



Department for Transport

From the Permanent Secretary

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05 December 2024

Sir Geoffrey Clifton-Brown FRICS MP
Chair of the Public Accounts Committee
House of Commons
London
SW1A 0AA

[Sent via email]

Dear Sir Geoffrey,

Local roads in England – Follow up evidence on Private Finance Initiatives

Thank you for the opportunity to provide evidence on the work the Department is doing in relation to local roads in England alongside my colleagues David Buttery (Director of Roads Strategy) and Rupert Furness (Deputy Director, Local Highways and Active Travel).

I am writing to the Committee in response to a question on Private Finance Initiatives (PFIs) and what evaluation the Department has carried out of the long-term funding benefits that they offered.

PFIs were originally introduced in 1992 as a way of financing a variety of public-sector projects, including highway maintenance contracts, through the private sector. They were implemented as a method of alleviating HM Government and taxpayers of the immediate burden of coming up with the capital for these projects and utilising private sector capacity, efficiency and experience to deliver a higher standard of public service. Under a PFI, a private company borrows on commercial markets to handle the up-front costs instead of the Government. In return, the Government would make performance-based payments to the private company over the long term – these are typically between 25-30 years.

As of October 2018, HM Government no longer uses PFI or PF2 for new projects, as these mechanisms were considered to be inflexible, overly complex, and offer poor value for money. This followed the systematic PFI PF2 review the NAO published in January 2018 regarding HM Government's PFI portfolio and provided value for money assessments within the report¹.

The Department is not party to or signatory to the existing highways maintenance PFI and PF2 contracts; its role is as a Sponsor Body. Highway maintenance PFIs were only used for five local authorities: Portsmouth, Birmingham, Sheffield, Hounslow, and the Isle of Wight. It was discontinued for highways maintenance schemes in 2012, around the time when PFI was replaced with PF2 in response to concerns regarding value for money.

As a Sponsor Body, the Department engages regularly with and provides support to all PFIs within the Department's PFI portfolio. Improving and maintaining the highway network

¹ <https://www.nao.org.uk/reports/pfi-and-pf2/>

to the standard agreed in the contract is the main aim of the highways maintenance PFIs, so it is essential that contracts continue to deliver and ensure value for taxpayers. The PFI payment mechanism ensures that performance is evaluated by local highway authorities monthly, and deductions can be applied to payments to incentivise delivery against objectives.

The PFI Centre of Excellence, run by the Infrastructure and Projects Authority (IPA), provides expert support and advice to departments and contracting authorities with PFI contracts. In addition, the Government's PFI Contract Management Programme was created in 2020 to help manage the risks in operational PFI projects. The overarching aim of the programme is that contracting authorities have the capabilities, knowledge, and tools they need to manage their PFI contracts effectively and to engage confidently with their private sector partners.

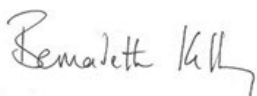
As part of the monitoring and engagement process, the Department also collects PFI data from all PFI contracts. This is an annual process where all departments provide His Majesty's Treasury (HMT) with a range of individual PFI contract information. This information includes cost savings from contract efficiencies, insurance savings, unitary charge payments made and forecast future annual payments. PFI data is subsequently used by bodies including the Office of National Statistics, the Office of Budget Responsibility, and the National Audit Office, with the data published on gov.uk².

As for any wider lessons that have been learned from the PFI funding model for local highway maintenance schemes, and whether the local authorities that have had PFI contracts in place have fared better or worse than they would have done under the Department's standard grant funding approach, this is more complex. Every local highway authority is different, and it is not straightforward to establish a "business-as-usual" counterfactual against which to compare the current state of the highway assets in each of the places that has a PFI scheme in place. PFI contracts are a very different way of funding local highway authorities compared to the "standard" approach, and, as such, it is difficult to make a direct comparison between them and the benefits that might result from a long-term funding approach to highways maintenance for all authorities.

Historically, the Department has found that these five projects have a higher rate of project disputes than the rest of our PFI portfolio of 54 projects. These disputes are not related to the long-term funding certainty, but rather the challenges of including complex networks of assets with varying and sometimes uncertain initial asset condition in long-term fixed priced and relatively inflexible contracts with the private sector.

The Department does recognise the importance of long-term funding assurance for delivery bodies such as local authorities, as it means that they can more effectively plan their work programmes and carry out a greater degree of much-needed preventative maintenance. This in turn provides better value for money for the taxpayer and reduces congestion as works can be planned more strategically to minimise disruption.

Yours sincerely,



**Dame Bernadette Kelly DCB,
Permanent Secretary**

² <https://www.gov.uk/government/publications/private-finance-initiative-and-private-finance-2-projects-2019-21-summary-data/private-finance-initiative-and-private-finance-2-projects-2019-21-summary-data-html>