



# HM TREASURY

1 Horse Guards Road London SW1A 2HQ

Tel: 020 7270 4949  
Fax: 020 7451 7607  
richard.abadie@hm-treasury.gsi.gov.uk  
www.hm-treasury.gov.uk

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## To Departmental Private Finance Units

### Application Note – Value for Money in Refinancing

1. This letter is being sent to the Departmental Private Finance Units as a covering note to HM Treasury's Application Note on Value for Money in Refinancings ("the Application Note").
2. Refinancings guidance is currently contained in HM Treasury's:
  - "Standardisation of PFI Contracts" (Version 3, April 2004);
  - "Refinancing of Early PFI Transactions — Code of Conduct" (November 2002); and
  - Calculation of the Authority's Share of a Refinancing Gain (31 July 2003).
3. The provisions of the Application Note do not alter or replace any of the existing guidance, but are designed to clarify interpretation and help Authorities and their Contractors apply it more rigorously and consistently.
4. The Application Note considers:
  - (a) Issues for the Authority in giving consent to a Refinancing, namely:
    - Maximum level of Senior Debt
    - Increased termination liabilities
  - (b) Other issues which may arise for an Authority at the time of a Refinancing, and for which further consents are required, namely:
    - Contract amendments
    - Changes to the Unitary Charge profile or indexation



– Contract extensions

5. Authorities can consult with HM Treasury at each key stage of the VfM assessment and specifically in relation to:
  - (i) Refinancing proposals involving substantially increased levels of borrowings by the Contractor; and
  - (ii) proposals to amend the Contractor default termination compensation provisions of PFI Contracts which predate SoPC.
6. We hope this note is helpful in summarising the Application Note. Should you wish to discuss the Application Note please contact Danny Daniels (Tel: 020 7270 4663).

**Richard Abadie**  
**Head of PFI Policy**