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The *Government Resources and Accounts Bill*

Bill 3 of 1999-2000

The *Government Resources and Accounts Bill* is due to have its second reading on 6 December 1999. It has three main purposes: to replace and/or amend existing legislation to enable the introduction of resource accounting and budgeting; to introduce legislation that will enable the production and audit of Whole of Government Accounts; and to enable the Treasury to expend money on the establishment of a new body to carry on public-private partnership business.

The Treasury has prepared explanatory notes for the Bill [Bill 3-EN] that describe the purpose of individual clauses. These are available from the Vote Office or the Parliamentary website.

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Summary of main points

- The Bill incorporates the legislative changes necessary to introduce private sector accounting practices into central government ("Resource Accounting"). Proposals for resource accounting were originally announced in the November 1993 Budget. [Clauses 1-9]

- Departments produced dry-run resource accounts for 1998/99 and the first set of published and audited accounts will be for the current financial year – 1999/2000. It is intended that in 2001/02 Parliament will be asked to approve Supply Estimates presented on a resource accounting basis. The 2000 Spending Review, to be completed by July 2000, will set departmental expenditure limits for the years 2001/02 to 2003/04 on a resource accounting basis.

- The Bill includes enabling legislation for resource accounting to be extended to the whole of the public sector ("Whole of Government Accounts"). [Clauses 10 & 11]

- The Bill enables the Treasury to incur expenditure to establish a new body – currently known as Partnerships UK (PUK) – to carry on the work of the Treasury Taskforce that was established after the first 'Bates review' of the Private Finance Initiative (PFI). When created PUK will take over from the Treasury Taskforce in the Spring of 2000. [Clauses 15-17]

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I Introduction

The *Government Resources and Accounts Bill* has been described as the biggest reform to public finance management since the Gladstone era.[1] Much of the current system of Treasury control of expenditure and financial management has its origins in William Gladstone's four periods as Chancellor of the Exchequer between 1852 and 1882. The Bill provides for:

- The legislative changes necessary to introduce private sector accounting practices into central government ("Resource Accounting"). Proposals for resource accounting were originally announced in the November 1993 Budget.

- Enabling legislation for resource accounting to be extended to the whole of the public sector ("Whole of Government Accounts – WGA").

- The Treasury to incur expenditure to establish a new body – currently known as Partnerships UK (PUK) – to carry on the work of the Treasury Taskforce that was established after the first 'Bates review' of the Private Finance Initiative (PFI). The creation of Partnerships UK was announced by the then Chief Secretary to the Treasury, Alan Milburn, on 22 July 1999 and, when created, will take over from the Treasury Taskforce in the Spring of 2000.

From 2001/02 Parliament will be asked to approve supply estimates on a resource accounting basis ("Resource Supply"). The 2000 Spending Review, to be completed by July 2000, will set departmental expenditure limits for the years 2001/02 to 2003/04 on a resource accounting basis ("Resource Budgeting").

In the recent *Pre-Budget Report* the Treasury stated:

> Resource Accounting and Budgeting (RAB) is part of the modernising government agenda and builds on the current fiscal regime by planning, controlling and accounting for departmental spending on a full accruals basis. It will provide a better basis for the allocation and use of resources, enhancing the distinction between capital and current spending by recognising the capital costs (ie depreciation and interest) of public investments and assets as they occur, consistent with and alongside other current spending.[2]

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1 "Biggest Reform of Public Finance Management since the Gladstone Era", HM Treasury press notice 195/99, 19 November 1999

2 *Stability and Steady Growth for Britain*, Cm 4479 Box 2.2

II Resource Accounting and Whole of Government Accounts (WGA)

A. What is resource accounting?

Under resource accounting, departments will produce accounts in a form that is broadly consistent with UK commercial practice (Generally Accepted Accounting Practice – GAAP) but adapted to the public sector context. Details of the accounting policies have been published by the Treasury in the *Resource Accounting Manual*.

At present the accounts of government departments are generally compiled on a strict cash basis. Thus expenditure on capital projects is scored at the time of the initial investment rather than being spread over the life of the asset and the cost of current goods and services is recorded when payment is made, not when the goods and services are received.

The major difference between cash and resource accounting is that transactions will be recorded on an accruals basis. For example, the cost of goods and services will be accounted for when they are received, not when payment is made. This should enable the published accounts to better reflect the economic consequences of departments' actions. There will, however, be a continuing need to control the cash implications of departments' programmes and resources accounts will continue to identify the equivalent cash requirement.

The introduction of resource accounting will have a significant impact on the recording of capital expenditure. Under resource accounting rules expenditure will exclude the cost of purchasing fixed assets but instead include a depreciation charge and a cost of capital element. (The capital charge is intended to "…focus attention throughout the planning cycle on the cost of holding assets as well as on new capital spending".[3])

Most government departments have decided to charge depreciation on a straight-line basis calculated on the expected economic life of the asset.[4] Freehold land is not depreciated. The cost of capital element will be based on a percentage of the net book value of assets and liabilities in the balance sheet. (Liabilities will attract a negative charge ie a credit.) The percentage will be determined by the Treasury and will apply to all assets and liabilities except donated assets, assets financed by grants (other than from the EU) and amounts to be surrendered to the Consolidated Fund.

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3 HM Treasury, *Better Accounting for the Taxpayer's Money: The Government's proposals; resource accounting and budgeting in government*, Cm 2929, para. 1.21

4 Details were given in a series of written answers to Rt Hon David MacLean MP. See, for example, HC Deb 9 November 1999 c495W

B. Background

Proposals for resource accounting were originally announced in the November 1993 Budget speech when the then Chancellor, Kenneth Clarke, stated:

> I have one other announcement to make to improve the way in which the taxpayer's money and public sector capital is used and accounted for.
>
> In my opinion, Government accounting for public spending has become archaic. In my view, the time has come to move to a system of accounting which identifies more clearly the cost of resources. This will put Departments on to a similar accounting basis not only to commercial organisations but to many other parts of the public sector. I shall be publishing a paper in the first half next year on the introduction of accruals-based resource accounting by Departments, and its implications for the way expenditure is planned and controlled, and money is sought from Parliament. [5]

A green paper was published in July 1994[6] and a white paper followed in July 1995.[7] The NAO provided the following summary of the proposals:[8]

> **Resource accounting** is the term used to describe the new accruals-based financial statements and supporting systems for each central government department, which will run alongside and eventually replace their existing cash-based systems and Appropriation Accounts through which they account for the use of moneys voted each year by Parliament. The first audited and published resource accounts will be produced for the year 1999-2000.
>
> Resource accounts include three statements (an operating cost statement, a balance sheet, and a cash flow statement) which are very similar to the standard financial statements used in the commercial sector. There are two additional financial statements peculiar to resource accounts: a summary of outturn against sums voted by Parliament, and an analysis of cost by departmental objective. A sixth statement, showing key performance data by objective, is outside the financial accounts and, under current proposals, will not be audited.
>
> **Resource budgeting is:**
>
> - the application of accruals accounting techniques to the planning of public expenditure, through the annual Public Expenditure Survey; and

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5 HC Deb 30 November 1993 c931

6 HM Treasury, *Better Accounting for the Taxpayer's Money: resource accounting and budgeting in government,* Cm 2626

7 HM Treasury, *Better Accounting for the Taxpayer's Money: The Government's proposals; resource accounting and budgeting in government*, Cm 2929

- the Parliamentary voting of resources each year on an accruals basis through the Supply Estimates. Subject to Parliament's approval, the first resource-based Estimates would be presented for the year 2001-02.

By and large, the new system will follow commercial accounting practices (UK GAAP) but will vary at some points to take account of the public sector context. A Financial Reporting Advisory Board (FRAB) was established under the chairmanship of Elwyn Ellidge (Chairman of BTR plc) to provide independent advice on accounting standards for central government. In Summer 1997 FRAB approved the Treasury's draft *Resource Accounting Manual* for use by government departments.[9]

C. Implementation

Departments produced dry-run resource accounts for 1998/99 and the first set of published and audited accounts will be for the current financial year – 1999/2000. It is intended that in 2001/02 Parliament will be asked to approve Supply Estimates presented on a resource accounting basis. The 2000 Spending Review, to be completed by July 2000, will set departmental expenditure limits for the years 2001/02 to 2003/04 on a resource accounting basis.

Various aspects of resource accounting have been considered by the Treasury Committee, the Public Accounts Committee and the Procedure Committee. The general conclusions of the PAC in its July 1998 Report are reproduced below:

> ***Resource accounts***
> Like our predecessors, we consider that resource accounting has the potential to enhance the quality of the financial information available to the House, and it should enable government departments to manage their resources better. To secure these benefits departments will need to ensure that there are training programmes in place to provide their staff with the necessary professional competencies; and that they then actually use the new information systems in their management of their organisations and performance. The Treasury assured us that measures to achieve these ends were in hand.
> ***Validation of output and performance measures***
> The introduction of a performance statement on output and performance analysis is important in resource accounts. It will provide Parliament with valuable information on what departments have achieved with the moneys voted to them. Such information will form the basis for enquiries into departmental accountability, and it will help inform Parliament's consideration of further requests for Parliamentary Supply. We therefore expect that such performance statements should be independently validated by the Comptroller and Auditor General alongside the resource accounts.

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8 NAO, *Resource accounting and budgeting in government - the white paper proposals: Report by the Comptroller & Auditor General*, HC 334 1995/96

9 "Reform of Government financial management takes a step forward", HM Treasury press notice 98/97, 4 August 1997

> ***Resource based supply***
> Resource based Votes could improve the quality of information available to Parliament by showing the full costs of departmental administration and programmes. To achieve the proposed timetable for introducing resource based Supply, departments must maintain progress on the introduction of resource accounts, and the Treasury need to resolve quickly any points outstanding on how the arrangements will work including for example whether the overall gross amount of each request for resource will appear as a separate figure in the Estimate.[10]

The Committee's main concern was that "… the current bases for voting Supply and holding departments accountable should not be discontinued until it is clear that there are equally effective or better arrangements to replace them".[11]

Detailed examples of how resource accounts of departments might appear were reproduced in the PAC's July 1998 report together with an example of the resource-based estimates that Parliament would be asked to approve. The illustrative resource accounts for the Treasury (without the accompanying text and notes) are included as appendix 1 to this Paper.[12] The accounts will contain five primary schedules with additional information, such as ministers' and senior staff salaries, in notes to the accounts. The five primary schedules are:

- **Schedule 1: *Summary of Resource Outturn* –** this account, not required under GAAP, will show for each financial year the total resources granted by Parliament and the resulting outturn. There will also be a reconciliation between resource expenditure and the net cash requirement of the department. There will be a continuing need to control the cash implications of departments' programmes.
- **Schedule 2: *Operating Cost Statement and Statement of Recognised Gains and Losses* –** this is similar to profit and loss accounts prepared under GAAP. The statement shows the resources consumed in the year, net of any income appropriated-in-aid, divided between administration expenditure and spending on programmes. A memorandum item records gains or losses from the revaluation of fixed assets and any other gains or losses reported through reserves.
- **Schedule 3: *Balance Sheet* –** this is similar to the balance sheet in company accounts. Fixed assets are to be valued at the lower of replacement cost or recoverable amount (the higher of net realisable value or value in use). The final section of the schedule records 'taxpayers' equity'. This term replaces the conventional GAAP terminology of 'capital and reserves'. It includes any

10 PAC, *HM Treasury: Resource Accounting and Resource-Based Supply*, HC 731 1997-98
11 ibid
12 ibid

cash voted but not consumed, donated assets and gains on the revaluation of assets.

- **Schedule 4: *Cash Flow Statement*** – this shows the way the department has used (and generated) cash, how this has been financed and how this relates – for both operating activities and capital expenditure – to the operating costs in schedule 2.
- **Schedule 5: *Resources by Departmental Aims***: – this schedule is in addition to the normal GAAP requirements. Its purpose is to show the division of resource use against the stated aims and objectives of the department.

D. The resource accounting boundary

Government departments will produce consolidated accounts for all entities within their department boundary. Entities inside the boundary include:

- Non-agency parts of departments, including non-executive non-departmental public bodies (NDPBs) accounted for on-Vote
- On-Vote agencies
- Executive NDPBs where necessary for public expenditure control
- NHS purchasers (eg health authorities)

Entities outside the boundary include:

- Trading funds
- Nationalised industries
- NHS providers (eg trusts)
- Executive NDPBs where not necessary for public expenditure control
- Local authorities
- Public corporations
- Certain central government funds such as the Consolidated Fund, the National Loans Fund and the National Insurance Fund
- Tax receipts, debt issues and National Savings[13]

The governments of Scotland and Northern Ireland are responsible for their own accounting and auditing procedures. Resource accounting will initially apply to grants made to these bodies by the UK government but not to the devolved bodies themselves. The National Assembly for Wales is within the resource accounting boundary. Further details are given in the following written answer:

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[13] HM Treasury, *Resource Accounting Manual*, para. 1.5

> **Mr. Maclean**: To ask the Chancellor of the Exchequer what plans he has to include (i) central Government grants paid to and (ii) the budgets of (a) local authorities in England, (b) the Scottish Parliament and Executive, (c) the National Assembly for Wales and (d) the Northern Ireland Assembly in resource accounting procedures for the 1999-2000 and subsequent financial years. [96459]
>
> **Mr. Andrew Smith**: Central government grants paid to local authorities will be recorded in the resource accounts of the relevant Government departments making these grants. Expenditure covered by the budgets of local authorities in England falls outside the resource accounting boundary, and, therefore will not be included in resource accounts.
>
> Grants to the National Assembly for Wales, the Scottish Executive, and, if devolution takes place, the Northern Ireland Assembly will represent the allocation of funds to those bodies, and will be shown in the resource accounts of respectively the Wales Office, Scotland Office, and Northern Ireland Office.
>
> Expenditure by the National Assembly for Wales will appear in its resource accounts.
>
> Accounting policies for expenditure by the Scottish Executive and the Northern Ireland Assembly are a matter for those bodies. I understand, however, that legislation currently before the Scottish Parliament envisages control by the Scottish Parliament of resources, and hence resource accounting.[14]

E. Whole of Government Accounts

Whole of Government Accounts (WGA) represents an expansion of RAB principles to the preparation of consolidated accounts covering the entire public sector.

In July 1998 the Treasury published a report on the feasibility of WGA.[15] The report's main conclusions were that:

- the Government should proceed with work on the development of Whole of Government Accounts;
- the ultimate aim should be a full set of audited accounts based on UK GAAP for the whole public sector alongside improved but unaudited national accounts based on statistical principles;
- practical considerations suggest a dual approach to developing GAAP-based Whole of Government Accounts, with work being undertaken on a consolidation of the accounts of central government into a Central Government Account (CGA) alongside work in parallel to establish a basis

[14] HC Deb 1 November 1999 c48W
[15] HM Treasury, *Whole of Government Accounts*, July 1998

for consolidating other parts of the public sector into a Whole of Government Account; a decision on whether to produce a Central Government Account for 2001-02 would be taken in 2000. If this were not possible, an alternative would be to move straight to Whole of Government Accounts, with the first set of GAAP-based accounts produced for 2003-04, if the decision to proceed was justified once a full cost/benefit analysis had been completed;

- the next step will be for a project team to be set up and a detailed project plan drawn up to cover the forward programme of action outlined in the report.

When the present Bill was published the Government described its intentions as follows:

> Practical considerations require a staged approach to producing the Whole of Government Accounts. The immediate commitment is to producing a set of consolidated accounts for central government. Further research is required before a final decision can be made to extend the coverage to the rest of the public sector.[16]

F. Selected bibliography

Green Paper

- HM Treasury, *Better Accounting for the Taxpayer's Money: resource accounting and budgeting in government,* Cm 2626

White Paper

- HM Treasury, *Better Accounting for the Taxpayer's Money: The Government's proposals; resource accounting and budgeting in government*, Cm 2929

Select committee reports

- Treasury and Civil Service Committee, *Simplified estimates and resource accounting*, HC 212 1994-95; Government Response HC 483 1994-95
- Public Accounts Committee, *Resource accounting and budgeting in Government*, HC 407 1994-95
- Treasury Committee, *Resource accounting and budgeting in Government: The Financial Reporting Advisory Board*, HC 309 1995-96; Government Response HC 685 1995-96
- Public Accounts Committee, *Resource accounting and proposals for a resource-based system of supply*, HC 167 1996-97
- Treasury Committee, *Resource accounting and budgeting*, HC 186 1996-97; Government Response HC 318 1996-97
- Procedure Committee, *Resource accounting and budgeting*, HC 438 1997-98; Government Response HC 773 1997-98

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[16] "Biggest Reform of Public Finance Management since the Gladstone Era", HM Treasury press notice 195/99, 19 November 1999

- Public Accounts Committee, *HM Treasury: Resource Accounting and Resource-Based Supply*, HC 731 1997-98

NAO publications

- NAO, *Resource accounting and budgeting in government,* HC 123 1994/95
- NAO, *Resource accounting and budgeting in government - the white paper proposals,* HC 334 1995/96

Other Treasury publications

- Financial Reporting Advisory Board to the Treasury, *Report on the resource accounting manual*, 1997
- HM Treasury, *Whole of Government Accounts*, July 1998
- HM Treasury, *Resource Accounting Manual*, issued April 1998

III UK Partnerships

A. Background

The third main aim of the Bill is to enable the Treasury to incur expenditure in respect of the formation of a new body, which has the purpose of carrying on public-private partnership business, and to provide financial assistance to that body.

The Government sees public-private partnerships as representing a new way for the public and private sectors to work together. The Private Finance Initiative (PFI) is one particular form of a public-private partnership. As the then Chief Secretary to the Treasury, Alan Milburn, stated:

> This Government is committed to public private partnerships in general and PFI in particular. In the past, the dogma of the right insisted that the private sector should be the owner and provider of public services. And the left insisted this was all the responsibility of the state. The modern approach to public services rejects these arguments both of the old right and the old left.
>
> In many cases the best way forward is through new partnerships between the public and private sectors. Where each brings something to the table. Where we combine private sector enterprise experience with public service values. For this Government the key test is what works. We recognise that what the public want is better quality, more responsive public services. Quite rightly, they want their services to be both dependable and modern. Their concern - like the Government's - is about outcomes not ownership.[17]

[17] "New steps to drive forward PFI and PPPs - Alan Milburn", Treasury press notice 23/99, 2 February 1999

Before setting out the features of the new body which is the subject of the Bill, it may be useful to outline some features of the PFI and the changes made by the Labour Government.

1. The Origins of the Private Finance Initiative

The Private Finance Initiative was introduced by the Conservative Government in 1992. Under PFI, a private sector operator could in return for payment design, build and operate a project that would have been traditionally undertaken by the public sector. The Conservative Government saw the PFI as one of a range of government policies designed to increase the involvement of the private sector in the provision of public services. Other policies with a similar aim were privatisation and contracting out. PFI differs from privatisation in that the public sector retains a substantial role in PFI projects, either as the main purchaser of the services provided or as an essential enabler of the project. PFI differs from contracting out in that the private sector is involved as a provider of the capital asset as well as a provider of services. In some aspects, the PFI combines a public procurement programme, whereby the public sector purchases capital items from the private sector, with an extension of contracting-out, whereby services are contracted from a private sector operator.

Proponents of the PFI argue that an injection of private finance and expertise into the public sector will increase investment and efficiency in those projects that have traditionally been wholly dependent upon the public sector for finance and management.

Four main advantages are claimed for the public sector if a project, such as building a hospital, were to be carried out under the PFI. These are:

- it provides an alternative source of funding at a time when there is considerable constraint on public expenditure;
- it brings private sector skills and expertise into the planning and execution of such projects;
- it can provide better value for money via, for example, greater economies of scale (e.g. the same building can be used for NHS and private services with shared facilities and equipment);
- it enables risk to be transferred to the private sector.

If a project is financed under the PFI, the capital expenditure would not normally score as public expenditure, although the charges levied by the private sector operator for the use of the building and services that are provided would. In the short term, the net effect of the PFI is expected to be more capital projects undertaken for a given level of public expenditure. Hence capital projects could be brought on-stream earlier. However, in terms of the provision of services to the public sector, this increased level of activity cannot continue indefinitely as the stream of payments to private sector providers would grow and would themselves increase the total of public spending.

The criticisms largely centre on:

- whether PFI investment is additional or substitutional;
- the scope for creative accounting. The most obvious effect on the public finances is to reduce spending now and replace it with future liabilities. A private contractor picks up the bill for the construction of, say, a new road, while the taxpayer guarantees it an income spread out over the lifetime of the asset; and
- the cost of private capital in PFI projects compared with public capital projects traditionally funded from the National Loans Find.

The PFI applies to both central government and local authorities. Such ventures are required to achieve a genuine transfer of risk to the private sector operator and to secure value for money in the use of public resources. Before PFI, the Treasury was unenthusiastic about allowing private capital in the financing of public sector projects. The position was embodied in the so-called *Ryrie-rules,* which operated up until 1989. These rules presupposed that certain projects, such as road building, should be undertaken by the public sector and that, where private sector finance was involved, authority would usually be required. The PFI sought to relax further the constraints on private finance involvement in public sector projects. Under the PFI there are three broad types of projects:[18]

> **Free-standing projects**
> Here, the private sector undertakes the project on the basis that costs will be recovered entirely through charges for services to the final user, for example toll roads or bridges.
>
> **Joint ventures**
> Joint ventures are projects to which both the public and private sectors contribute, but where the private sector has overall control.
>
> **Services sold to the public sector**
> These are services provided by the private sector to the public sector, often where a significant part of the cost is capital expenditure.

2. Changes introduced by the Labour Government

On 8 May 1997 Geoffrey Robinson MP, then Paymaster General, announced that Malcolm Bates, Chairman of Pearl Group and Chairman of Premier Farnell, would conduct a speedy review of the PFI process. Mr Robinson also announced the end to universal testing - the rule that all capital projects had to be tested for private finance potential.[19] This first 'Bates review' duly reported on 26 June 1997 making 27

18 HM Treasury, *Breaking New Ground*, November 1993

19 "Paymaster General announces kick-start to PFI (Public/Private partnerships) - Review of Private Finance Machinery - End of Universal Testing", HM Treasury News Release 41/97, 8 May 1997

recommendations to the Government to streamline and improve delivery of PFI projects.[20] One consequence was the creation inside the Treasury of a PFI Taskforce, drawn from the City, to help build up PFI expertise in government.

The Treasury Taskforce was set up in September 1997 to be the central focal point for all PFI activities across government. It has a projects arm and a policy arm. The projects arm has a limited life span of two years. Appointments to the Taskforce were announced on 22 September 1997.[21] The head of the projects arm is Adrian Montague who is supported by a number of executives from the private sector with direct project management, financial and legal experience.[22] Tim Wilson is the head of the policy arm. His team has a lead responsibility for rules and best practice governing PFI and other public private partnerships. The Taskforce focuses on a number of significant projects, helping departments to set priorities from the outset while trying to ease negotiations and to get value for money. The Taskforce is also involved in the training of Civil Servants and produces central guidance and project case studies as required.[23]

Following a further recommendation of the Bates Review, the Government has begun to publish a series of guidance documents, policy statements, technical notes and case studies. These are available on the website of the Taskforce.[24] *Partnerships for Prosperity* was published on 4 November 1997 to coincide with progress in meeting further recommendations contained in the Bates review. This document sets out the Government's support for PFI, the role of the Treasury Private Finance Taskforce, fundamental PFI policy principles, the procurement process and a list of key contacts and further reference areas.[25]

A second review of the PFI by Sir Malcolm Bates was published in July 1999.[26] Among other things, Sir Malcolm recommended that a permanent organisation, Partnerships UK, be formed to replace the Taskforce, whose two-year life was drawing to a close.

> The ground breaking Partnerships UK will itself be formed as a partnership, with the private sector taking a majority stake in a joint venture with central government and with a Board Chairman drawn from the private sector.
>
> Public sector bodies thinking of entering into PFI deals will be able to use Partnerships UK on a voluntary basis. It will have no monopoly and will seek to win business on the strength of its expertise.

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20 “Robinson re-invigorates the PFI”, HM Treasury press notice 69/97, 23 June 1997
21 “Top notch taskforce to reinvigorate PFI”, HM Treasury press notice 111/97, 22 September 1997
22 Appointed August 1997, formerly Co-Head of Global Project Finance at Dresdner Kleinwort Benson,
23 *Treasury Taskforce, Treasury, What we do,* http://www.treasury-projects-taskforce.gov.uk/
24 http://www.treasury-projects-taskforce.gov.uk/
25 “Partnerships for prosperity - a new framework for the PFI”, HM Treasury press notice 132/97, 4 November 1997
26 *Second review of the Private Finance Initiative by Sir Malcolm Bates*, HM Treasury

> Partnerships UK will not operate as a bank. Instead, as recommended by Sir Malcolm Bates, it will be able to provide development funding to get PFI deals off the ground, where existing forms of private finance are not available. In these cases it will, where necessary, provide a range of financial products, tailored to the needs of public sector bodies in the early stages of the procurement process, which enhance, rather than undermine, existing flows of private finance.[27]

Launching the reforms, the then Chief Secretary to the Treasury, Alan Milburn, said that Partnerships UK would provide the public sector with the key commercial skills to forge more and better partnerships with the private sector on equal terms.[28]

Further background on the PFI, including a summary of the recommendations from the Bates review, is set out in the appendix 2. In July 1999 the Government published standard contract templates as part of its remit to streamline the PFI process. Copies are available in the Library.[29]

B. Formation of a new body

The *Financial Times* described the proposed body in the following terms.

> It is a sufficiently different idea for Treasury officials, ministers and the advisers that the government has hired to help create it - NM Rothschilds and Herbert Smith - to struggle to put a label on it. Indeed it is chiefly defined by negatives: it won't be a bank because it won't take deposits. It is not really a finance house, although it will have access to both public and private finance. It is not a project manager, nor a conventional project adviser. But it has some of each of those roles in its remit.

And

> Its aim, says Steve Robson, second permanent secretary at the Treasury, is to turn the public sector into a more "intelligent procurer" of PFI projects. It will, like the taskforce, advise public sector procurers, help develop projects to the point where they can be put to the market and help them choose the best advisers for the project. But unlike the taskforce it will have development money available to put projects into far better shape before advisers are brought in and tenders sought. "My impression," says Mr Robson who is chairing the steering group of Treasury officials and outside advisers who are putting PUK together, "is that departments are predisposed to skimp on the preparatory work in setting up a project. Partly through a skills problem because they don't really understand what an output

27 "Treasury Taskforce, Treasury, Shake-up for PFI and Government procurement plans will save up to £1 billion", Treasury press notice 124/99, 22 July 1999

28 "Treasury Taskforce, Treasury, Shake-up for PFI and Government procurement plans will save up to £1 billion", Treasury press notice 124/99, 22 July 1999

29 See also "Treasury Taskforce PFI standard contract guidance launched", Treasury press notice 118/99

> specification is, or how to do risk assessment. But it is also because they don't appreciate how much early expenditure reaps benefits later on." PUK will address all that, he says.[30]

C. Financial Assistance

The new body (PUK) will be privately owned but with a large minority public sector stake. Under the provisions of the Bill the new body will be provided with assistance from the Treasury. According to a press report, the Government may provide up to £170 million in capital guarantees, which is £100 million more than previously estimated, in order to help establish the new body. In addition, £20 million will be provided from the Capital Modernisation Fund to launch PUK as a private-sector PFI adviser and financier. The other set-up costs are reported to amount to £6 million.[31] PUK could grow into a £1bn business.[32]

D. Steering Group

PUK is being put together by a Steering Group, comprising officials and outside advisers. Steve Robson, second permanent secretary at the Treasury, chairs the group. The Steering Group was formed specifically to oversee the development of its business case, to consider governance issues, and to prepare for the raising of private sector capital, which is not expected to take place before March 2000. Below is reproduced an extract from the press release published at the time of the Government's announcement to form PUK:

> The Steering Group will include representatives of a selected group of financial institutions consisting of Abbey National Treasury Services Plc, Barclays Bank, Halifax, Prudential and Royal Bank of Scotland, together with the European Investment Bank. These institutions have not given or been asked to give any commitment to underwrite or provide any part of Partnerships UK's long term capital, and enjoy no special privilege or priority to do so. It is expected that the private sector capital raising will be tendered competitively. The Government will pay the development cost incurred during this period, estimated at £6 million.
>
> During the development period leading to the raising of private sector capital, the Government expects to engage in extensive dialogue with Partnerships UK's intended public sector partners, with potential investors in Partnerships UK and

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30 Nicholas Timmins, "The next step towards efficiency: The government is setting up a privately, quasi broker/bank/development agency to lick PFI into shape", *Financial Times*, 19 November 1999

31 "Treasury may give capital aid", *Financial Times*, 20 November 1999

32 Nicholas Timmins, "The next step towards efficiency: The government is setting up a privately, quasi broker/bank/development agency to lick PFI into shape", *Financial Times*, 19 November 1999

> with private sector participants in the PFI in order to ensure that Partnerships UK's final business plan achieves the greatest benefits for all stakeholders in the PFI, from both public and private sectors alike.
>
> A majority interest in Partnerships UK would be held by private sector investors and this would be reflected by a majority on the Board and a private sector Chairman. Although, as a result, Partnerships UK is expected to be classified as a private sector entity for the purposes of the national accounts, its role as a catalyst of public sector investment projects will be central to the terms of reference under which it will operate. The Government will be entitled to appoint a minority of non-executive directors to represent its interests.[33]

E. Effects of PUK

1. Potential demonstration effect

Proponents of the establishment of PUK argue that it could lead to a demonstration effect whereby public and private organisations see how good deals can be done. Steve Robson, second permanent secretary at the Treasury, is reported in the press as saying that:

> It would then have a significant demonstration effect about what can be done. You would be lighting a beacon so that others can see how these deals can be done and done well.[34]

A third of PPP deals could be expected to pass through the PUK process. The criteria that PUK is likely to follow when choosing which potential PPP projects to support are likely to be based on the criteria that the taskforce has used. In short, supported projects should be politically sensitive, ground breaking, big, or involve creating replicable models and provide a commercial return. Adrian Montague is reported as saying:

> "If what we were creating was a classic private sector entity, red in tooth and claw, it would go where it could shoot the big elephants. But that's not what PUK is there for. Its terms of reference must have this sort of public interest dimension." Indeed, he argues, PUK should expand the market for example bundling single schools in different authorities into a big enough package to make PFI achievable, and using its skills and finance to develop wider markets projects. "The whole aim is help the public sector develop its PFI skills and produce an expanded flow of deals." Departments will not, of course, be required to use PUK. It will not have a monopoly, and as James Vaux, Rothschild's adviser to the Treasury on PUK has said, others could enter the same market. Indeed, in the

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33 "Treasury Taskforce, Treasury, Shake-up for PFI and Government procurement plans will save up to £1 billion", Treasury press notice 124/99, 22 July 1999

34 Nicholas Timmins, "The next step towards efficiency: The government is setting up a privately, quasi broker/bank/development agency to lick PFI into shape", *Financial Times*, 19 November 1999

> Treasury, where some opposition to the whole idea of PUK lingers on, there are worries that departments may not use PUK. However, the fact that it comes with cash to help get projects off the ground may provide the right incentive or even, it could be said, a bit of bribe to make sure that they do."[35]

2. A potential conflict of interest?

The establishment of PUK which is a "a private sector company with a public sector mission", has raised some controversy. Arguably the most controversial aspect is PUK's dual authority to negotiate the best PPP deal for the purchasing body while simultaneously being able to take a stake in any subsequent deal. Some commentators have identified this dual role as presenting a potential conflict of interest. For example, Nicholas Timmins of the *Financial Times* reported:

> It will earn its money either by charging the purchasing authority, or by being paid by the successful bidders, with its costs rolled up into the deal, or by taking an equity stake in the project. And it is in this last area that the controversy arises. Some see a clear conflict of interest in PUK negotiating both the best deal for the public sector and a deal, which will produce the best return for itself.
>
> Mr Robson and Adrian Montague, chief executive of the Treasury taskforce, insist it can be resolved. For a start "in designing the capital structure we won't allow PUK to be taken hostage by anyone on the private sector side of the fence in order to gain unfair preference," says Mr Montague. As for the worry that PUK will do down the public sector to get a better return for itself, he says, "the one thing that is not understood is that PUK will have a single client - the public sector. "If PUK does a single deal, which the public sector regards as gouging, or exploiting a conflict of interest, it is dead. No one will ever deal with it again. Its goodwill is single source and precarious. It has got to be terribly careful." But he underlines that in designing the way PUK will work, "it is not enough to rely on the underlying understanding. We will have to have rules in place."
>
> One option, Mr Robson says, might be for the public sector only to decide after the deal is done whether to pay PUK through an equity stake. "If at the time equity is being negotiated PUK does not know which way it is going to be remunerated, then there isn't a problem." Equally, says Mr Montague, as has happened in Kirklees schools, the public sector itself could take an equity stake. "The worry about doing a bad deal for the public sector and a good deal for itself vanishes if the public sector also gets the advantage of whatever deal has been negotiated by PUK in their joint interests. And there are a number of people, to be fair more in the debt market than among equity investors, who say that it would be positively helpful for the public sector to have an equity interest, or at

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[35] Nicholas Timmins, "The next step towards efficiency: The government is setting up a privately, quasi broker/bank/development agency to lick PFI into shape", *Financial Times*, 19 November 1999

least an economic interest in a project, because that gives the public sector a reason to care about the health of the venture long after financial close. It gives some substance to the notion that these are partnerships, not huge adversarial public/private or buyer/seller relationships."

Equally, if PUK's payment mechanism involves "a fixed return, identified from the start and available to all bidders as a tool in the financing of the project, then a lot of the heat goes out of this."

Indeed, it is noteworthy that much of the hostility to PUK has come from the equity investors, who fear it could help drive down their returns. But Tim Stone and Nigel Middleton, the leading project finance specialists at KPMG and Price Waterhouse Coopers, two advisory firms who might be expected to see PUK as a competitor to their advisory roles, are both relatively relaxed. Mr Stone says if PUK's role is limited in the way described then it is "unalloyed good news". Mr Middleton adds that "it is unclear to me whether it is a threat or not. But if it can speed deal flow and get projects into better shape before we get involved, so that we spend less time on inefficient advice, then it can be entirely complementary and expand the market."[36]

[36] Nicholas Timmins, "The next step towards efficiency: The government is setting up a privately, quasi broker/bank/development agency to lick PFI into shape", *Financial Times*, 19 November 1999

Appendix 1: Illustrative resource account for the Treasury

Detailed examples of how resource accounts of departments might appear were reproduced in the PAC's July 1998 report together with an example of the resource-based estimates that Parliament would be asked to approve. The illustrative resource accounts for the Treasury (without the accompanying text and notes) are set out on the following pages.[37]

[37] PAC, *HM Treasury: Resource Accounting and Resource-Based Supply*, HC 731 1997-98,

Schedule 1

HM TREASURY

SUMMARY OF RESOURCE OUTTURN 19XX-XX

	19XX-XX							19WW-WW
	OUTTURN			REQUEST for RESOURCES			Difference	Prior year
	Gross Expenditure	A in A	NET TOTAL	Gross Expenditure	A in A	NET RfR	RfR / Outturn	Outturn
	1	2	3	4	5	6	7	8
	£000	£000	£000	£000	£000	£000	£000	£000
Request for Resources 1	71,935	-3,704	68,231	76,961	-3,714	73,247	5,016 (i)	
Request for Resources 2	25,474	-4,500	20,974	30,500	-4,500	26,000	5,026 (ii)	
TOTAL RESOURCES (*)	97,409	-8,204	89,205	107,461	-8,214	99,247	10,042	
NON OPERATING COST A in A			0			0	0	
NET CASH REQUIREMENT			74,338			84,843	10,505	

Reconciliation of resources to cash requirement

	Note	£000	£000	£000
Total Resources		89,205	99,247	10,042
				0
Non-cash items	3	-7,563	-8,000	-437
Changes in working capital	10	-11,361	-11,000	361
Purchase of fixed assets	8	4,057	4,596	539 (iii)
Non Operating Cost A in A		0	0	0
Net Cash Requirement		74,338	84,843	10,505

Explanation of the variation between request for resources and outturn:

(i) Outturn on RFR 1 was £5,016,000 below provision mainly because of the effect on pay costs of lower than expected staff recruitment, underspends on other administration costs, and because Barlow Clowes expenses were less than provided for.
(ii) Outturn on RFR 2 was £5,026,000 below provision due mainly to lower than expected demand for UK coins.
(iii) Outturn on purchase of fixed assets was £539,000 below provision because purchases of computer equipment were lower than originally planned

Analysis of income payable to the Consolidated Fund

In addition to Appropriations-in-Aid the following income relates to the department and is payable to the Consolidated Fund:
(cash receipts are shown in italics)

	19XX-XX Outturn		19XX-XX Forecast	
	Income £000	*Receipts £000*	Income £000	*Receipts £000*
Operating income not appropriated in aid (see note 4)				
Central Treasury activities & coinage production	7,945	*7,945*	0	*0*
Receipts from investments held by the Treasury	117,231	*117,231*	113,500	*113,500*
Non-operating income (see note 5)				
Programme income	27,280	*27,280*	24,480	*24,480*
Receipts from investments held by the Treasury as trustee	296,733	*296,733*	283,883	*283,883*
	449,189	*449,189*	421,869	*421,869*

OPERATING COST STATEMENT
for the year ended 31 March 19XX

	Note	19XX-XX £ 000	19XX-XX £ 000	19WW-WW £ 000	19WW-WW £ 000
Administration Costs					
Staff costs	2		34,118		
Other administration costs	3		33,757		
Gross Administration Costs			**67,875**		
Administration income	4		-3,675		
Net Administration Costs			**64,200**		
Programme Costs					
Request for Resources 1					
Expenditure	7	4,060			
Income	4	-34			
			4,026		
Request for Resources 2					
Expenditure	7	25,474			
Income	4	-12,440			
			13,034		
Bank of England services	7		**84,000**		
Consolidated Fund standing services	7		**14,000**		
Cost of Capital on investments	9	117,231			
less: investment income	9	-117,231			
			0		
Net Programme Costs			**115,060**		
NET OPERATING COST	6 & 7		**179,260**		
OUTTURN AGAINST RESOURCE BUDGET	6		**179,260**		
NET RESOURCE OUTTURN	6 & 7		**89,205**		

STATEMENT OF RECOGNISED GAINS AND LOSSES
for the year ended 31 March 19XX

		19XX-XX £ 000	19WW-WW £ 000
Net change on revaluation of tangible fixed assets	8	0	

Schedule 3

HM TREASURY

BALANCE SHEET
as at 31 March 19XX

		31 March 19XX		31 March 19WW	
	Note	£ 000	£ 000	£ 000	£ 000
Fixed Assets					
Tangible assets	8	7,213			
Investments	9	21,600			
			28,813		
Current Assets					
Stocks	10	140			
Debtors	11	9,408			
Cash at bank and in hand	12	318,114			
		327,662			
Creditors (due within one year)	13	-321,991			
Net Current Assets			**5,671**		
Total Assets less Current Liabilities			**34,484**		
Provisions for liabilities and charges	14		**-3,543**		
			30,941		
Taxpayers' Equity					
General Fund	19		30,941		
Revaluation Reserve	15		0		
			30,941		

Schedule 4

HM TREASURY

CASH FLOW STATEMENT

for year ended 31 March 19XX

	19XX-XX	19WW-WW
	£ 000	£ 000
Net cash outflow from operating activities	-160,336	
Capital expenditure and financial investment	-4,057	
Payments to the Consolidated Fund	-7,945	
Financing from Consolidated Fund	160,510	
Decrease in cash in the period	11,828	

	£000	£000
Reconciliation of operating cost to operating cash flows		
Net Operating Cost	179,260	
Adjust for non-cash transactions (see note 3)	-7,563	
Adjust for movements in working capital other than cash (see note 10)	-11,361	
Net cash outflow from operating activities	160,336	
Analysis of capital expenditure and financial investment		
Purchases of fixed assets	4,057	
Proceeds of disposal of fixed assets	0	
	4,057	
Net cash outflow from investing activities	4,057	
Analysis of financing		
From Consolidated Fund & National Loans Fund	160,510	
Decrease in cash	11,828	
Consolidated Fund Standing Services	-14,000	
Non-voted payments for Bank of England services	-84,000	
Net Cash requirement (Supply financed) - Schedule 1	74,338	

HM TREASURY

Schedule 5

RESOURCES BY DEPARTMENTAL AIMS

for the year ended 31 March 19XX

AIMS / OBJECTIVES	19XX-XX OUTTURN (note 18)			19WW-WW OUTTURN		
	Gross £ 000	Income £ 000	Net £ 000	Gross £ 000	Income £ 000	Net £ 000
Objective 1						
To deliver permanently low inflation	1,785	96	1,689			
Objective 2						
To maintain sound public finances	4,412	239	4,173			
Coinage Issue (1)	25,474	12,440	13,034			
	29,886	12,679	17,207			
Objective 3						
To keep public expenditure at a level that is affordable	7,059	383	6,676			
Objective 4						
To pursue tax policies which generate sufficient revenue while doing the least damage to the economy and encouraging enterprise	1,222	66	1,156			
Objective 5						
To promote policies and public expenditure priorities which improve the use of resources and efficiency of markets throughout the economy within an affordable level of total expenditure	11,132	604	10,528			
Objective 6						
To maintain a financial control system which delivers continuing improvements in the efficiency of Government	3,597	195	3,402			
Objective 7						
To maintain a framework for government accounting which makes clear how resources are used and provides effective accountability to Parliament	2,104	114	1,990			
Objective 8						
To promote greater use of private finance in support of services currently provided by the public sector and privatising those parts of the public sector which do not need to remain in public ownership	3,389	147	3,242			
Objective 9						
To maintain a regime for the regulation of financial services which preserves a stable financial system, honest markets and the confidence of investors and depositors, while promoting an open, efficient and competitive financial services sector.	4,470	206	4,264			
Objective 10						
To keep abreast of developments in other countries and promote UK economic interests and ideas abroad	4,344	236	4,108			
Objective 11						
To ensure that Parliament and the public are well informed about the objectives and effects of the Government's economic and financial policies	3,054	166	2,888			
Objective 12						
To maintain a professional, well motivated and outward looking organisation committed to continuous improvement, by ensuring that the Treasury is resourced, staffed and managed to deliver its objectives as effectively and efficiently as possible	22,676	1,228	21,448 (2)			
Other Objectives						
Dividends from Bank of England & Royal Mint (3)	117,231	117,231	0			
Payments for Bank of England services (4)	84,000	0	84,000			
Consolidated Fund Standing Services(5)	14,000	0	14,000			
Grants to Parliamentary bodies	1,979	0	1,979			
Honours & Dignities	738	29	709			
NET OPERATING COSTS	312,640	133,380	179,260			

Notes

Net operating costs have been attributed either to the Treasury's 1995-96 objectives or to the 'other objectives' section. As explained in the Introduction to these illustrative accounts, the department's aims are being reviewed. The intention is to attribute all net operating costs to the new objectives. In certain instances more than one objective relates to a particular aim. Core costs and income are apportioned to objectives on the basis of gross running costs.

(1) Payments to the Royal Mint in respect of the issue of coinage.
(2) Costs currently attributed to objective 12 may in due course be re-attributed, by direct allocation or otherwise, to objectives 1-11.
(3) See note 9 to the accounts for further analysis.
(4) Payments to the Bank of England to cover the costs of banknote production and issue, debt management and the Exchange Equalisation Account.
(5) £14m Consolidated Fund Standing services include salary payments in respect of Representatives of the European Parliament, and annuity and pension payments in respect of the Royal Household and the Civil List.

Appendix 2: Background to the Private Finance Initiative (PFI)

The PFI was announced by Norman Lamont (then Chancellor) in the 1992 Autumn Statement. The aim was to achieve closer partnerships between the public and private sectors. He said:

> I said in my Mansion House speech that I was examining ways to increase the scope for private financing of capital projects. Obviously, the interests of the taxpayer have to be protected, but I also want to ensure that sensible investment decisions are taken whenever the opportunity arises. I am now able to announce three significant developments.
>
> In the past, the Government have been prepared to give the go-ahead to private projects only after comparing them with a similar project in the public sector. This has applied, whether or not there was any prospect of the project ever being carried out in the public sector. I have decided to scrap this rule. In future, any privately financed project which can be operated profitably will be allowed to proceed. This should be widely welcomed, particularly by the construction industry. Secondly, the Government have too often in the past treated proposed projects as either wholly private or wholly public. In future, the Government will actively encourage joint ventures with the private sector, where these involve a sensible transfer of risk to the private sector. We may be prepared to consider such an approach, when the time arises, for projects such as the east-west crossrail, the central Scotland fastlink, the Birmingham western orbital road and perhaps also the channel tunnel rail link.
>
> Thirdly, we will allow greater use of leasing where it offers good value for money. As long as it can be shown that the risk stays with the private sector, public organisations will be able to enter into operating lease agreements, with only the lease payments counting as expenditure and without their capital budgets being cut.[38]

A Treasury press notice accompanying the 1992 Budget expanded on this:

> The Government will actively encourage the private sector to take the lead in joint ventures with the public sector provided the private sector's costs can be recovered by charging users directly. There will need to be a sensible sharing of risks and rewards between the public and private sectors. Joint ventures will be let by competition to ensure the best terms. The Government will specify its contribution in terms of money and risk. If it takes an equity stake, it will not be a controlling one. The Government is willing to consider debt and grant finance for such projects. The Government will consider at the appropriate time the

[38] HC Deb 12 November 1992 c998

> possibilities which these new approaches open up for big projects such as East-West CrossRail, the Western Orbital Road for Birmingham, the Central Scotland Fastlink and perhaps also the Channel Tunnel Rail Link. But the initiative will not be confined to large projects, or the transport sector. The PFI sought to relax further the constraints on private finance involvement in public sector projects. Under the PFI, a private sector operator could design, build and operate a project in return for payment. Each PFI is different and carries different risks. The most appropriate means of financing also varies from case to case. The principal objective is a significant transfer of risk to the private sector and securing value for money for the taxpayer.

The new policy had a limited impact in the early months and when he first became Chancellor, Kenneth Clarke, decided it needed further impetus. In Autumn 1993 he announced the creation of a Private Finance Panel whose role was to encourage greater participation in the initiative by both public and private sectors, to stimulate new ideas, to identify new areas of public sector activity where the private sector could get involved, and to seek solutions to problems which might impede progress.

In a speech to the CBI Conference on 8 November 1994, the Chancellor, Kenneth Clarke, described two principles of the PFI as follows:

- the private sector must genuinely assume risk without the guarantee by the taxpayer against loss.

- value for money must be demonstrated for any expenditure by the public sector.

In his speech, the Chancellor told the CBI conference that "private sector finance would be the main source of growth" for public investment projects and that the Treasury would not approve any capital projects unless private finance options had been explored. Mr Clarke also stressed that there were no target rates of return or profit caps for projects conducted under the PFI. He estimated that by the end of 1994/95 £½ billion of private capital will have been brought in under the Initiative. He made it clear that he wanted to maximise the scope for and use of private finance, reserving public capital provision for those areas where private finance was considered inappropriate or could not be expected to provide value for money.

In the 1995 Budget, the Chancellor announced yet another relaunch of the PFI and a £9.4 billion list of "priority" projects.[39] Michael Jack, then Financial Secretary, sought to allay widespread scepticism as to the ability of the government to proceed with PFI contracts and the readiness of the private sector to participate. He published a new PFI handbook, *Private Opportunity Public Benefit.*[40] This drew together lessons that had been

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[39] Financial Statement and Budget Report, November 1995

[40] HM Treasury/PFI Panel, *Private Opportunity Public Benefit, progressing the Private Finance Initiative*, November 1995

learnt from some of the key PFI projects, incorporated the guidance documents issued by the Treasury and provided practical assistance to public sector managers, potential private sector partners and professional advisers on the structure and management of PFI projects. He pledged to eliminate "unnecessary bureaucracy" and to promote a more favourable climate for the initiative across Whitehall. In November 1996 the Treasury published guidelines of standard contract terms, output specifications and EU procurement rules to help companies become involved in PFI projects.

The PFI has been widely criticised by the private sector particularly over the length of the bidding process and the degree of risk allocation. The idea is that private companies take a large share of the risk on a contract, and if all goes well, should collect a commensurate proportion of the rewards. However some construction companies with weak balance sheets would find it difficult to absorb such levels of risk.

In a special survey on the PFI in 1995, the *Financial Times* commented:

> Critics of PFI - and they are everywhere - fall into two broad groups. They can be dubbed the 'it's too lax' and the 'it’s too tough' camps. The 'lax' camp, featuring public spending purists (although not the Treasury itself), claims the PFI offends against proper ideas of state financial management. It argues that the public sector's capital spending ought in principle to be funded internally, because the cost of capital is always cheaper thereby. And it is sceptical about the propriety of converting a traditional capital investment into 'operating' and 'leasing' payments spread over many years. Dark motives, notably a desire to evade existing public spending controls, are imputed.
>
> The 'it’s too tough' camp takes an almost diametrically opposite stance. Including some of the leading private sector organisations - construction and leasing companies, solicitors, bankers, and corporate advisers - seeking to secure PFI work, it claims that the PFI is impossibly ambitious.
>
> It is concerned, in particular, about the requirement that significant new risks should be assumed by the private sector as part of PFI contracts. Mr Chris Boobyer, director of large value leasing at Barclays Mercantile, says: 'This form of transaction will cost the public sector more because the financier or contractor will have to build safety margins into these deals to alleviate the risk.'
>
> Ironically, the Treasury, which now champions the PFI, shared all three concerns until recently. Its so-called 'Ryrie rules' acted as a de facto obstacle to large PFI-type projects throughout the 1980s. This was due not so much to the rules themselves - which were designed to safeguard value-for-money and ensure that private money invested in public sector projects registered as 'public spending' - as to the way they were invoked by Treasury officials to discourage private finance schemes.
>
> Treasury officials, sceptical by training, deny that they have undergone a Damascene conversion. Rather, they insist, the Treasury is now adjusting itself to the spirit of the Ryrie rules, which were never intended to preclude private finance where it genuinely offered the public sector better value than traditional procurement.
>
> They hotly deny that PFI is stoking up a profligate investment binge, claiming that there is nothing secret about the future annual cost implications of individual PFI contracts. They also reject any ideological objections to non-state funding for capital spending, noting that

existing outsourcing inevitably includes a leasing fee for assets employed, ranging from the incidental (the window cleaner's ladder) to the integral (the rubbish collector's vehicles).

The Treasury thus now believes it is a question of the value for money offered by PFI deals in particular cases. But it is insistent that such value will generally require the transfer of some new risk to the private sector.[41]

The Treasury Committee, in a report on the PFI, concluded:

63. While we welcome the PFI in principle, we are concerned about a number of issues which cannot be resolved until PFI projects are more widespread and more developed. We expect to return to these issues from time to time in future years. First we would like the Government to publish aggregate figures of the proportion of PFI projects which are financed via charges to the user, such as road tolls, and those financed by leasing costs and charges on future public expenditure. Secondly, we ask the Treasury to review whether it remains appropriate that private finance options must always be explored or whether unsuitable projects could be identified and excluded much earlier in the process. Thirdly, we expect the Treasury to demonstrate with reference to particular examples and total figures, that higher financing costs have been more than offset by efficiency gains. Fourthly, when PFI projects are being financed and paid for, we look forward to seeing how transparent and full accounting will be maintained, now and after the introduction of resource accounting, including a clear statement of the future revenue commitments implicit in PFI projects, reflecting their impact on the public finances. Finally, we expect, when examining the economy in future years, to analyse whether there is any difference from a macro-economic perspective between funding large capital projects via the PSBR and PFI spending, underwritten by taxation. We recommend, in the furtherance of public and parliamentary accountability, that the Private Finance Panel produce an annual report which brings together details of projects undertaken by individual departments, as well as the number and details of projects where a public sector solution was finally preferred to a PFI project.[42]

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41 "The Private Finance Initiative", *Financial Times Survey*, 10 November 1995

42 Treasury Committee, *The Private Finance Initiative*, HC 146 1995-96