



## Budget 2018

### Private Finance Initiative (PFI) and Private Finance 2 (PF2)

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- **The Government has announced that it will no longer use Private Finance 2 (PF2), the current model of Private Finance Initiative (PFI).**
  - **Existing PFI and PF2 contracts will not end because of this announcement – the Government will honour its commitments. The high upfront cost of compensation means that it is rarely value for money to voluntarily terminate a PFI or PF2. Instead, the Government is taking steps to help maximise their value by piloting a Centre of Best Practice.**
  - **The Government will continue to support private investment in infrastructure through a range of successful established tools, such as Contracts for Difference, the Regulated Asset Base Model and the UK Guarantee Scheme.**
1. PFI and PF2 contracts have been used to fund the building of schools, hospitals and other infrastructure, but their use has declined significantly. In 2012, the government replaced the PFI model with PF2, but this has only been used six times since. 86% of PFI and PF2 contracts were signed before 2010. PFI and PF2 have also been criticised by the Public Accounts Committee for their inflexibility, whilst the Office for Budget Responsibility has identified private finance initiatives as a fiscal risk to government.<sup>1</sup>
  2. The Government has listened to these concerns and decided that future projects should not use PF2. Capital spending on public infrastructure is a devolved policy area, so this announcement does not affect the Devolved Administrations.
  3. Existing PFI and PF2 projects will not be impacted by this announcement. Voluntarily terminating PFI contracts is rarely value for money because of the costs of the compensation that must be paid to break the contracts. The government will therefore honour existing contracts.
  4. Instead, the government will continue to work to improve the value of existing PFI contracts. High quality contract management helps departments get the most out of their contracts. As such, the Government will pilot a new “Centre of Best Practice” in the Department of Health and Social Care, to provide support for contract managers at a number of NHS Trusts.
  5. PF2 was previously considered for the A303 and Lower Thames Crossing roads projects. The government is still committed to pursuing these projects, subject to scrutiny of the relevant business cases which are still in development. The model of financing of these schemes is not the deciding factor in whether they are taken forward. Long-term capital spending decisions in other sectors, including health, will be taken at the Spending Review in 2019.

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<sup>1</sup> ‘Private Finance Initiatives’, Public Accounts Committee, June 2018; ‘Fiscal Risks Report’, Office for Budget Responsibility, July 2017.