FINANCIAL STATEGY & Private Finance Initiative

The Cost of PFI

NARRATOR:
Early PFI schemes are tied in to relatively inflexible contracts. In health care, where the demand for infrastructure and equipment is constantly changing, this is a concern.

JOHN PILKINGTON:
There's no doubt that traditional PFI, that is the model which we experimented with in the early 90's that really did embrace simply the context of creating a new piece of infrastructure, a new building or a new road or whatever it was, and maintaining it in that state for the life of the concession …
Well life isn't like that, there are all sorts of drivers, influences that cause the environment around that physical asset to change.

NARRATOR:
Calderdale Hospital was quick to recognise these limitations, and found ways of managing the necessary changes.

KEITH SEYMOUR:
In the early days for example, every change was accompanied by a formal contract variation. Now that can be very, very expensive and time-consuming.

What we try to do now is work together to develop systems that will allow us to make the small changes which happened on a daily basis with the minimum – so that they become a routine in effect.

MICHAEL DAVIS:
The PFI itself is not a constraint on flexibility it's just that changes cost but changes have always cost - you may not have known it before. We now know what it is.

NARRATOR:
The perceived cost of PFI projects has always attracted criticism, even though the National Audit Office has shown that they perform as well, overall, as publicly funded facilities.

But protests were renewed with the revelation that some consortia were refinancing their loans post-construction and reaping large financial gains.

MALCOLM PROWLE:
When a project is initiated there are a lot of uncertainties around it. How well it's going to work, what the risks are, these sorts of things. So the private sector consortium will take out finance for the project, obviously at the best rate they can get, but that rate is bound to be governed by what lenders see as the risks surrounding the project in the future. As we move downstream and the project becomes mature, it's up and running, it's been running for a few years perhaps, it's looking quite successful, the private sector consortium can then obtain funding at a lower rate of interest than the original funding because the project's now got a lower risk profile.

Where the controversy comes in about refinancing is that of course the private sector consortium now has lower costs, lower borrowing costs, therefore it makes higher profit.

NARRATOR:
The issue first came to light with Altcourse Prison.

MARCUS DAVISON:
The contract was let in 1995 and the prison opened in 1997. It opened early and the investors, the private consortium won brownie points and some hard cash from the prison service, which was the department of the Home Office responsible. Then in 1999 they did a rather interesting thing. They went to their lenders and they re-negotiated the finance. The finance as we know accounts for over 80% of the funding.