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Charles Roxburgh
Second Permanent Secretary

Ms Meg Hillier MP
Chair, Committee of Public Accounts
House of Commons
SW1A 0AA

11 April 2018

Dear *Ms Hillier*

Public Accounts Committee hearing, 28 March 2018

Thank you for the opportunity to appear before the Committee to discuss the Private Finance Initiative and PF2. During the hearing a number of requests for additional information were made, on which I committed to write to you. Please see my responses below.

Q98: Shabana Mahmood MP

Shabana Mahmood MP asked for a more detailed explanation of the work that the IPA is doing to improve data collection and evaluation of PFI/ PF2.

The Infrastructure and Projects Authority (IPA) is the centre of expertise for infrastructure delivery. As such it evaluates the performance of previous projects with the continuous aim of improving future project delivery across Government. Its work covers all types of infrastructure including both PFI/PF2 and traditionally procured projects, as well as those funded by the public and private sectors.

As set out during the hearing, the IPA is committing additional resources to gather data, where available, on the historic costs and performance of PFI assets to assess the whole life cost of provision in comparison to conventionally procured assets. This is with a view to making direct comparisons between PFI procured facilities and similar conventionally procured facilities, for example with the Priority Schools Building Programme. The results will be used to inform appraisals of future capital investment programmes.

I should be clear that this work will not culminate in a single report, or review. As the IPA develops more insights into the performance of PFI contracts it will use this to advise and support new projects, including the appraisal of future capital programmes.



Q130: Meg Hillier MP

You requested more details on the government's expectation of future PF2 projects, by number and value, for the next year and beyond.

Green book guidance states that all projects should consider a range of financing options, including PF2. As part of the business case process departments may take market soundings to understand the viability of the scheme. Current projects that we expect to be financed through PF2 are:

- £1.6bn upgrade of the A303. The scheme will replace the existing single carriageway between Amesbury and Berwick Down with a dual carriageway expressway comprising a tunnel of at least 1.8 miles (2.9 km) and a new bypass of the village of Winterbourne Stoke. The investment will improve connections between the South West and London/ South East and facilitate economic growth in the region.
- £4.4 – 6.2bn Lower Thames Crossing. The route will consist of a bored tunnel under the River Thames east of Gravesend and Tilbury, a new road north of the river which will join the M25 between junctions 29 and 30 and a new road south of the river which will join the A2 east of Gravesend. Private finance is being considered for the link roads, while the tunnel will be publicly financed. The scheme aims to relieve congestion at the existing Dartford Crossing, support local and regional economic development and minimise the adverse impacts on health and the environment.

Both contracts are expected to be around 30 years, with payment of annual unitary charges to contractors starting once construction is complete.

The Department of Health are also considering the use of PF2 models to facilitate private investment in community and primary care estates within the NHS.

134. 37: Sir Geoffrey Clifton-Brown MP

Sir Geoffrey Clifton-Brown MP requested details of the Treasury's role in the termination of PFI and PF2 contracts.

We have no in principle objection to termination and all contracts include provisions for voluntary termination by the authority. As with all business cases a termination would need to prove it is value for money for the whole of the public sector within the terms of Managing Public Money.

In line with established spending control processes, business case approval must be sought by the proposing authority from its sponsoring department. The department must in turn seek the consent of HM Treasury. When approval for a business case for a termination of a PFI is sought, Treasury would seek the guidance and advice of the Public and Private Partnerships (PPP) Team within the IPA. The IPA may also support the department or the proposing authority ahead of their submission of a business case.

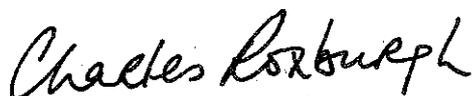
Corrections and Clarifications

I would like to take this opportunity to make some further corrections and clarifications to a few comments made by us at the hearing.

- On the LIBOR fund topic, you asked whether we have found any evidence so far of individual grants that have not been spent as they were intended, and as part of my answer I mistakenly stated that LIBOR grants can only be used for purposes which Government Departments or services have a legal obligation to provide. For the record, you were correct to say later in the discussion that LIBOR grants cannot be used for purposes which Government Departments have a statutory responsibility to provide, which Tom Scholar correctly stated in his letter of 23 March 2018 to you.
- In the hearing Mr. Vickerstaff stated that the IPA was not involved in the assessment of the business case for the termination of the PFI contract for Hexham General Hospital. While this was the witness' understanding of the situation at the time of the hearing, upon enquiry it became apparent that the IPA's predecessor organisation, 'Infrastructure UK' was involved.
- Additionally, I would like to clarify the number of projects that the government has completed using both the PFI and the PF2 models. There was some confusion in the hearing by the witnesses and the Committee members as to whether there have been six or twelve ("half a dozen" or a "dozen") PF2 projects. I can confirm that the correct number of projects is six.
- During the hearing, a range of numbers were quoted for the total number of PFI and PF2 deals. Obviously, this number varies depending on which types of projects are included, and over what time period. For clarity, I would like to confirm that the correct number of active PFI and PF2 deals in construction or operation was 716 at the date of the hearing. The number is now 715, following the addition of three projects and the removal of four as detailed in the 2017 summary data, published 29 March 2018.

Please let me know if there is any further information that you require. I am sending copies of this letter to the Comptroller and Auditor General, the Treasury Officer of Accounts, Adrian Jenner (Director of Parliamentary Relations, NAO), Simon Reason (Director, NAO), Tony Meggs and Matthew Vickerstaff.

Yours sincerely



Charles Roxburgh