National Audit Office

INSIGHT

Lessons learned: private finance for infrastructure

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Summary

Introduction

1 The government has identified investment in new infrastructure as central to its mission to grow the economy, and has indicated that it plans to work in partnership with the private sector to deliver this investment.[1] The Infrastructure and Projects Authority's (IPA) latest National Infrastructure and Construction Pipeline, published in February 2024, identified around £1 trillion of potential capital investment over the coming decades.

2 Private finance has been an important source of finance for public sector investments in economic and social infrastructure. There is a wide range of private financing models including the extensively used Private Finance Initiative (PFI). Sources of private finance for the initial capital investment include institutional investors (such as banks and pension funds) provided in the form of debt and equity or related financial instruments.

3 The Chancellor of the Exchequer announced in the Autumn Budget 2024 that the government will increase public sector net investment (PSNI) to 2.6% of GDP during the Parliament, with over £100 billion of additional capital invested over the next five years (annual PSNI averaged 2.1% of GDP between 2013 and 2023).

4 Alongside the Budget, the government made changes to the framework for infrastructure investment including: a new fiscal rule based on public sector net financial liabilities; a financial transaction control framework, which designated five public financial institutions, including the National Wealth Fund, to deliver large scale financial investment transactions; and, the introduction of the National Infrastructure and Service Transformation Authority (NISTA) which will bring together functions of the National Infrastructure Commission and the IPA. In January 2025, the government published its *10 Year Infrastructure Strategy Working Paper* to engage stakeholders to support the development of the strategy, which will be published alongside the spending review in late spring.

1 Infrastructure comprises fixed assets which have an economic life of at least one year, categorised under two broad headings: economic or social. Economic infrastructure includes: broadband/communications, electricity and gas transmission, energy, flood/coastal defence, science and research, transport, water and sewerage. Social infrastructure includes infrastructure relating to: borders and policing, defence, education, health and social care, housing and regeneration, justice, tax and customs, and work and pensions. Additionally, the Office for National Statistics classifies infrastructure to either the market (for-profit private sector organisations) or public sector.

Purpose and content

5 As the government establishes its 10-year strategy for infrastructure investment, we set out lessons most relevant for government to consider, drawn from over 140 National Audit Office publications with relevance to the use of private finance for infrastructure. Our report contains 12 key considerations for decision-makers grouped under three headings.

- Creating the right conditions to support investor and public confidence.
- Making the right decisions at policy and project levels.
- Adopting a commercial strategy to deliver successful outcomes.

6 Our report aims to support members of parliament, decision-makers across government and their advisers as they develop plans for new infrastructure and establish their preferred financing and funding models.

Key lessons

Creating the right conditions to support investor and public confidence

Lesson 1 – Public bodies responsible for mobilising private capital need clear mandates and objectives.

7 Clear objectives provide greater certainty for investors and other stakeholders and are more likely to support value for money for public investment. For example, the UK Green Investment Bank (GIB) was established in 2012 to accelerate the UK's transition to a greener economy. Our 2017 publication *The Green Investment Bank* reported on the sale of GIB and found that GIB had been set up with a "clear rationale, mission and objectives".[2] By March 2017, it had invested in 100 projects and committed £3.4 billion of the capital that had been allocated to it by HM Treasury (HMT). It attracted £8.6 billion of private capital, equating to around £2.50 for every £1 invested (paragraph 2.5).

Lesson 2 – The forward infrastructure pipeline for public investment needs to be credible and consistent.

8 A stable and predictable infrastructure pipeline of sufficient size and longevity can support investors to plan for the future and also help create a competitive market. In most years since 2016 the IPA has published a National Infrastructure and Construction Pipeline to support longer-term planning by investors and other stakeholders. Stakeholders suggested to us that improvements to the level of detail, reliability of information, and standardisation of monitoring of projects would all further reduce the uncertainty around infrastructure investment and financing. The IPA told us that a new infrastructure pipeline will be delivered alongside the infrastructure strategy (paragraphs 2.12, 2.15 and 2.16).

2 Comptroller and Auditor General, *The Green Investment Bank*, Session 2017–2019, HC 619, National Audit Office, December 2017.

Lesson 3 – Public bodies need access to appropriate skills and resources to support investment.

9 Recruitment of specialist skills can be a challenge for the implementation of investment plans. Our 2022 report on *The creation of the UK Infrastructure Bank* (UKIB) found that UKIB and HMT aimed to set up UKIB as quickly as possible and initially relied on interim and temporary staff.[3] A lack of qualified staff can lead to poor scrutiny and oversight, with potential impact on decision-making. Our 2011 report *Lessons from PFI and other projects,* highlighted that contracting authorities often had limited in-house skills available to make critical decisions on complex projects, which can place the public sector at a disadvantage (paragraphs 2.17 and 2.19).[4]

Making the right decisions at policy and project levels

Lesson 4 – Contracting authorities should apply robust and consistent criteria when assessing the business case for using private finance.

10 The suitability of private finance will depend on the size of projects, nature of assets being built, and the risks involved. The Organisation for Economic Co-operation and Development (OECD) notes that it has found no evidence of higher quality infrastructure being delivered in advanced OECD economies by using private finance, as against public procurement, but its research shows that Public Private Partnership (PPP) projects are usually delivered on-time and on-budget (paragraphs 3.2 and 3.6).

Lesson 5 – Departments should assess risks, determine who is best placed to absorb them and design agreements that clearly establish the corresponding risk allocation, funding flows and flexibility to address uncertainty.

11 Not all risks can or should be transferred to the private sector, because the cost of inappropriate risk transfer could be very high. Stakeholders told us that a lack of guidance in quantifying risk for PFI schemes, for instance, helped to fuel some of the misalignment between the additional costs, private sector return on investment and the actual level of risk incurred. Our report *Carbon Capture, Usage and Storage programme* highlighted that the private sector invested significantly in the Carbon Capture Usage and Storage programme.[5] The Department for Energy Security & Net Zero attributed this to learning lessons from previous programmes and creating business models that allocate costs and risks effectively (paragraphs 3.7 and 3.9).

3 Comptroller and Auditor General, *The creation of the UK Infrastructure Bank*, Session 2022-23, HC 71, National Audit Office, July 2022.
4 Comptroller and Auditor General, *Lessons from PFI and other projects*, Session 2010–2012, HC 920, National Audit Office, April 2011.
5 Comptroller and Auditor General, *Carbon Capture, Usage and Storage programme*, Session 2024-25, HC 120, National Audit Office, July 2024.

Lesson 6 – The government should balance a desire to minimise the cost of finance against providing an attractive investment opportunity for investors.

12 Private finance is more expensive than public finance, because investors expect to earn a premium for risk taken and they will sometimes earn high returns on risky investments. The government should consider how the risks and gains of investments can be shared equitably with private investors. For example, in our report *Hinkley Point C*, we highlighted that the Contract for Difference used included a mechanism for sharing equity gains.[6] If the rate of return on investment exceeded 11.4%, the company (the special purpose vehicle set up to deliver the project) will receive 70% of any gain above this level, and if rates exceed 13.5%, the company will receive 40% of any gain above that level (paragraphs 3.16 and 3.17).

Lesson 7 – Project approvals and financing decisions should be based on commercial and operational objectives, and not to meet accounting classifications.

13 The Office for Budget Responsibility has commented that selecting or designing financial structures so that they are classified as 'off balance sheet' for the purpose of national accounts results in a "fiscal illusion". We have previously reported that shifting immediate costs off balance sheet while committing public funds to long-term obligations can obscure the true fiscal impact of government-funded PPP projects, as contracting authorities may overlook the eventual costs of maintaining or upgrading assets once they are handed back by the private sector (paragraph 3.22).

Lesson 8 – The government should undertake comparable evaluations of publicly and privately financed infrastructure projects.

14 As we noted in our 2018 report *PFI and PF2*, a better evaluation of the costs and benefits of privately financed projects could lead to improvements in the procurement and operation of assets.[7] For example, understanding whether maintenance standards under privately financed projects result in materially better assets compared with the alternative of ring-fencing maintenance funds, or entering into long-term maintenance contracts, for publicly financed assets (paragraphs 3.26 and 3.29).

6 Comptroller and Auditor General, *Hinkley Point C*, Session 2017-18, HC 40, National Audit Office, June 2017.
7 Comptroller and Auditor General, *PFI and PF2*, Session 2017–2019, HC 718, National Audit Office, January 2018.

Adopting a commercial strategy to deliver successful outcomes

Lesson 9 – Contracting authorities should adopt an efficient procurement process that is competitive and avoids undue delay.

15 In our report *Improving the PFI tendering process*, we noted that the private sector was being selective in bidding for projects, partly due to the lengthy tendering periods and high costs of developing bids.[8] In recognition of the lengthy tendering, HMT reformed the PFI model and capped the tendering process at 18 months. Our recent discussions with stakeholders highlighted that high costs for potential suppliers in putting together bids continue to be a deterrent for bidding on some government programmes. Our 2023 report *Lessons learned: competition in public procurement* highlighted steps for decision-makers to consider when running a procurement, to help maximise the benefits of effective competition (paragraphs 4.2, 4.4 and 4.6).[9]

Lesson 10 – Public bodies should actively monitor and review performance even when projects are privately financed and run.

16 Although the PFI model was designed to be self-monitoring (with the special purpose vehicle set up to deliver the project responsible for reviewing and reporting on performance) public bodies should, as a minimum, have appropriate access to information and data to support the monitoring of projects to ensure compliance with contractual obligations. The 2023 IPA-commissioned *White Fraiser Report,* on the status of behaviours, relationships and disputes in the PFI sector, noted a tendency for some investors to maintain a thin resource model, relying on subcontractors to manage operational and maintenance issues (paragraphs 4.7 and 4.9).

Lesson 11 – Contingency plans should include protections and alternative options when public services are at risk.

17 Inevitably, some privately financed projects may fail, or suppliers may get into financial difficulty. Following the lessons from Carillion Plc's failure in 2018, the Government Commercial Function established policies within its Sourcing Playbook to minimise the impact of supplier failure. Consideration should be given to the strength of the contractual mechanisms in privately financed infrastructure projects as the government may need to intervene when private partners fail. Our guidance *Monitoring and responding to companies in distress* sets out further questions to support the monitoring, preparedness and response to company distress situations. The IPA has also published *Navigating the risks of PFI project distress* to provide guidance to PFI contract Senior Responsible Owners and contract managers to support their assessment and management of project risks (paragraphs 4.12, 4.14 and 4.15).[10]

8 Comptroller and Auditor General, *Improving the PFI tendering process*, Session 2006-2007, HC 149, National Audit Office, March 2007.

9 Comptroller and Auditor General, *Lessons learned: competition in public procurement*, Session 2022-23, HC 1664, National Audit Office, July 2023.

10 National Audit Office, *Monitoring and responding to companies in distress*, October 2023.

Lesson 12 – Public bodies must manage contracts across their whole lifecycle, including planning for the decommissioning of assets, extension of contracts, re-procurement or taking over the operation of the asset.

18 Our 2020 report *Managing PFI assets and services as contracts end* highlighted that the public sector does not take a strategic or consistent approach to managing PFI contracts as they end and risks failing to secure value for money during expiry negotiations with the private sector.[11] In 2022, the IPA published practical guidance for contracting authorities on managing PFI expiry and service transition. The guidance is supplemented by a toolkit of additional materials to support authorities in managing expiry. Additionally, in 2023, the IPA published *A Guide to PFI Expiry Health Checks* to support contracting authorities in assessing their readiness for PFI expiry and a further guidance *PFI Asset Condition Playbook* was released in March 2025. Our discussions with stakeholders identified that, while some progress has been made, much remains unchanged, with public bodies continuing to show a lack of preparedness for contract expiry, particularly for long-term contracts (paragraphs 4.17, 4.20 and 4.21).

11 Comptroller and Auditor General, *Managing PFI assets and services as contracts end*, Session 2019–2021, HC 369, National Audit Office, June 2020.