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Article

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PFI IS DEAD – LONG LIVE PFI?

By Raid Abu-Manneh and Wisam Sirhan

Before the election George Osborne said that the Conservatives would scrap the Private Finance Initiative and replace it with an alternative model for large infrastructure projects. *"Labour's PFI model is flawed and must be replaced"*. So has the 20 October Comprehensive Spending Review included PFI among its intended victims?

Traditionally, infrastructure was procured conventionally, with the capital cost being funded by central or local government but more recently Public Private Partnerships have taken centre stage. PPP involves risk sharing between the public and the private sectors and has encompassed concessions, joint ventures and Strategic Infrastructure Partnerships (most notably Building Schools for the Future) but its most famous member is PFI.

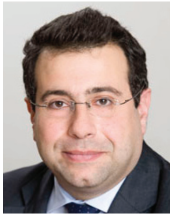
Originally introduced in 1992 by Chancellor Norman Lamont, PFI has mushroomed over the last 10 years under New Labour. At the last count, there were 920 PFI projects that had achieved financial close at a total value in excess of £70 billion.

The arguments for and against PFI are well rehearsed, but one particular aspect, the accounting treatment, looks attractive in these times of austerity. When capital budgets are being squeezed, PFI provides an alternative way of procuring large infrastructure without the government having to provide the capital upfront or declare the corresponding debt (as PFI debts are treated as off-balance sheet).

Despite that, (and perhaps unsurprisingly in the light of George Osborne's comments) PFI seems to be falling out of favour with the coalition government. Election night saw Tube Lines Limited, the last remaining PPP Contractor on the London Underground following Metronet's collapse, taken back in house. The BSF programme for schemes that had not reached financial close plus 39 road programmes worth £1.6 billion were scrapped and other projects that had not reached financial close were put in limbo awaiting the outcome of the CSR. So is it goodbye to PFI then?

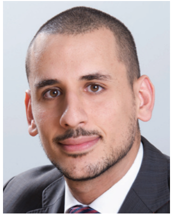
The CSR axe has fallen less hard than expected and infrastructure has fared much better than other areas, with the biggest winners being Transport and Education. On the other hand, PPP as a procurement method has not done so well, particularly in education with the Chancellor's CSR speech to referring to the cancelled BSF programme as *"hopelessly inefficient and over-committed"*.

However, the Department for Transport has confirmed a number of local authority PFI schemes (including the extension to the Nottingham Express Transit Tram network) and, according to the DfT, local PFI spending is to increase by 71% over four years. Which leaves us with mixed messages – a cancelled BSF programme but increased PFI spending on local transport, while at the same time suspending further lending



Raid Abu-Manneh

Partner,
Construction & Engineering
rabu-manneh@mayerbrown.com



Wisam Sirhan

Associate,
Construction & Engineering
wsirhan@mayerbrown.com

by the Infrastructure Finance Unit. So where, exactly are we headed on infrastructure and, for that matter, PFI?

Things should be much clearer next week when the National Infrastructure Plan is released because, in the words of the Chancellor, this should set out how "*private money is also put to work in building for this country the economic infrastructure our businesses need*".

So will it be PFI, PFI junior or something else?

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