Association for Project Management

Financing Labour's Missions:
Considering the role of PFI in Government projects

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Introduction

Why read this paper?

Will the next generation be grateful for the infrastructure we have left them? Or will they instead be ruing financial debt or infrastructure in decay? Within a UK specific context, we address the rumoured possible return of a new incarnation of the Private Finance Initiative (PFI) by a government seeking to invest in new social and economic infrastructure to enable provision of public sector services and enable economic growth. The Association for Project Management (APM) has teamed up with two independent experts with academic experience to reflect upon this public-policy possibility.

UK PFI is referred to here as the c.700 economic and social infrastructure projects that have been in play from 1992 onwards – i.e., since the launch of the UK Private Finance Initiative and its variants on this project procurement framing, used until 2018. In broad terms, this falls within a wider definition of Public Private Partnerships – defined as *"a long-term contract between a private party and a government entity, for providing a public asset or service, in which the private party bears significant risk and management responsibility, and remuneration is linked to performance"* (World Bank, 2017, p.5). In everyday parlance, this is a means of engaging the private sector – bank debt, equity investment, construction and similar expertise, and specialist facilities maintenance – to provide functioning assets such as roads, energy plants, military facilities, schools, hospitals, and prisons, under long-term contracts. Such long-term commitment comes with a corresponding financial cost. It commits the UK central government or local government to regular payments for decades.

By count of media column inches and election-cycle rhetoric, UK PFI as a tool of public policy has had few fans. However, UK PFI persisted in various guises for some 26 years and although not currently in use for new projects it now has returned to the discussion table for its use in future project delivery. As the APM's mission is centred on projects, we have therefore asked the uncomfortably pressing question: "If the next generation of public sector infrastructure projects considers using a model based on the principles of PFI, what issues will today's government need to address to ensure its success?". This paper sets out our consideration of the issues needed to answer that question, in the context of the long-term delivery of projects.

About this paper

We have addressed this question in three parts. First, we remind people of why PFI emerged – starting in 1992 – and thereafter what it became. Next, a reflection on what PFI now is in the present day as we tip from the first into the second quarter of the twenty-first century. Finally, we cautiously prompt the narrative toward important questions to address if a case for future UK PFI/PPP is a serious proposition for both public and private sector project professionals to be preparing for.

The recurring theme of contemporary accounts of current PFI highlights the strained relationship between the public and private sectors, which serves as troubling evidence of the potential for distrust of those involved. But we also show that what is done can be undone – we must demonstrate that we can and have indeed learned lessons. Finally, we point toward a possible path that could be turned into a growth strategy that unites financial and specialist private sector capabilities behind a long-term and clearly targeted goal. And as we are considering infrastructure, this is a goal that will last well into the future, setting a plan for today that will have impacts on us, and those who come after.

This paper is intended as a catalyst for discussion. Its primary target audience are those in senior government decision-making positions, and those influencing the framing of such decisions. This audience include those inside government who are looking at how to deliver on promises of infrastructure and growth, and also those such as NISTA and within the various ministries, departments, agencies, and local authorities, all of whom will have to work with whatever infrastructure delivery mechanisms central government decides is best. This paper contextualises what PFI was, is, and could yet be in anticipation of a possible future call to action that we believe APM, and its membership will find it helpful to know. The reality is that UK PFI in whatever form it has or may take, commits a debt to the future (directly as debt, or indirectly as future payments based on availability). The remainder of this paper puts forward the high-level overview of what it is this country needs from us all in terms of government vision, clarity of a plan, and a rebuilding of a robust public and private sector collaborative capability to deliver what must be done.

The origins and progress of UK project finance as an initiative

The historical context of UK PFI[1] has been extensively chronicled by robust and august sources, with reports from HM Treasury, the National Audit Office, and House of Commons Select Committee hearings being accessible to anyone reading this. This includes reports by the NAO (National Audit Office, 2003; 2005; 2009; 2011; 2012; 2013; 2014; 2016; 2018; 2020); and those reporting from within Treasury, contributing to internal discussion in public view (House of Commons Treasury Committee, 2011; Conway et al., 2018). This wealth of knowledge enables the interested reader to contextualise a changing political view upon which civil servants are bound to respond to and be guided towards (Treasury Taskforce, 1999; HM Treasury, 2014; IPA, 2023). It is in this sense of political election cycles and the associated short-termism that annual public sector budgets become set against. The key point here being that this mindset is on a far shorter-term political interest than the 25-30+ year financial obligations and servicing terms each UK PFI project commits public and private sector to. As a lively illustration, consider the current era of asset hand back to 2048[2] (HM Treasury, 2013b; National Audit Office, 2018; IPA, 2023). In addition, the reader is pointed to sources beyond the UK, aimed at government policy makers: globally – the World Bank Knowledge Hub (World Bank, 2017); and in Europe – the European PPP Expertise Centre (EPEC, 2012). From early on there has also been great academic interest in this area (e.g., Li et al., 2005; Smyth and Edkins, 2007). As noted, UK PFI is within a wider classification of Public Private Partnerships and UK PFI is a form of asset and service delivery known as *infrastructure PPP* (Lember et al., 2019) or Long-Term Infrastructure Contracts, of which UK PFI was the first in the modern era (Hodge and Greve, 2010; Hodge et al., 2017).

For the purposes of this paper, the point being made from this brief reflection on the return to origins as presented next, is to highlight changes in government motivation over time which is contextualised to the present day. In the beginning of UK PFI (1992), the UK government had constraints and motives that were both macro-economic and political and that merited a novel appeal to the involvement of the private sector, and

[1] There are many sources offering a basic explanation of what PFI is. See for example: https://www.parliament.uk/globalassets/documents/upload/0807PFI.pdf starting at section 25.
[2] For latest see IPA guidance on preparing for asset handback, and guidance for managing projects in distress issued March 2025 (IPA, 2025a; IPA, 2025b)

a role for private finance in the delivery of public policy. The change in UK government in 1997 threatened the existence of PFI, but it survived. In retrospective assessment, the motives for continuing to use PFI and PPP's were two-fold, "ideology and accounting" (Spackman, 2002, p.283). The golden rule (ideological), and the sustainability rule (accounting), imposed by government in 1998 reflect both: [i] a Golden Rule –"borrow only to invest"; [ii] a Sustainable Investment rule – the "ratio of net public sector debt to GDP will be set at a 'stable and prudent' level [40% of GDP]" (Emmerson et al., 2006, p.2). A term for this overall motive is "additionality" (Winch et al., 2012). Adding to what can be invested in the short-term; and accounting for borrowing constraints as applicable at the time. Framed positively, this was a device to manage within and around European Union fiscal rules – i.e., to enable more investment despite EU limits on public sector borrowing. In reality, this ability to add or improve the infrastructural stock of the UK remained a feature that extended well into 21st century ramp-up of this initiative. Explained within government levels as, "departments can use PFI to leverage up their budgets without using their allotted capital budget—the investment is additional and not budgeted for" (House of Commons Treasury Committee, 2011, p.2). In other words, by engaging the private sector and having them borrow money this PFI debt fell outside of Public Sector Net Debt (PSND) calculations. As a result this debt was excluded and became "invisible to the […] headline debt and deficit statistics" (House of Commons Treasury Committee, 2011, p.55). Framed negatively, as was the political mood by 2018, this whole façade had all along been one great "fiscal illusion" (National Audit Office, 2018).

The Global Financial Crisis (GFC) of 2008-09 and the subsequent challenges faced by the UK in the 2010s reshaped how public and private sector engaged day-to-day in PFI projects. For the public sector the priority necessarily changed. The framing of additionality making way for the economic realities of the day. The political mood also changed as the realities of austerity created new pressures on the public purse overall and created new pressures to find ways to spend less. One such possibility being to find contractual reasons to deduct payments owed in unitary payments in PFI projects. This was a new era of PFI, characterised by new tensions at this contractual interface of PFI parties: public authority, special purpose vehicle (SPV), and the service provider. New types of advisers also emerged. On the public sector side these were advisers more directed toward finding ways to save money by enforcing contracts differently. The private sector SPV turned to Management Service Agents (MSA) to take a more granular approach to day-to-day management and reporting activities.

The impact of the GFC is, however, too simplistic as the primary source of change in day-to-day management of the PFI. The drive for value for money put the focus on performance under contract and had merit regardless of the new financial constraints the GFC introduced. Value-for-Money was an older question than the GFC and whether or not this was being achieved was prompted also from evidence of excessive short-term gains by some private sector entities (National Audit Office, 2005). The value for money criticism is therefore deep-set because, in broader terms, the rationale for PFI became bound to a claim that public sector risk transfer to a private sector (as the other side in a commercial trade), related to a public sector value being gained (National Audit Office, 2018). Whether the GFC was the cause or a step in the natural maturing of focus upon project performance detail is a debate for another day. Either way, the new era from this time onwards was characteristically more granular in focus, more time consuming across these same commercial interfaces, and a defining reality of the ongoing strain on the relationships between public and private sector that still endures today. The interested reader will find comprehensive assessment of this increasingly difficult commercial interface in the survey of those involved day-to-day by White and Fraiser (IPA, 2022).

Central Government Guidance (HM Treasury, 2011) from 2011 further highlights this more granular and increasingly confrontational nature of the public and private sector interactions. The timing of this guidance further underpins the relationship to the GFC and new era of public sector focus on contractual management as a granular discipline with financial cost saving as a key motivation. The guidance suggested three key areas to focus upon:

1. effective management of existing contract – requiring “a good understanding of the existing contractual terms” (p7);
2. optimising the use of asset capacity – but also ensuring amendments “do not undermine essential services” (p7);
3. reviewing the specification of services. A key principle of such review acknowledged as the need for external advice – “Authorities should choose suitably qualified advisors” (p.7).

These three core features of the review underscore the skill sets required and the need for more detailed reporting, which both the new public sector advisers and SPV MSA services were now being asked to help address. This guidance also refers to a voluntary code of conduct - referenced in this 2011 guidance, but then separately published in 2013. Per the code the aim was primarily financially motivated. It required signatories to voluntarily “identify and deliver efficiencies and savings […] to enhance the long term partnership between parties” (HM Treasury, 2013a, p.1). However, the term partnership does not relate well to the deterioration of relationships this change of emphasis toward value-for-money introduced, which increasingly brought public and private sector into disharmony (National Audit Office, 2016; IPA, 2022).

What PFI has become

Since PFI was introduced in 1992, there have been other developments in infrastructure procurement – especially around economic infrastructure (e.g., energy, transport, water), but we still face the challenge of how to provide the many forms of social infrastructure (e.g. schools, hospitals, courts, prisons). Ultimately, paying for these forms of social infrastructure falls to the general populace through different forms of taxation. By the mid-2010s the reality for many PFI projects was that there were low levels of trust between public and private sector parties. Despite PFI contracts being also referred to as Public Private Partnerships, fostering a positive partnership between these two distinct types of project parties is not what contemporary evidence suggests today (IPA, 2022). If this evidence is added to a distrusting public mood and the periodic mainstream media maelstrom, the term PFI, prompts negativity on all sides which persists to today. Given the project level challenges and 'bad press' that PFI/PPP was receiving, the decision to cease with PFI was not an extraordinary surprise (HM Treasury, 2018). However, from a project management perspective it must also be remembered that, even without a new PFI project since 2018, the great majority of these existing projects are still operating under this spotlight of public scrutiny – a scrutiny likely to increase as contracts draw to an end and PFI projects are handed back.

As existing UK PFI now enters the era of hand back, it is the sets of existing relationships and policy positioning that frames the possibility of future projects using the principles of PFI. Unlike 1992 when PFI was new, everyone now involved with or interested in PFI has a history to relate back to and these will shape the public attitude and perspectives of both public and private sector interests. From a project perspective, we see this set of learned perspectives borne out of experience as a foundational obstacle to a future framing of PFI. This is especially the case if long-term additionality to the UK infrastructural capacity and capability is now the motive here.

How could PFI adapt?

The ongoing discussion about reintroducing private finance to meet the UK's demand for improved social infrastructure echoes past periods when the state of public finances made private finance an appealing option. The current economic outlook (as of the second quarter of 2025) is challenging for the UK Exchequer. Generating sources of revenue or seeking more borrowing at the macro level of HM Treasury are problematic in ways reminiscent of the past. However, as it is clear the UK government wants to increase and improve the UK infrastructure base, it is not surprising that PFI, and other project finance options, are topical once again. The challenges now are related to the wariness PFI has generated, both in selling this as a good solution and attracting interest of more knowledgeable counterparties.

PFI has delivered over 700 operational projects, it has now been around for over thirty years and the existing assets will be returning to the public sector until 2048. PFI remains a potential future method to access capital and resources, thereby promoting the growth of social infrastructure. Although government borrowing is cheaper, this borrowing sits on the government ledger at a time when national debt is at already extremely elevated levels. Private finance can be, and historically has been, treated with more nuance and provides more immediate access. This is access not only to finance but also the capabilities of the private sector more broadly to build the additional assets this country needs. Unlike 1992 however, there is no point in seeking to disguise debt owed on PFI projects as different from other forms of government debt. The public and private sectors, and the public at large, now have information and experiences to know how this form of financing plays out long-term. The continuance of existing PFI projects' repayment obligations remain a long-term future burden in headline grabbing terms.

Whilst the current economic constraints and national needs might be comparable, the future for the UK will be projected from a different history to that before we had PFI. This changes the future UK PFI market because of changes to how parties now relate and what all parties now know (or perceive). First, the dynamic is now much more of an established set of relationships between more localised government, and mature private sector consolidations of equity interests (AIIP, 2024) and increased awareness of the potential fragility of private sector actor (Conway et al., 2018) and the implications to other stakeholders involved (Conway et al., 2018; National Audit Office, 2020). Second, the overall attention to detail across this key commercial interface is orientated differently and, in important ways, much more confrontational than the past. The current state of PFI is marked by ongoing challenges, which are now well understood and articulated by forums representing both public and private sector perspectives.

What Next?

The question of "what next?" is where government decision-making is currently placed. This paper presents the realities of what PFI is in today terms. The choices facing those seeking to improve the UK's infrastructure are not easy and there is no clear, easy, and obvious solution. In such situations, it is rather tempting to delay and defer, but rather than putting off an apparent decision, such delay is a decision. It is the decision to allow the existing solution to persist. Given the hope for improvement in the future, and noting that as services and built assets age, so they become more out-of-date and prone to failure, we as a nation need to make some challenging decisions and make some tough choices.

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