



Safeguarding Government Infrastructure Investment

The Chief Secretary to the Treasury, Yvette Cooper, today announced Government action to ensure vital PFI infrastructure projects will go forward as planned despite the current financial market conditions.

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 – investment that will prepare the country for the future recovery. 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.

Yvette Cooper said, “ These projects will create jobs and support the economy as well as delivering vital infrastructure that local communities need. That’s why we’re determined to get them moving as soon as possible without extra delays. Where the private markets aren’t working properly, it’s right that the Government should act to get things moving.”

Around 110 PFI projects are currently in the pipe line, and PFI projects make up typically 10 per cent of public capital spending.

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 these reasons we have decided that providing additional debt finance is the most effective way to get construction underway swiftly and support jobs now.

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.

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.

Notes for Editors

1. The Private Finance Initiative (PFI) is an arrangement whereby the public sector contracts to purchase services, usually derived from an investment in infrastructure assets, from the private sector on a long-term basis. The private sector typically finances its investments in the underlying assets through a combination of equity and debt. In the majority of cases ownership returns to the public sector after a period of years PFI has played, and continues to play, a small but important part in the Government's investment plans. The Government has no in principle preference between PFI, conventional procurement or other approaches to procurement of infrastructure. Its policy is that a procuring authority's choice of procurement approach should be based on value for money considerations. Of the 630 signed PFI projects, 540 are operational.
2. A recently published survey of operational projects by IpsosMORI indicated that PFI continues to perform well delivering high levels of user satisfaction in vital areas of public service delivery:
 - 96% of contract managers rate overall performance as satisfactory or better of which 73% of contract managers rate overall performance as good or very good;
 - 94% of contract managers report that contract service levels are always or almost always achieved; and
 - 92% of contract managers who have carried out a user assessment found services were being delivered to an acceptable standard.
3. Operational PFI projects and, those which have already reached financial close, are not directly affected by the current financial difficulties in raising new finance.

4. A total of 110 PFI projects with an estimated capital value of £13 billion have issued an OJEU notice but have not yet reached financial close. These include projects such as the M25 Widening, Manchester Waste, North Bristol NHS Trust Southmead Hospital Redevelopment, Bradford Building Schools for the Future, Victoria Hospital Fife, North Tyneside Housing and Croydon & Lewisham Streetlighting.
5. HM Treasury will be prepared to lend to PFI projects alongside, commercial lenders and the European Investment Bank - or where required may act as sole lender.
6. With commercial lending and the European Investment Bank continuing to provide financing to PFI projects, where available, Treasury expects to contribute considerably less than 100% of the debt requirements.
7. The exact funding requirements will be determined by market conditions. Departments have already set aside funding for a number of projects. Where necessary the Treasury will provide additional resources funded from additional borrowing. An update will be provided at the Budget.
8. The Treasury will run this facility at arm's length from procuring authorities.

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