JOINTLY OWNED BY

Meg Hillier MP
Public Accounts Committee
House of Commons
London
SW1A 0AA

16 February 2021

Dear Ms Hillier,

RE: Managing the expiry of Private Finance Initiative (PFI) contracts

Thank you for inviting me to attend as a witness to the Public Accounts Committee session on 8 February 2021.

You will recall that Olivia Blake MP asked me the following question and I indicated that I would prefer to respond in writing, following the meeting.

The question was:

Have you looked into changes in Minimum Revenue Provision (MRP) of assets, subject to PFI, for local authorities? I am aware that these may be changing and might have an impact on asset values.

My response is as follows:

I understand that CIPFA consulted on Ministry of Housing, Communities and Local Government (MHCLG)'s "Statutory Guidance on Minimum Revenue Provision", published 2nd February 2018.

CIPFA decided that PFI service concession liabilities should continue to be measured as they are currently, rather than applying annual re-measuring as per International Financial Reporting Standard 16, so there should be no impact on the MRP for PFI schemes.

As the MRP is a statutory item and not an accounting one, the requirement is therefore to "have regard" to the statutory guidance on setting MRP.

The guidance gives some flexibility on the approach to MRP for PFI schemes. One option is to charge the MRP in line with the actual repayments to the contractor. It is also permissible to charge the MRP over the life of the asset that is being acquired.

MHCLG's 2018 guidance introduced a maximum useful economic life of 50 years for calculating MRP. Local authorities may exceed this where there is related PFI debt with a longer term, or where the local authority has an opinion from a qualified person that the asset will deliver benefits for more than 50 years.

I hope that this answer is sufficient. If it is not, I would be very happy to provide a response to any follow-up questions.

Yours sincerely

Sean Hanson
Chief Executive