private finance. A sensitivity analysis of the output should be considered alongside qualitative factors including the viability, achievability and desirability of using private finance. This informs the final assessment of whether the project represents value for money.

The Treasury is undertaking a review of the VFM guidance and the approach that the Government takes to assessing the case for using private finance to deliver public infrastructure. The Treasury agrees that certain improvements could be made so that the process is more robust in some areas. Following the review, the Treasury will engage with departments and the National Audit Office on proposed changes with the intention of publishing revised guidance in 2012.

The Green Book requires departments to base their optimism bias adjustments on empirical evidence, for example using data from past projects or similar projects elsewhere. The Supplementary Green Book Guidance provides cross-departmental guidance for generic project categories which can be used in the absence of more specific evidence. Work is being undertaken by the Treasury to examine custom and practice across sectors to ensure that the approach to cost contingency is delivering appropriate value for money outcomes; and to improve the collection of project outturn data to inform future projects.

**The National Audit Office should perform an independent analysis of the VfM assessment process and model for PFI. It should audit all of the assumptions within the model, and report on whether or not these are reasonable. This test of the VfM assessment model should, where possible, be based on representative and up to date samples of data. (Paragraph 89)**

The National Audit Office is responding directly to the Committee on this recommendation.

**Sustainable investment in public infrastructure is important for the long term health of the economy. We also recognise the paramount importance at the current time of stabilising the public finances. The Treasury will need to consider using more direct government borrowing to fund new investment. Replacing some PFI with direct public sector investment would not necessarily result in a higher financial liability for the Exchequer. It would mean that the debt was more transparent, as it would be held directly by government rather than through the intermediary of an SPV. An**

**increase in government debt to replace PFI investment should also not necessarily make it any harder to meet the fiscal mandate. Continuing to use an inefficient funding system such as PFI is likely in many cases to increase the overall burden on taxpayers for the provision of public sector capital projects. If, rather than using PFI, the lower financing costs of government are utilised, we have seen evidence that investment can be increased significantly for the same long term funding costs. (Paragraph 94)**

The Government agrees with the importance of sustainable investment in public infrastructure. The 2010 Spending Review targeted capital funding at projects and programmes that would have the highest economic returns, including transport, energy, digital infrastructure and science.

However, the Government has set a clear plan for deficit reduction and does not accept that levels of public sector borrowing should be increased. While the fiscal mandate focuses on the current budget, capital expenditure levels also impact on it through debt interest costs; and they contribute directly towards progress on the supplementary target to reduce public sector net debt as a proportion of GDP. The Government chose not to make any further cuts in capital spending in the Spending Review and intends to adhere to those plans. The Chief Secretary to the Treasury will take an enhanced role in ensuring the delivery of capital plans, advised by the new Major Projects Authority and Infrastructure UK.

Under PFI arrangements, the private sector takes on the risks of designing, building, maintaining and sometimes operating an asset, to the output specifications set by the public sector. The transfer of risk to the private sector has generally worked as anticipated, with facilities, in most cases, being delivered to time and to budget; and the public sector has been protected when projects have gone wrong, with losses being borne by the private sector. The value for money assessment demonstrates whether the benefits of risk transfer outweigh the additional cost of private finance and a decision to use PFI is only taken when the value for money case has been proven.

The Government shares some of the Committee's concerns with the existing PFI model and has already taken a number of significant steps to improve the cost effectiveness and transparency of PFI. These include abolishing PFI credits at the Spending Review 2010 to create a level playing field for all forms of public procurement; introducing new assurance and approval arrangements in April 2011 to strengthen the approvals process of all projects; in July 2011, including PFI liabilities in the unaudited Whole of Government Accounts to increase transparency; and announcing a plan to deliver £1.5bn of savings from the existing stock of PFI contracts in England. The Government is considering further measures to reform PFI and improve the way in which private finance is used to deliver public infrastructure.

**We recommend that HM Treasury collates and compares data to ensure that it gets a good price on any deals already being negotiated. It should benchmark operational**

**costs of PFI projects with market prices outside PFI. It should also compare the equity returns of investors with other investments with a similar risk profile. It should publish as much of this information as is commercially possible. Far more transparency is required. The Treasury should consider whether this should extend to publishing data and costings on existing contracts, where commercially possible, in addition to what is already published. The Treasury should also consider introducing a mechanism for deals in procurement to ensure that any productivity gains are shared with the taxpayer over the life of the contract. Based on the analysis presented in this Report, we ask the Government to give further consideration before proceeding with the procurement in its present form of the Royal Liverpool and Broadgreen Hospital in particular. (Paragraph 107)**

The Government is committed to ensuring taxpayers get value for money from PFI contracts and is undertaking an ongoing programme of reform in a number of areas to improve the cost effectiveness and transparency of PFI contracts. The Treasury collects and publishes key data including the capital values, future annual unitary charges and equity ownership details on existing PFI projects. Where there are common areas of spend the Cabinet Office and Treasury are working together, and with departments, to improve generic data availability and quality. There are a number of examples of progress:

- One element of the Procurement Reform Strategy is to implement an analytics tool to aggregate detail of departmental procurement transactions, providing insight to support category strategies and inform procurement activity.
- The Government announced at Budget that it will require departments to use the Public Sector Construction Database to record central government construction projects where funding has been agreed. The database records data on construction, maintenance, lifecycle and soft services costs.
- A joint public sector and industry Infrastructure Data Group has recently been established. The Government is working through this group to establish a means to strengthen the robustness of departmental asset and condition records. In addition, the Government will report on trials for the extended use of benchmarking in setting challenging cost targets, working in collaboration with the Highways Agency, Environment Agency, Network Rail and London Underground. The Government is working with industry as part of the Construction Transparency Initiative to pilot the use of a standard approach to conducting post-project reviews to collect project cost and performance data.

In addition, departments collect data for their sectors. For example, the Department of Health collects a wide variety of NHS provider costs via the Estates Return Information Collection (ERIC) and the Department for Communities and Local Government collects datasets which include new-build and refurbishment capital costs, lifecycle capital costs and operational management for housing PFI projects.

The Government agrees that more information about the returns to investors in PFI projects, and how these compare to the equity returns of investors with other investments with a similar risk profile, would be helpful to inform public sector judgements about value for money. The Treasury will consider how to make information on PFI contracts and investors more transparent. The Government is committed to greater transparency and accountability in its spending and in its procurement processes. The Cabinet Office is currently consulting on “Making Open Data Real”. This consultation is aimed at establishing a culture of openness and transparency in public services. In addition, the Cabinet Office is now publishing tender documents and contracts for all future central government projects over £10,000, and this will capture privately financed projects.

To improve further the transparency of commitments, the unaudited summary of the Whole of Government Accounts was published for the first time this year, covering the financial year ending 31 March 2010. This treats public private partnership commitments in line with IFRS and includes a table summarising capital and interest contractual commitments held by all public sector bodies which are, or are similar to, PFI projects. The audited Accounts will be published later this year. There are plans also to include service charge commitments for future accounts.

Royal Liverpool and Broadgreen Hospital Outline Business Case was reconsidered as part of the review of spending decisions in June 2010<sup>11</sup> and was given approval to proceed. It will also be considered again when it submits its Full Business Case to the Department and the Treasury.

**The Treasury should consult on the possibility of using other financing models, including the Regulatory Asset Base (RAB) and Local Asset Backed Vehicles (LABV), as a way of financing capital projects in competition or in preference to PFI. (Paragraph 121)**

The vast majority of investment in the UK’s public services has been, and will continue to be, procured through conventional means. PFI represents a small part of Government’s overall investment in public infrastructure.

The Government recognises concerns with the existing PFI model and has already taken a number of steps to improve the cost effectiveness and transparency of PFI. The Government is considering further measures to reform PFI and improve the way in which private finance is used to deliver public infrastructure. In addition to this, the Treasury is also reviewing and evaluating other established financing and delivery models, including Local Asset Backed Vehicles.

The Regulated Asset Base (RAB) model has been considered by Treasury as an option for the delivery of public infrastructure. Analysis to date suggests that there is limited

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11 [http://www.hm-treasury.gov.uk/press\\_13\\_10.htm](http://www.hm-treasury.gov.uk/press_13_10.htm)

scope to extend the RAB model beyond the utilities sector. The RAB model will only be used if it proves to offer better value for money than the alternative options.

## Appendix 2: Office for Budget Responsibility Response

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As Chair of the Budget Responsibility Committee of the Office for Budget Responsibility I would like to respond to one of the conclusions of your recent report on the Private Finance Initiative (PFI), namely;

**We welcome the Office for Budget Responsibility's decision to include, in their Fiscal sustainability report, an assessment of the impact of the PFI liabilities which are currently not included in the National Accounts. We believe that the Office for Budget Responsibility should also include an assessment of such liabilities in its Economic and fiscal outlook, which assesses the Government's performance against the fiscal mandate and the supplementary target. We recommend that the Treasury clarify its view of the remit of the OBR to ensure that the OBR include PFI liabilities in all future assessments of the fiscal rules. This would help prevent the use of PFI to 'game' fiscal rules. (Paragraph 24)**

Firstly, we are glad that you found our assessment of PFI liabilities in our July *Fiscal sustainability report* useful.

Using the Treasury's unaudited summary of the Whole of Government Accounts (WGA) for 2009–10, we estimated in the FSR that the additional liabilities totalled a little under £35 billion, or around 2.5 per cent of GOP at March 2010.

The final audited set of accounts were released by the Treasury and the NAO on 29 November. The release schedule meant we were unable to assess the impact of the new PFI estimates in our *Economic and fiscal outlook*. But, having now done so, they imply that the additional liabilities are marginally lower than assumed in July. Based on the latest information, we now estimate that the additional liability was around £33 billion or 2.3 per cent of GDP at the end of March 2010.

The Government announced its intention to reform PFI on 15 November and will be launching a call for evidence on 1 December. As it is not yet clear what the outcome will be, we cannot project a specific path for related spending. But, assuming that the additional liability remained fixed at its March 2010 level, net debt would be 2.3 per cent higher as a share of GDP in each year and the peak would be 80.3 per cent in 2014–15. The running costs relating to existing PFI contracts are included within agreed departmental spending envelopes and, implicitly, we assume that any further spending will continue to be met within those same envelopes.

In future years WGA and the underlying figures will only be compiled on an annual basis, so we will be unable to update these estimates on a more frequent basis. We hope that in future the release of WGA will coincide with our annual *Fiscal sustainability*

*reports*, so we can set out the details there of any changes in the figures from one year to the next.

As you note, it is the role of the Treasury to set the remit which we subsequently assess. If PFI liabilities were to be included, we would need the Office for National Statistics to produce a measure of net debt that reflected, and regularly updated, its effects. We could then aim to forecast this series in future *Economic and Fiscal Outlooks*.

Robert Chote, Chairman

## Appendix 3: National Audit Office Response

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I am writing in response to your Committee's recommendation in your Report on the Private Finance Initiative, published August 2011, that;

**The National Audit Office should perform an independent analysis of the VfM assessment process and model for PFI. It should audit all of the assumptions within the model, and report on whether or not these are reasonable. This test of the VfM assessment model should, where possible, be based on representative and up to date samples of data.**

Our previous work, which your Committee referred to in its Report, had highlighted our concerns about the financial modelling supporting departments' PFI value for money assessments. We expect to return to these issues in our future work and will consider how best to reflect your Committee's recommendation in this work.

Amyas C E Morse, Comptroller and Auditor General

# Formal Minutes

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**Monday 19 December 2011**

Members present:

Mr Andrew Tyrie, in the Chair

Michael Fallon	Rt Hon Pat McFadden
Mark Garnier	John Mann
Mr Andrew Love	Jesse Norman

Draft Report (*Private Finance Initiative: Government, OBR and NAO Response to the Seventeenth Report from the Committee*), proposed by the Chair, brought up and read.

*Ordered*, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 15 read and agreed to.

Papers were appended to the Report.

*Resolved*, That the Report be the Twenty-fifth Report of the Committee to the House.

*Ordered*, That the Chair make the Report to the House.

*Ordered*, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Tuesday 10 January at 9.45 am

# List of Reports from the Committee during the current Parliament

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## Session 2010–12

First Report	June 2010 Budget	HC 350
Second Report	Appointment of Dr Martin Weale to the Monetary Policy Committee of the Bank of England	HC 195
Third Report	Appointment of Robert Chote as Chair of the Office for Budget Responsibility	HC 476
Fourth Report	Office for Budget Responsibility	HC 385
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