



FINANCIAL STRATEGY & Private Finance Initiative

PFI- An Introduction

WOMAN

This video, £4.99 it cost me, I've been here five times, I'm sick of it. £15 in petrol, what are you going to do?

MAN

OK, OK...

NICK CLARKE

October 1997, and staff training is in full swing at Liverpool's Altcourse Prison, due to open in just two months' time. Learning how to handle difficult customers is a priority for the staff here, as they prepare for the arrival of the jail's six hundred prisoners. Despite a ninety million pound price tag, this brand new facility has so far cost the state absolutely nothing. Altcourse is Britain's first private prison, built, run and financed by a consortium made up of an operating company and a construction company. Once the jail's functioning, they'll be paid by the Prison Service to ensure the secure custody of its inmates. This is a concrete example of a Government scheme known as the Private Finance Initiative, or PFI, which enables private firms to fund major public projects, with the state only paying for the services they provide. The Initiative was launched back in 1992 by Britain's then Chancellor of the Exchequer, Norman Lamont. With the economy in deep recession, PFI was seen to be a means of improving public services without increasing the Government's already high levels of borrowing.

NORMAN LAMONT

Money contributed by the private sector under these arrangements will not contribute towards public spending. It will represent additional resources towards those concerned.

NICK CLARKE

Now a director of consulting firm London Economics, Bill Robinson, an adviser to the Treasury at the time:

BILL ROBINSON

The idea found a great deal of favour in the Treasury because public investment's a big call on public funds, a big contributor to the public sector borrowing requirement, and so if somehow we could get the City to come and pay for this new investment rather than having the Government having to go off and borrow, sell bonds to pay for it and this would make the Treasury extremely happy, so the idea found really quite a lot of favour in official circles and obviously with the Chancellor of the day.

NICK CLARKE

In the UK alone over thirty billion pounds-worth of state infrastructure projects have now been identified as privately financeable. Hospitals, accommodation, roads and bridges, in fact just about any public sector activity where it is a service which is required rather than the physical ownership of a capital asset.

CLARE DELMAR

I think it's part of a much wider worldwide economic commercial trend towards outsourcing to understand the sources of efficiencies and organisations. There was an expression coined a number of years ago by a famous Mackenzie Consultants about organisations trying to stick to their knitting, doing what they do best. It's about hiving off activities that you can't simply do best. That you know someone else can do better. Of course PFI is not a free lunch. It means that you still pay for the service; you just pay for it in a very different way. You do not

pay for it as one element of your capital budget or one up-front capital cost. You pay for it as an ongoing stream of revenue payments.

NICK CLARKE

Clare Delmar was a member of the Private Finance Panel set up to promote the initiative by Norman Lamont's successor as Chancellor, Kenneth Clarke.

KENNETH CLARKE

We see private investment taking over from public borrowing. It's a major source of new infrastructure in the public services. But that's a very big culture shift.

NICK CLARKE

Also on the panel was Natalie Norminton.

NATATLIE NORMINTON

PFI is obliging the public sector procuring bodies to undertake a fairly radical change in culture. It's forcing them to actually sit down and think about what is their core business. Is the core activity of one of these bodies actually to own bricks and mortar within which they provide a service? Or is the core activity of, let's say, an NHS Trust actually to provide clinical services to you and I, the members of the public? And do they therefore necessarily have to own and manage the infrastructure necessary to make that service available? It's a very different way of looking at activities.