intergenerational foundation
Fairness for Future Generations

PFI Debt Passes £13,000 per UK Taxpaying Household

Is Britain's AAA status at risk?

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The UK's PFI debt now exceeds £13,000 per taxpayer household due to successive governments' use of Private Finance Initiatives (PFIs) and is a significant financial cost placed on future generations, a report published today by the Intergenerational Foundation (if.org.uk) reveals.

Entitled 'The Private Finance Initiative and Intergenerational Equity,' and written by David Parker, Emeritus Professor of Economics at the Cranfield School of Management, the report shows that since their inception in 1992, over 860 PFI projects have been signed, on one estimate leaving the United Kingdom with a £239 billion debt, most of which is kept off the government's books and is being passed on to future generations to pay.

"Of the Thatcherite reforms of the 1980s and 1990s, PFI has won most all-party support. Unfortunately, it has also been one of the biggest failures for taxpayers. At a time of fiscal constraint, current and future generations are paying a high price for ideology over sound economics," says Parker, IF Advisory Board member and author of the report.

"PFIs are storing up costs for future generations," says Angus Hanton, co-founder of IF. "And such build-ups clearly put Britain's AAA credit rating at risk by adding over a quarter to the country's £1 trillion national debt."

Margaret Hodge, Chair of the Public Accounts Committee, says in her foreword to the report, "It is not right for our generation to tie our children's and grandchildren's hands by saddling them with debts and service agreements 30 to 40 years into the future. We must take far greater responsibility for the debt we create, for the resources we use and for the projects we benefit from, starting now."

Parker's report tracks PFIs from their launch in 1992 through to the present day. He reveals that by 2005 approximately half of all PFI projects were off the government's balance sheet. "It seems clear that decisions made over the last decade or so have been made selfishly. This has involved providing new infrastructure now, while handing down to our children a significant proportion of the costs of provision," he says.

../2

Last year the House of Commons Treasury Select Committee wrote: “The incentive for government departments to use PFI to conceal debt, has resulted in neglecting the long-term value for money implications. We do not believe that PFI can be relied upon to provide good value for money without substantial reform.”

Astonishingly, former Chancellor of the Exchequer Norman Lamont, one of the architects of PFI’s in 1992, stated in his 1999 memoirs, ”There is the risk that the private sector may provide finance up front but that the long-term consequences will be the silting-up of public expenditure with a stream of never-ending rental payments,”, ‘*In Office’,* London, Little Brown, p309.

Lamont’s fear seems to have come true. Last September the Government revealed that it considered 22 Health Trusts already to be at risk because of PFI expense. Health Secretary, Andrew Lansley, told the BBC: ”The truth is that some hospitals have been landed with PFI deals they simply cannot afford.”

Andrew Tyrie, Conservative MP and Chair of the House of Commons Treasury Select Committee concluded in a report last year: “We cannot carry on as we are, expecting the next generation of taxpayers to pick up the tab. PFI should only be used where we can show clear benefits for the taxpayer.” (*BBC News)*.

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NOTE TO EDITORS:

David Parker, Report author and Angus Hanton, IF Co-founder, will be available for interview. Please contact liz@if.org.uk on 07971 228823.

The PFI programme was launched in 1992 by Norman Lamont, then Chancellor of the Exchequer.

PFI projects run on average for 25-30 years.

OBR estimates suggest that if PFI liabilities were included in the National Accounts then National Debt would be increased by £35 billion or 2.5% of GDP.

No of Household taxpayers:

http://www.ons.gov.uk/ons/rel/lmac/working-and-workless-households/2011/index.html

Table A, April-June 2011

Working households 10,999,000

Mixed working/non-working 5,698,000

Workless 3,877,000

Over 65s households where 1 person working – 1,000,000

Total 21,574,000

Therefore total with at least some working = 10,999,000 + 5,698,000 + 1,000,000 = 17,697,000