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### **Re: Private Finance Initiative**

As Chair of the Budget Responsibility Committee of the Office for Budget Responsibility I would like to respond to one of the conclusions of your recent report on the Private Finance Initiative (PFI), namely;

*We welcome the Office for Budget Responsibility's decision to include, in their Fiscal sustainability report, an assessment of the impact of the PFI liabilities which are currently not included in the National Accounts. We believe that the Office for Budget Responsibility should also include an assessment of such liabilities in its Economic and fiscal outlook, which assesses the Government's performance against the fiscal mandate and the supplementary target. We recommend that the Treasury clarify its view of the remit of the OBR to ensure that the OBR include PFI liabilities in all future assessments of the fiscal rules. This would help prevent the use of PFI to 'game' fiscal rules. (Paragraph 24).*

Firstly, we are glad that you found our assessment of PFI liabilities in our July *Fiscal sustainability report* useful.

Using the Treasury's unaudited summary of the Whole of Government Accounts (WGA) for 2009-10, we estimated in the FSR that the additional liabilities totalled a little under £35 billion, or around 2.5 per cent of GDP at March 2010.

The final audited set of accounts were released by the Treasury and the NAO on 29 November. The release schedule meant we were unable to assess the impact of the new PFI estimates in our *Economic and fiscal outlook*. But, having now done so, they imply that the additional liabilities are marginally lower than assumed in July. Based on the latest information, we now estimate that the additional liability was around £33 billion or 2.3 per cent of GDP at the end of March 2010.

The Government announced its intention to reform PFI on 15 November and will be launching a call for evidence on 1 December. As it is not yet clear what the outcome will be, we cannot project a specific path for related spending. But, assuming that the additional liability remained fixed at its March 2010 level, net debt would be 2.3 per cent higher as a share of GDP in each year and the peak would be 80.3 per cent in 2014-15. The running costs relating to

existing PFI contracts are included within agreed departmental spending envelopes and, implicitly, we assume that any further spending will continue to be met within those same envelopes.

In future years WGA and the underlying figures will only be compiled on an annual basis, so we will be unable to update these estimates on a more frequent basis. We hope that in future the release of WGA will coincide with our annual *Fiscal sustainability reports*, so we can set out the details there of any changes in the figures from one year to the next.

As you note, it is the role of the Treasury to set the remit which we subsequently assess. If PFI liabilities were to be included, we would need the Office for National Statistics to produce a measure of net debt that reflected, and regularly updated, its effects. We could then aim to forecast this series in future *Economic and fiscal outlooks*.

Yours sincerely

**Robert Chote**  
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