

Written Ministerial Statement

Safeguarding Government Infrastructure Investment

The Chief Secretary to the Treasury (Yvette Cooper): I am announcing Government action today to ensure vital PFI infrastructure projects will go forward as planned despite current financial market conditions, so they can support jobs and the economy.

This action will ensure that crucial and valuable public investment will not be disrupted by problems in the financial markets. In total, £13bn of public investment in procurement will be safeguarded. This protection will assure the future of a broad range of public infrastructure projects including £3.5bn of waste treatment and environmental projects, £3.1bn of transport projects and £2.4bn of schools projects. It will also avoid the significant delays which would be entailed by switching these projects to alternative procurement approaches. These projects can therefore go ahead swiftly and support jobs and the economy and help prepare the country for the future recovery.

Around 110 PFI projects are currently in the pipe line, and PFI projects make up typically 10 per cent of public capital investment. PFI projects have consistently demonstrated value for money and high levels of user satisfaction in vital areas of public service delivery.

PFI projects continue to be able to secure equity as private construction companies and investors are still willing to put money in and bear the risk of delays or cost overruns, rather than the taxpayer. Some projects, however, are finding difficulties obtaining sufficient debt as a result of the global credit crunch.

From today the Government will lend to those PFI projects that cannot raise sufficient debt finance on acceptable terms, lending alongside commercial lenders and the European Investment Bank. It will also be able, where necessary, to provide the full amount of senior debt required by a project. Funding will be provided from across Government, including initially from unallocated funds and Departmental underspends on previous projects. Equity investors will continue to bear the primary risk in these projects and, where available, private sector debt will continue to be provided.

The Government believes it is vital to get these infrastructure projects under way as swiftly as possible – to support jobs and the economy this year as well as delivering important public services. Switching to alternative procurement methods or conventional funding and for these projects at this late stage would incur significant additional delays or risk projects failing. For that reason we have decided that providing additional debt finance is the most effective way to get construction underway swiftly and support the economy.

Retaining the PFI structure will mean that the private sector will continue to bear the risk of cost over runs and delays. A recent Ipsos MORI report on the operational benefits of PFI has shown that contract managers are highly positive about the overall performance of PFI projects, contract service levels are being achieved and user satisfaction is high.

The Treasury will use professional lending skills, and intends to lend to projects only where appropriate funding is not available from the market. It will be a temporary intervention. As with normal commercial lending these loans will bear interest and will be repaid over the life of the project. The Treasury envisages, however, selling the loans it makes prior to their maturity when favourable market conditions return.

I have agreed that all PFI projects in procurement (that have, to date, issued a notice in the Official Journal of the European Union (OJEU)) will be eligible for this finance from the Government. Future projects intending to go to market soon will also be eligible, provided they meet the usual value for money and affordability criteria, and subject to Treasury approval before issuing their OJEU notice.

HM Treasury
3 March 2009