

Opinion

The discreet charms of the PFI

Two parliamentary reports are increasing the pressure on the Private Finance Initiative, yet it's hard to imagine the government resisting its fiscal advantages

Should the government use public or private finance when investing in new infrastructure? Feelings run high on this issue, and a showdown between Parliament and the Treasury is inevitable. Government net spending on capital is set to halve between now and 2015, while the Private Finance Initiative is greatly expanded. MPs are not happy.

The Treasury Select Committee has just published a highly critical report, and the Public Accounts Committee will follow suit in September. The former states plainly that the return on private finance – about 8.5% on a typical deal, compared to about 4% on long-term government bonds – is too high to represent good value. The report evaluates the costs of construction, maintenance and services under the PFI and finds no evidence of any savings over normal public procurement that could even partially offset the higher financing cost. It concludes that the value for money case for the PFI is implausible.

The PAC, too, is an increasingly vocal critic. Its report will say that returns to investors have been too high, leading to huge excess costs for public authorities.

Under the PFI, private capital is raised to provide public buildings and social housing, along with waste management facilities, defence equipment and transport infrastructure. It enables construction projects to proceed without showing up on headline measures of the government's debt and deficit.

The Office for Budget Responsibility



Waste not, want not: the PFI is used widely for everything from public buildings to waste management

PFI enables the government to purchase capital goods and expand demand now, while paying for them later

believes that the use of the PFI has shaved about 2.5% off the debt-to-gross-domestic-product ratio. This makes the initiative highly attractive for the government, given its commitment to growing the economy through a period of unprecedented fiscal contraction. In Opposition, George Osborne labelled the PFI a 'discredited' model, but as chancellor he is ploughing on with new schemes. The Treasury

expects £2.8bn to be invested through the PFI in this financial year. Figures also show schemes with a combined capital value of £7bn in procurement.

In addition, the Department for Education is to seek £2bn of private capital for its Priority School Building initiative. Up to 300 new schools will come through the programme, for which the PFI appears the only realistic option.

Education Secretary Michael Gove faces a capital budget cut of 60% over the next five years. A plan to design a new private finance system to support his free schools agenda has come to nothing, so public capital will be required. This has left precious little in the kitty to deliver a much-needed increase in the physical capacity of conventional state schools.

Given that the Conservatives have been strong critics of the PFI since about 2005 (when they realised it was closely associated with Gordon Brown),

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Executive decisions

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ministers have to show they will 'do it differently'. A Treasury press release in July said savings of £1.5bn are possible if authorities implement new guidance on making changes to existing contracts.

This is a welcome step, but oversold. First, this figure has to be set against the total outstanding PFI bill, which stands at £239bn and will grow as new contracts are signed. Second, the word 'savings' is dubious. As most of these cost reductions will be secured by shaving the quantity or quality of the services provided under the contracts, 'cuts' looks more appropriate.

Despite mounting scepticism in Parliament about the way the PFI has been used, the incentives to use it remain strong. Britain needs higher growth, and austerity in public spending – particularly capital spending – reduces demand in the economy. The PFI enables the government to purchase capital goods and expand demand now, while paying for them later and in such a way that the main fiscal figures are unaffected.

As the government drafts its second growth plan, the PFI appears irresistible. It is telling that a former head of PFI policy at the Treasury, the banker Geoffrey Spence, is to head Infrastructure UK. This body will play a leading role in designing the infrastructure investment elements of the growth plan. Recent months have shown that Parliament can hold the powerful to account when it really wants to.

MPs don't like the PFI, but facing down the Treasury's new-found enthusiasm for it will not be easy.

Mark Hellowell is a lecturer at the University of Edinburgh and special adviser to the Treasury select committee's PFI inquiry

Executive agencies might be the government's favourite way of providing public functions at arm's length – but a one-size-fits-all model misses the point

Public Health England has just joined the growing list of executive agencies to be set up during this Parliament. Announced by the Department of Health, it brings the total planned so far to eight.

In the past year, these agencies have emerged as the coalition's preferred arm's-length delivery model. Indeed it stated in March that they are 'the default delivery option in cases where there is a need to deliver public functions within central government but with a degree of operational independence and autonomy from ministers'. But are executive agencies the right option in every case? And is there even a clear understanding of what they are?

When the government is determined to cut the number of public bodies and so reduce costs and increase accountability, it is all too easy for executive agencies to become the 'least worst' option by virtue of being directly answerable to ministers. But departments must offer a positive, individually tailored case for each new agency. The one-size-fits-all model represents a fundamental misunderstanding of the intended function of executive agencies.

Past experience has shown what happens when agencies are not set up properly. They do not work.

A report, *Unfinished business*, published by the Institute for Government, contrasts the approaches being taken by the Ministry of Justice and the Department for Education in creating executive agencies.

On the one hand, the MoJ's plan to turn its Legal Services Commission, currently a non-departmental public body, into an executive agency reflects a developed business case. The decision follows an independent review that involved stakeholders, identified failings in the commission's governance arrangements and explored six options for change. The ministry has since published a 20-page business case.

On the other hand, the DfE's proposals to redistribute the functions of five NDPBs across four new executive agencies has been poorly justified. While the impact statements accompanying the schools white paper and the Education Bill summarise the costs and benefits, they fall short of offering a substantive rationale.

So what of Public Health England? It replaces two existing public bodies and is intended as an 'integrated public health service', bringing experts into a single organisation that supports

local delivery, advises central government and co-ordinates national responses to public health problems. The decision to grant executive agency status was an outcome of the government's 'listening exercise' for the Health and Social Care Bill. Public Health England was intended to operate out of the core Department of Health, but practitioners lobbied for greater operational autonomy, citing the need for perceived impartiality.

The Department of Health has neither offered a positive rationale nor sought to assess other options. It has simply reverted to the 'default' model. Such a move points to the now muddled landscape of arm's-length bodies. Ironically, last year's review of public bodies said 'political impartiality' was a key criterion for continuing NDPB status. The creation of Public Health England raises the question as to whether there is even a coherent vision for what an executive agency should be.

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