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PFI "less viable" due to credit crunch

Private finance initiative funding may be less suitable than in the past due to the rise in borrowing costs since the credit crunch, according to a report by the National Audit Office.

The report, [*Lessons from PFI and other projects*](#), said that the cost of debt finance had risen by up to a third in recent years.

It said that this factor, alongside reduced public spending, meant that public authorities should consider a wider range of possible financing models and to seek greater efficiencies in existing contracts.

The report said: "In the current climate, PFI may not be suitable for as many projects as it has been in the past.

"The lessons from PFI can, however, be applied to improve other forms of procurement to help government achieve its aim of annual infrastructure savings of £2-3 billion."

The report also said that there was no clear data to judge whether the use of PFI has led to better or worse value for money than other forms of procurement.

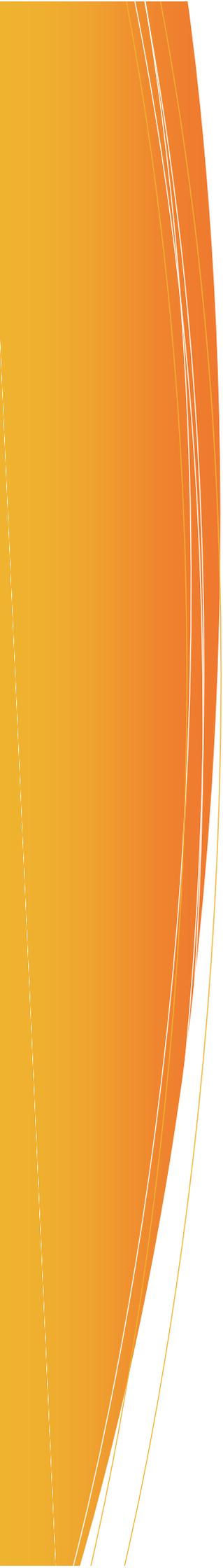
A lack of commercial skills to match those of the private sector can put the public sector at a disadvantage in the negotiation and management of contracts, it concluded.

Elizabeth Fells, CBI head of public services reform, said: "The NAO is right to look at ways of improving the procurement of complex infrastructure projects, because this will save taxpayers money.

"Given the size of the public deficit, private finance is going to play an increasingly important role in building critical infrastructure.

"PFI has already successfully delivered hundreds of hospitals, homes and schools, with the majority built on time and on budget. The government needs to use a variety of financing options.

"These should include PFI, as well as newer models, such as tax increment funding and pension fund financing."



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