



## GOVERNMENT USE OF PRIVATE FINANCE FOR INFRASTRUCTURE

Issued 28 April 2025

ICAEW welcomes the opportunity to submit written evidence to the call for evidence on the government's use of private finance for infrastructure issued by the Public Accounts Committee (PAC) on 26 March 2025, a copy of which is available from this [link](#).

We believe that private finance has an important role to play in building public infrastructure that will drive economic growth and improve the delivery of public services for the benefit of all.

We concur with the NAO report '[Lessons learned: private finance for infrastructure](#)' and believe there needs to be:

- A credible and affordable infrastructure pipeline with balanced sharing of risk.
- Access by public bodies to specialist expertise.
- New guidance for evaluating the use of private finance.

We recommend the government not adopt the approach used under the Private Finance Initiative (PFI) of seeking 'off-balance sheet' treatment for public private partnerships that puts hurdles in the way of allocating risk appropriately between taxpayers and private investors.

This response of 28 April 2025 has been prepared by the Corporate Finance Faculty and the Public Sector team of ICAEW.

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## KEY POINTS

1. For ICAEW members in infrastructure advisory, including with experience in the public sector, the lessons collated in the National Audit Office report, [Lessons learned: private finance for infrastructure](#), continue to be relevant. They also help explain why the UK has gone from being a leader in use of private finance to falling behind other jurisdictions, such as Canada, France, Spain, and the Middle East.
2. We highlight three areas that we believe demand urgent remediation by the government in order to (a) deliver the planned 10-year infrastructure strategy and (b) prepare for PFI contracts that are due to expire. These are:
  - a credible and affordable infrastructure pipeline with balanced sharing of risk (paragraphs 7 and 16)
  - access by public bodies to specialist expertise (paragraphs 8-10, 23-26)
  - new guidance for evaluating the use of private finance (paragraphs 11-12)
3. We believe that the newly established body, the National Infrastructure and Service Transformation Authority (NISTA), should be responsible for the policy and for creating a framework for using private finance for delivering the government's infrastructure strategy. This will strengthen the impact of its recommendations to public bodies and relating to the infrastructure strategy.
4. We recommend the government does not adopt the approach used under the PFI of seeking 'off-balance sheet' treatment for public private partnerships. The hurdles necessary to achieve such an accounting outcome in the National Accounts make it difficult to allocate risk appropriately between taxpayers and private investors, in addition to reporting an incomplete balance sheet position to Parliament and the public. The recent changes in the fiscal rules make it easier for government to do the right thing.

## EVIDENCE ON LESSONS IN NAO REPORT

5. We are pleased to include commentary below from our members relating to points raised by the NAO in their report, [Lessons learned: private finance for infrastructure](#).

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

6. In April 2025, ICAEW submitted [evidence to the Treasury Committee's inquiry into the National Wealth Fund](#). We identified that government needs to make clear the dividing lines between the National Wealth Fund and other public financial bodies, like the British Business Bank and Great British Energy, so that the market knows who to approach and so that public sector funding does not compete against itself.

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

7. In March 2025, ICAEW submitted a [response to HM Treasury's 10 Year Infrastructure Strategy working paper](#). We proposed that a strategic pipeline should allocate funding on a sector basis for the 10-year period and include expectations for central and local government funding and contributions and private sector investment. This approach will create confidence for public and private sector, investors and contractors, to make commitments that will deliver the pipeline.

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

8. Our members suggest that accounting, procurement and commercial skills in public bodies need boosting. Inhouse contracting expertise and management capability that have not been retained will be needed when PFI contracts are returned. Moreover, few public departments have expertise in corporate finance skills required for new projects such as risk assessment, risk allocation and funding flows.
9. NISTA should collaborate with public bodies to map the skills and support needed to support PFI contracts that are due to be handed back and new projects, and develop plans to fill gaps in relevant teams or departments.
10. In February 2025, ICAEW submitted [evidence to the Business and Trade Committee's inquiry on the UK's industrial strategy](#) which supported our call for prioritising investment in infrastructure and skills.

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

11. ICAEW members point to a gap in the Green Book for guidance to help local and central government officials evaluate using private finance in individual infrastructure projects.
12. We also believe there should be a clear policy on when and how best to use foreign direct investment in funding critical UK infrastructure.
13. These are critical to crystallising the expected boost to certainty and visibility that the Spending Review, four-year capital budgets, and the 10-year infrastructure strategy should create for contractors and investors in UK infrastructure.

***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***

14. In ICAEW's [response to HM Treasury's 10 Year Infrastructure Strategy working paper](#) we emphasised that attracting private sector investment requires a balanced approach to risk that provides sufficient confidence to investors to encourage them to invest while at the same time protecting consumers or the taxpayer. We identified that 'investibility' of agreements relies on a balanced sharing of risk extending to feasibility, bidding and planning in addition to project delivery.

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

15. The state of the UK's public finances means that the forthcoming infrastructure strategy will inevitably depend on the use of private finance if it is to deliver at the scale needed to genuinely boost economic growth and improve the effectiveness and efficiency of public services.
16. It is of course very important that the government seeks to get the best value for money from the deals it strikes with private sector investors. However, infrastructure investment opportunities in the UK will be competing with international opportunities for private investment and so returns will need to be sufficiently attractive to provide an incentive for private capital to invest given the risks they are being asked to take.

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

17. We agree. One of the key issues with the original PFI contracts was the priority placed on achieving a particular accounting outcome ('off-balance sheet' treatment in the National Accounts) above obtaining the best commercial outcome for the public purse. While the quality of PFI contracts did improve over time, the need to obtain off-balance sheet treatment was a hurdle that made it difficult to share risk between the public and private sectors in a way that made the most sense for both the taxpayer and for private investors.
18. We also think that this may be one of the reasons for the failure of the Private Finance 2 (PF2) initiative as a vehicle to deliver infrastructure projects, as it was difficult in practice to devise contracts that improved how risk was shared between the public sector and private investors while still complying with the technical hurdles needed to achieve off-balance sheet treatment.
19. We have always believed that public infrastructure should be on-balance sheet under both the National Accounts and International Financial Reporting Standards. A consistent treatment for private finance and traditional public sector financing provides a better reflection of the underlying transactions, as well as enabling the different approaches to be compared more easily, providing ongoing benchmarks on value for money.
20. We therefore recommend that the government should not attempt to record future public-private partnerships off the public balance sheet. Such an approach would avoid artificial constraints in how risks are allocated between the taxpayer, private investors and contractors, leading to more successful public private partnerships and hence more infrastructure being built.
21. Recent changes in the fiscal rules make it easier for government to do the right thing as cutting public sector investment is no longer a route to meeting public spending targets.

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

22. We agree.

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

23. NISTA has a key role to play here as a 'centre of excellence' that can support public bodies in establishing contractual frameworks appropriate to the type of infrastructure asset being constructed and in ensuring their procurement processes are efficient and effective.

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

24. Our members suggest that establishing recurring programmes for the delivery and upgrading of infrastructure that are both efficient and value for money. Standardisation and repeatability should help the teams involved gain experience in procurement and contract management, help inform comparable evaluations and enable lessons learnt to be incorporated in subsequent projects and contracts.
25. Standardisation and mandatory procurement timetables for certain types of project could also be piloted to understand the impact on speed and efficiency of processes.
26. Public bodies should retain ongoing management capability - both for projects where there is not a business case for using private finance as well as for projects that are privately financed and run and that will be handed back in the future.

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

27. We agree. It is important that contingencies in case of a range of potential scenarios are incorporated into the planning and contracting of all infrastructure assets, not just those built with private finance. For critical infrastructure assets built using private capital there should be appropriate contractual protections to enable the assets concerned to continue to operate while at the same time ensuring private investors receive appropriate protections commensurate with the risks they are taking by investing.

***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***

28. We agreed, as discussed in paragraph 24-26.