



The Private Finance Initiative: Nationalise the Special Purpose Vehicles and end profiteering from public assets



A proposal by
People vs Barts PFI

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About this paper

This paper has been developed through the work of People vs Barts PFI, Drop the NHS Debt and through discussions with researchers and campaigners on PFI. Our discussions have focused on PFI in hospitals, but the principles and proposals we outline in this paper apply to all PFI projects.

We see the paper as a work in progress and will issue updated versions in response to comments and suggestions from others interested in resolving the problem of PFI.

Thanks to Dexter Whitfield (Director of European Services Strategy Unit and Adjunct Associate Professor, Australian Workplace Innovation and Social Research Centre) for his advice in drawing this proposal together, and to Dr Helen Mercer of the University of Greenwich for drafting this paper.

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Introduction

Using PFIs as a means of financing public services has resulted in blatant profiteering and has imposed unsustainable levels of debt on the public bodies these schemes were supposed to benefit.

We propose that the response to the problems of PFI should be to challenge the PFI model in its entirety, by nationalising the companies – known as ‘Special Purpose Vehicles’ – through which PFI contracts operate. In this way we would be taking back control over public assets from private financial companies and so eliminating them as a source of securitisation and hence of debt creation and profit.

As health campaigners over many years we have been alive to the financial burdens imposed on the NHS by the hospital PFI contracts which cost £2bn per year in repayments, of which up to 60% is interest at inflated rates. Many solutions have been proposed.ⁱ The most widely-discussed solutions – renegotiation of the contracts, centralisation of NHS debt and buy-outs – have a number of problems which nationalisation of SPV would overcome.

Key among these is that the holders of PFI contracts have no incentive to renegotiate or otherwise abandon them. Renegotiation of onerous contracts is not unusual in the private sector when debtors are in danger of bankruptcy. However, this spur is absent in the public sector because the government has guaranteed the liabilities will be met. Nationalisation of the SPVs cuts through many of the contractual difficulties and costs of renegotiation and buy-outs by going to the root of the problem.

The centralisation of PFI debt (i.e. shifting responsibility for repayments in to the Treasury) might relieve hospitals in the short term but it does not challenge the PFI model or stop new PFI projects. Further, centralisation, as proposed in the NHS Reinstatement Bill, refers only to the NHS debt, raising the possibility that any government could ‘do a deal’ on the NHS and ignore all the other PFI projects. Local authorities as a whole in the UK carry the greatest burden of PFI debt, and many of their projects are in areas of social care and housing and therefore directly impinge on public health also.

Both renegotiation and centralisation of debt leave public assets in private hands. Buying out existing contracts does return assets to the public sector. Unfortunately, experience shows that buyouts are unlikely to provide any savings to the public purse, again because the owners of

i http://www.nhsforsale.info/uploads/images/london_pfi_2015_web.pdf

This paper fails to mention the proposal for strengthened regulation to ensure profit-sharing with the public sector, full financial disclosure and banning of the transfer of ownership of assets to offshore tax havens. See European Services Strategy Unit PPP Wealth Machine, Appendix 4, at <http://www.european-services-strategy.org.uk/ppp-database/ppp-equity-database/ppp-wealth-machine-parts-1-8.pdf>

the SPVs have no incentive to give away these profitable contacts. For example, a study of the Hexham buyoutⁱⁱ has shown that few significant savings are made overall.

This paper is based on the fact that the Special Purpose Vehicles are central to the PFI process, and the means for investment funds and banks to skim profit from the public sector at every turn. In order to stop profiteering, legislation is needed to regulate the SPVs. Strong forms of regulation are called for, but regulation can be both non-transparent and open to 'capture'. Nationalisation of the SPVs reduces the attractiveness of the PFI model, it gives traction to government in negotiating 'compensation' and eliminates some of the most excessive forms of profiteering such as equity sales and tax avoidance on profits made from PFI contracts.

A. Special Purpose Vehicles 'SPVs'

Please note that through the next section the description applies to the PFI model only. The PF2, LIFT and NPD models are slightly different, as explained in Appendix 1.

The Private Finance Initiative was set up in the 1990s as a means to renew the UK's crumbling public infrastructure using private finance, not borrowing by the public sector. Many of the contracts are to rebuild, renew and maintain existing institutions such as schools, hospitals, police stations but many have been contracted from new projects, especially in the areas of defence and waste management.

The PFI is a form of Public-Private Partnership (PPP) in which a private company provides long-term debt financing for a public facility, together with a commitment to maintain the fabric of the infrastructure and, frequently, to provide facilities such as cleaning, over the life of the contract.[1] The type of partnerships common in Britain are generally known as Design, Build, Operate and Finance projects. The private sector, through a consortium of companies known as a Special Purpose Vehicle (see text) raises finance, contracts with design and construction companies and also contracts for maintenance and other services. The public body pays for this DBOF through pre-arranged 'unitary payments', annual or semi-annual payments which combine 'service charges' with the 'availability charge' effectively the cost of leasing the building and including interest, lifecycle service charges and principal repayment. The SPV therefore has control of the public assets affected and leases them back to the public body for the lifetime of the contract – usually between 25 and 40 years.

The public body awards the contract for the PFI contract to a Special Purpose Vehicle (SPV). This is a company set up with a very limited, special purpose of acquiring or financing specific assets. It is sometimes called a 'bankruptcy-remote entity' because it allows the parent company to be involved in such projects while minimising risk.ⁱⁱⁱ

ii <http://press.psprings.co.uk/bmj/august/PFI.pdf>

iii On the few occasions where PFI contracts have had major problems, the SPV's parent company takes the brunt of the consequences; for instance the £67m cost to John Laing plc for the National Physical Laboratory saga. Other examples in <http://pwc.blogs.com/files/the-value-of-pfi-study.pdf>. See European Services Strategy Unit PPP Wealth Machine, Appendix 4, at <http://www.european-services-strategy.org.uk/ppp-database/ppp-equity-database/ppp-wealth-machine-parts-1-8.pdf>

When a public body puts a contract for a PFI out to tender, bids will be made by consortia of companies. The consortium that wins the contract will, on the contract being signed, form an SPV. Usually there are two major shareholders in the SPV and commonly that will be a construction company and an investment company.

The SPV is like a spider sitting at the centre of a web of contracts. It is the body through which loans for the PFI project are raised and through which the service providers under the PFI contract are secured.

It has the contract with the hospital or other public body to Design, Build, Operate and Finance the facility agreed. For this purpose the hospital pays a unitary charge to the SPV. The unitary charge has two elements – the ‘availability’ charge and the service charge. The availability charge consists of repayment of the debt and principal, a nominal rent for leasing back the assets and ‘lifecycle costs’ expenditure to maintain the value of the assets. That is, it is a charge made by the SPV for making the facility built ‘available’ for its public use and is on average nearly 60% of the total unitary charge. The second part of the unitary charge is for ‘hard’ and ‘soft’ ‘facilities management’ – services like maintenance, portering, catering and laundry, depending on what is specified in the contract.

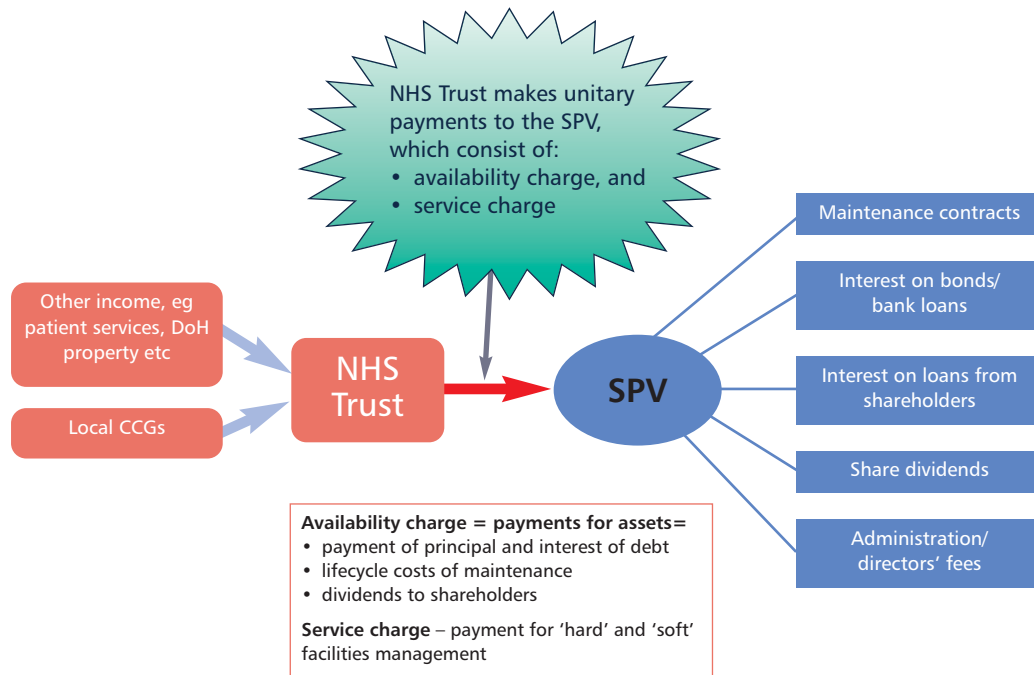
The SPV borrows money to pay for the construction project. The loan is sourced from two main areas. 90% is raised through the bond markets from banks, infrastructure and pension funds and other institutional investors, these are known as senior bondholders and are repaid typically at LIBOR + a given percentage + RPI. The remaining 10% is equity loans, provided by the equity holders, that is the owners of the SPV themselves. These ‘junior’ or ‘subordinate’ bondholders charge an annual interest rate of between 10% and 15%. The collateral for the loans in both cases is the cash flow generated for the project on the back of the public assets. These loans constitute one set of contracts.

A further set of contracts is embodied in the contracts between the SPV and the construction and design companies, with the company provided the ‘hard’ FM and the company providing the soft ‘FM’.

B. How SPVs spin off private profit from public assets

Sitting in the middle of this complex set of contracts, allows the shareholders in the SPV to skim off profits in a myriad of ways.

The chart below shows 'where the money goes' in a typical PFI contract.



Drop the NHS Debt and People vs Barts PFI have made studies of the profits made by the main shareholders in the SPVs for the hospitals studied (Royal London, Lewisham, Queen Elizabeth Woolwich, Princess Royal, Bromley.) The studies were undertaken with the aim of 'making PFI toxic' and exposing profiteering. They have shown the following points at which profit is extracted from the contract and thus from the public purse. This is all monies which would otherwise be available for the hospital, school etc.

1. Equity holders receive 10-15% interest on their loan to the project.
2. They receive dividends from any profit made by the SPV. These can be substantial because, as we have found in the accounts of the SPVs, there is a difference (and it is often significant) between the payment made to the SPV by the hospital for services, and the payment given to the contractor by the SPV. To give some examples: At Queen Elizabeth Hospital, Woolwich, the SPV paid dividends 2012/13 of £3.8m to the three equity holders – Innisfree M&G PPP LP (50%) Innisfree PFI Secondary Fund LP (22.5%) John Laing Infrastructure Fund (27.5%). At the PRUH in Bromley, the SPV made a profit of £5.5m 2012/13 on turnover of £34.6m and distributed dividends of £1m to the equity holders, who at the time were Innisfree Nominees Ltd (50%) and Semperian PPP Investment Partners No.2 Ltd (50%). In the case of the Islington Housing PFI, the latest accounts show that a profit was made in 2013/14 of £2.7m after tax on turnover of £19m, and dividends of £3.6m were agreed.
3. They receive sundries such as directors' fees and 'administration' charges.

4. There is a lively market in PFI equity. Once the 'risky' construction phase of the project has ended, the equity can be sold on often at a substantial profit. John Laing, for instance made equity sales on UK PPP investment of £479m between 1998 and 2012, generating a profit of £154m. The average annual return (Rate Capital Employed) on the sale of equity in UK PFI project companies was 29% between 1998-2012 – twice the 12%-15% rate of return in PPP business cases at financial close of projects.^{iv} The windfall gains are not shared with the hospital.
5. The equity holders have been able to make additional profit through the SPV by refinancing the original loan at a lower rate of interest once the risky construction period has passed. In 2002 the government reached a voluntary agreement that the gains of refinancing in future should be shared 50:50 with the public sector. However, only half of the gains anticipated for the public sector have materialised because of the way that refinancing has been defined in the code of conduct.^v These gains accrue to the benefit of the SPV.
6. These profits skimmed off by the SPV, in addition to the revenue flows to the 90% bondholders, are of course in addition to profits made by the service providers under the PFI contract. Profits on service provision and construction are not as high for such firms as from their financing operations. Nevertheless the record, for instance of Carillion, on service provision is unimpressive and is based on significant pressure on wages, and quality of services.^{vi}
7. The nature of the PFI contracts is such that these rents are effectively monopoly rents. Public bodies are locked into service and finance contracts whose termination is extremely expensive, giving a series of temporal monopolies to the equity holders and service providers. The number of firms holding equity in SPVs is increasingly concentrated – in the health sector five companies are the sole or major equity holders for over 50% of the capital value of PFI projects. In the current tendering for the PF2 at Smethwick, only one company – Carillion – now remains as a bidder for the contract.

In addition to these means of skimming private profit, a considerable number of equity holders are registered in tax havens and the ultimate ownership of many SPVs has moved offshore. By 2014 at least fifty PPP projects were wholly owned by offshore infrastructure investment funds.^{vii}

To understand the SPVs is to understand the core purpose of a PFI and how it works. Although the public sector experiences PFIs as burdensome debt, PFIs are emblematic of the global trend towards 'financialisation' and are the means through which public assets become one channel for the investment of accumulated capital and the source of private profit.

As the spider at the centre of the PFI web, to nationalise the SPV is to seize control of the contracts, to stop or mitigate some of the worst elements of profiteering, to place the government in an insider position with direct access to all the details of all the contracts and hence in a stronger position in any renegotiations.

iv ESSE *Op cit*. See also Stewart Smyth, Dexter Whitfield (2015) PPP Equity sales extending financialisation at <http://irspm2015.com/index.php/irspm/IRSPM2015/paper/view/951>

v National Audit Office (2012) Equity investment in privately financed projects London: The Stationery Office. at <https://www.nao.org.uk/report/equity-investment-in-privately-financed-projects/>; Cuthbert, M. and Cuthbert, J. Evidence to the Scottish Parliament Finance Committee: Methods of Funding Capital Investment Projects Inquiry, Tuesday 29 April 2008, from 15.52 at <http://archive.scottish.parliament.uk/s3/committees/finance/or-08/fi08-1102.htm>

vi See <https://peoplevsbartspfi.wordpress.com/2015/06/16/carillion-and-barts-pfi/> and <http://www.independent.co.uk/news/uk/home-news/eight-pfi-schools-built-by-one-of-uks-biggest-private-contractors-have-fire-safety-issues-10303595.html>

vii House of Commons Treasury Committee (2011) Private Finance Initiative HC1146; Smyth and Whitfield *op cit*

C. A proposed mechanism for nationalising the SPVs

1. **An Act of Parliament would be required.**^{viii} This could nationalise all SPVs as a matter of principle or be a series of Acts passed as public bodies found their debts unsustainable. The Act would state unequivocally the extent of reduction of payments anticipated.
2. **A national body would be created which would become the owner of the assets of the SPV companies.** This could effectively be the German government's 'Treuhand' agency in reverse. In 1990 the Treuhand took over 8,500 state owned enterprises in the former GDR with 4 million employees, together with the assets of political parties and community organisation and extensive ownership of land. It proceeded to sell off or close down the enterprises and assets. This new body would similarly be concentrating assets into one body, centralising not the debts but the accounts and assets of all SPVs.
3. **The role of the above organisation would be:**
 - to ensure that all dividends and directors' fees were paid back to the public body making the unitary payments;
 - to ensure that any profit on the difference between the service charges and the service paid to the service provider could be returned to the hospital/school etc OR be released to the service provider on condition that certain levels of service, wage rates and working conditions are implemented;
 - to transfer ownership/control of assets to the appropriate public body;
 - to negotiate the terms of compensation (see Compensation below).

This would have the effect of removing all opportunities for profiteering, such as equity sales, refinancing, making profit on turnover or provision of services, dividends and administration fees. Such monies would be returned to the public body concerned, subject to compensation arrangements (below).

4. Compensation

- The amounts of equity invested are small relative to the size of the project and can be compensated in full in the interests of simplicity and speed. Negotiation would be required on the level of compensation for loss of revenue, but given that such revenue is a profit on turnover the validity of such claims could be disputed.
- The senior debt could be compensated through a bond swap – their bonds in the PFI loan would be swapped for government bonds, a small but useful fall in the amount paid by the SPV to junior bondholders which would then be monies available for the public body.
- Holders of the subordinate loan – the 10% of the total loan provided directly by the equity holders and charged at high rates of interest. Compensation would be a matter of negotiation and would depend on the amount of interest already paid. A variety of possible routes could be considered: one historical precedent is the issuance of Consols as a means of reducing government debt.
- Separately from the act of parliament to secure nationalisation, legislation would be passed which stipulated minimum conditions of service for all workers in the public sector, whether employed directly by the public sector or not. These would render

viii The name of the Act would be something like 'The Public Assets Emergency Acquisition Act'.

zero hours contracts illegal, stipulate levels of training for all cleaning, catering and maintenance staff, provide for a living wage on which it is possible to live without claiming any benefits. If firms were found not to comply they could be compulsorily purchased by the hospital/school etc. Alternatively, if they found they could not make a profit under such conditions, the PATMC would offer to cancel the contract. (The purpose of this would be to make provision of hard and soft facilities management in schools and hospitals unprofitable, and induce the service providers themselves to seek cancellation of the contract)

Appendix 1:

Alternative to the PFI 'Design, Build, Finance and Operate' model

Private Finance Initiative projects resulted in the privatisation of architectural design, technical advice, project management and hard facilities management functions (primarily repair and maintenance) as public sector provision was increasingly outsourced. Construction has been a private sector industry for a long time.

The public sector accounts for approximately 40% of the UK's £110bn annual construction expenditure.

It is essential that public design, project management and 'intelligent client' functions be strengthened in non-PFI public sector construction projects as a priority so that there is a clear alternative model when SPVs are nationalised. This will ensure there is no policy/practice slippage that could lead to a return to the PFI model.

A new public sector model

1. Public investment directly financed by government borrowing or via a Public Loans Works Board (a statutory body operating within the United Kingdom Debt Management Office, HM Treasury), municipal bonds or other similar sources.
2. Increase the capability of public bodies to design and project manage infrastructure capital investment projects in-house. Use of consultants only in exceptional circumstances, with democratically approved brief.
3. Establish the public sector as an 'intelligent client' with a greater role of the client at the design stage and a collaborative approach with contractors and the supply chain at an early stage of the project.
4. Increase collaboration through integrated team approach to reduce construction risk, costs and increase efficiency in public sector construction.
5. Lifecycle planning to optimise whole life cycle costs in addition to capital costs.
6. Low carbon and sustainable construction strategies implemented in all construction projects.
7. All projects subject to democratic accountability, transparency and community/staff involvement at the design stage.

8. A comprehensive cost/benefit analysis and economic, social, equality and environmental impact assessment evaluation framework for infrastructure projects.
9. Regular monitoring and review of infrastructure services.
10. Local and regional strategic infrastructure plans to maximise economies of scale and continuity of construction training and employment.

The increasing number of combined authorities on a regional or sub-regional basis and the transfer of NHS, housing, transport and other public functions to new devolved bodies provide a unique opportunity to increase public sector capability.

Change in the construction industry

A series of reports into the construction industry preceded the Government Construction Strategy in 2011 with a One Year On Report and Action Plan Update in 2012 (Cabinet Office, 2011 and 2012a). Construction 2025 followed in 2013, which promoted UK construction in global markets and sought 50% reduction in new build and refurbished assets, greenhouse gas emissions and the import/export trade gap, together with a 33% cut in construction costs (HM Government, 2013).

The Procurement/Lean Client Task Group report to the Government Construction Strategy identified three new procurement models (Cabinet Office, 2012b).

The Integrated Project Insurance model is currently being piloted. Further evidence of the suitability and effectiveness of these models in the public sector and achieving the 10 key operational principles outlined above is awaited.

In the Integrated Project Insurance model the client holds a competition to appoint the members of an integrated project team who will be responsible for delivery of the project. They are assessed on competence, capability, proven track record, best practice and declaration of fees. The chosen team then works up a preferred solution that will deliver the outcome defined by the client, with savings against existing cost benchmarks. A single (third party assured) insurance policy covers risks associated with delivery of the project.

References:

Cabinet Office (2011) Government Construction Strategy

Cabinet Office (2012a) Government Construction Strategy: One Year On Report and Action Plan Update

Cabinet Office (2012b) Government Construction Strategy, Final Report to Government by the Procurement/Lean Client Task Group

HM Government (2013) Construction 2025, Industrial Strategy: government and industry in partnership

Appendix 2:

Problems with the proposal to centralise the debt

1. Removal of the debt from the hospitals, while providing immediate relief, leaves all the payments intact and transforms the debt into sovereign debt. It could be argued that effectively there is no real change as the Treasury has underwritten all PFI contracts, but legally there is a distinction. If the government takes over the debt entirely, then an additional £2bn is added to the budget deficit annually and additional borrowing would be needed to cover it. At a time of cheap borrowing for governments this may not be onerous but does represent significant additional expenditure which, under the current government at least, could be used as an excuse to push through cuts in other public services.
2. Will the creditors be more or less likely to negotiate with the Treasury than with individual hospitals? In a recent correspondence it was asserted that we can rely on the intelligence of officials in the Treasury to come up with ways forward once the debt is centralised. The counter argument is that as the people who negotiated the deals and came up with the policy, how far can we rely on them to find a way forward which really benefits the public purse as a whole? The problem of negotiating with the SPV and the equity holders is referred to in the Treasury Select Committee report (see Appendix 2 paragraph 56).
3. The assets of the hospital remain as a source of private profit even if the PFI contracts themselves are renegotiated by the Treasury to 'fair value'.
4. The proposal involves centralising not only the debt proper – ie the availability charge, but the service charges also. This might introduce an additional level of administration and supervision of basic non-clinical services in hospitals affected.
5. Inclusion of the whole unitary charge implies inequitable treatment of hospitals, as non-clinical services will remain a cost for those hospitals without PFI debts: those with PFIs will be relieved of the costs of such services entirely.
6. Recently, George Osborne threatened to sell off the £44m housing association debt that the Office for National Statistics recently ruled should be classed on the national debt. He recently sold off £13bn of former Northern Rock mortgages to the US private equity firm Cerberus, and has sold off student debt. The government could similarly adopt the same approach to PFI debt once it was centralised / nationalised, hence making any renegotiation still harder.

Nationalisation of the SPVs has the following advantages as a solution:

1. Assets are no longer a source of private profit.
2. The availability charge and service charges would be paid to the nationalised SPV.
3. Monies squeezed from the contracts in the forms of directors and administration fees would no longer exist and such monies would be returned to the hospital / school etc or the Treasury.
4. The sale of equity in the SPVs, through which large profits are also made, would be impossible.
5. Other liabilities such as interest rate swaps would still exist and this needs discussion.

6. The method is one which can be applied across all PFIs: the solution in the NHS Bill so far only applied to the NHS and arguably is difficult to scale up given the size of the debt involved.

Additional information on the NHS Reinstatement Bill

1. The NHS reinstatement Bill

Part 4 Private finance initiative

21 Centralisation and reduction of PFI obligations

- (1) Section 1 of the National Health Service (Private Finance) Act 1997 is repealed.
- (2) Subsection (1) shall not affect agreements previously entered into by an NHS trust under section 1 of that Act.
- (3) The financial obligations of an—
 - (a) NHS trust under externally financed development agreements and associated agreements; and
 - (b) NHS foundation trust under similar agreements, shall become the obligations of the Treasury in accordance with regulations made under this section.
- (4) The agreements referred to in subsection (3) above shall be published by the NHS trust and the NHS foundation trust, as the case may be.
- (5) The Treasury shall assess and explain the financial obligations of each NHS trust and NHS foundation trust under each such agreement and shall lay a report before each House of Parliament by 31 December 2015 setting out its proposals for reducing those obligations.

2. The Q&A section of the Bill's website poses the following question:^{ix}

"Would PFI centralisation avoid detailed exposure of practice which most view as morally dishonest practice and some view as criminal, transforming blatant scams into national debt? Centralisation is the PFI lenders' own preferred plan, which the privatisation lobby have been pushing activists to endorse over the last year. Even McKinsey suggests (in QIPP 2009) that the PFI lenders should, rather than being paid off via PFI centralisation, instead be required to cooperate in renegotiating the deals down to fair value. Tory MPs too are demanding renegotiation to claw back some of the NHS's losses to PFI."

Peter Roderick's reply is:

"This is a substantive point. This is how I see it.

"PFI debts exist. They burden the NHS, and should be taken off its back. They also burden the public purse in other areas. Ideally they should end. There are several issues that have to be considered in working how best to do that.

"Clause 21 involves both centralisation and publication, and a duty on the Treasury to assess the debts, to explain them and to propose reductions. The duty to propose reductions can be exercised in any way – using possibilities within the contracts, concepts such as frustration, and simple renegotiation. The contracts cannot be "reversed". They can be broken, and

ix <http://www.nhsbill2015.org/wp-content/uploads/2015/04/FAQs.pdf>

compensation paid. But this would not necessarily lead to reduced payments – it would depend on what each PFI contract says about compensation, and if they are silent on compensation then the general rule is that the ‘wronged’ party must be put in the same position as they would have been had the contract not be broken. So if the general rule applied, the public purse would not in theory be any better off, save that the timing of payments would change. In any event, if Clause 21 was passed, I can’t see how the Treasury could avoid assessing the cost of paying compensation as a part of working out what reduction proposals to pursue. Whether they would be prepared to break the contracts is another thing.

“On the fraud point, I’m all for prosecutions where there’s the criminal standard of evidence. Clause 21 doesn’t impact on the function of the prosecuting authorities to investigate, which continues regardless. Pursuing and punishing individual cases however is not a systematic approach to reducing the debts.

“There are several different ideas for reducing PFI debts, and I don’t know which one is best, or whether a combination is needed. Clause 21 would provide a framework for doing so, but it’s not the last word – though finding better words will need serious thought.”

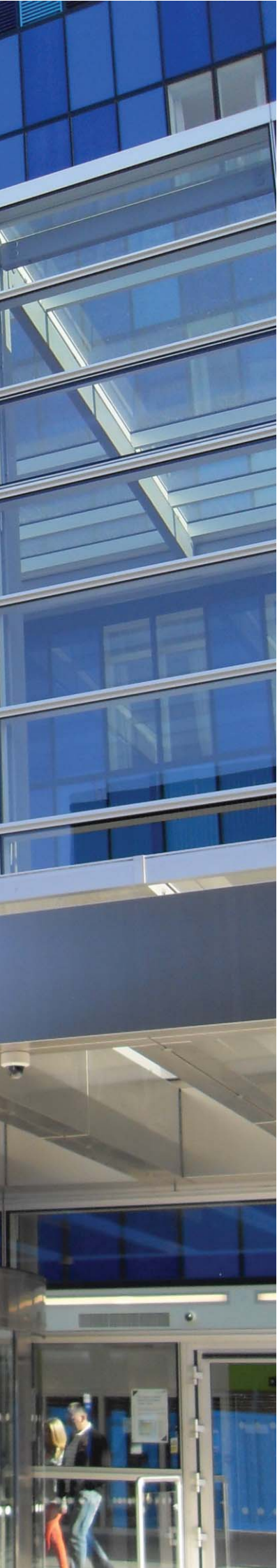
3. Conclusions of the 2011 Treasury Select Committee^x

“The PFI financing structure also requires negotiation with the equity and debt holders before any substantial changes are made during the life of a contract. Debt and equity holders have little to gain from changing profitable contracts so will be unlikely to agree to changes unless they significantly enhance profitability. We have received little evidence of the benefits of these arrangements, but much evidence about the drawbacks, especially for NHS projects.

“The inflexibility of PFI means that any emergent problems or new demands on an asset cannot be efficiently resolved. In the case of Transport for London its only option was to buy out the SPV, but most PFI procurers cannot afford to do this.” (para 56)

“The most straightforward way of dealing with current PFI contracts is for the government to buy up the debt (and possibly also the equity) once the construction stage is over. This would result in an increase in the headline level of government debt but it would not increase the structural deficit or prejudice the fiscal mandate as this debt would score as government borrowing for investment in the National Accounts. Interest rates on the financing of the deals would fall significantly, releasing savings. Although government debt levels would be higher the public finances would not be any less sustainable. This is because it would become more affordable to service the visible government debt rather than the hidden PFI debt. Every one percentage point reduction in the interest rate paid on the estimated £40 billion of PFI debt would realise annual savings of £400 million.” (para 98)

x House of Commons Treasury select committee Private Finance Initiative Volume 1 HC1116, June 2011.



People vs Barts PFI

Email: bartsandpeoplevpfi@gmail.com

Twitter: [@PPLvsBartsPFI](https://twitter.com/PPLvsBartsPFI)

Website: <https://peoplevsbartspfi.wordpress.com/>

There is more information about PFI in the NHS at www.dropnhsdebt.org.uk