

## **PFI model comes under attack in UK**

**Bernama**

**August 19, 2011**

LONDON: A report by British lawmakers on Thursday criticised the funding structure behind many schools and hospitals, saying that Public Finance Initiatives (PFI) are not value for money, and projects must be paid for upfront by the government.

Higher borrowing costs since the credit crisis means that PFI projects are an "extremely inefficient" method of financing, according to a new report from a Treasury Select Committee.

In Britain, PFI has been used to build everything from roads to prisons, with a total of 339 deals worth \$76.5 billion projects from 2005-2009, according to the infrastructure Projects Database, with the model now widely exported.

The PFI model, which uses private capital to build public infrastructure, has failed in its central promises of not effectively transferring the risk of the project to the private sector, and getting a good deal for taxpayers, said the report.

It advocates much stricter criteria for PFI funding, taking projects onto the balance sheet and abolishing "perverse incentives" to use PFI.

If all PFI liabilities were included in the National Accounts, the Office for Budget Responsibility estimated that national debt would rise by 35 billion pounds (\$57.5 billion) or 2.5 percent of GDP.

"The markets will have already factored this in, in large measures, I would expect," Chairman of the Treasury Select Committee, Andrew Tyrie MP told Reuters.

"We can't carry on as we are, expecting the next generation of taxpayers to pick up the tab," he said, as the government grapples with a record peacetime budget deficit.

He added that new infrastructure and services should be paid for directly, as a capital project.

"The PFI system we inherited was ... nothing more than a ploy to keep expensive projects off the balance sheet," said an aide to the Chancellor. "That's why we are reforming it." The Treasury said last month it was aiming to save 1.5 billion pounds across its 495 PFI projects in England.

### **VALUE FOR MONEY?**

Industry participants say the public private partnership model, which has been widely copied around the world after being pioneered in Australia and Britain, is fairer on the taxpayer, by spreading the cost over the life of the asset.

"Why should today's taxpayer bear the capital cost for something that is going to benefit people who aren't even born yet?" said Stephen Harris, president of consultancy group, Global Infrastructure.

"It's about having it or not having it. Do you go and get a house with a mortgage, or do you not get a house," he added.

The PFI model was championed by the previous Labour government, but its use has ground to a halt since the Conservative-Liberal Democrat coalition took office last year.

According to the report, the average cost of capital for a PFI project is more than 8 percent, double the long term government bond rate. That is not offset by savings and benefits in other areas of PFI projects.

Many advisors and large contractors have already turned away from the UK market towards emerging markets and countries such as the United States.

Balfour Beatty's chief executive Ian Tyler told Reuters on Wednesday that there will be a large uptick in public private partnerships in the United States as new legislation is passed.

"It's not (the end of PFI), if the government does what we request, it will be the beginning of the end of excess profits ... and much better value money for the taxpayer," said Tyrie. – Reuters

Bernama

Copyright © 2009. The Edge Communications Sdn Bhd.

Source: <http://www.theedgemaalaysia.com/politics/191614-pfi-model-comes-under-attack-in-uk.html>