

Datablog: Counting the cost of school PFI schemes

February 2018

Introduction and summary

1. Along with the NHS, local authorities and schools in England have been tackling their own financial difficulties brought about by funding shortfalls. This blog extends CHPI's existing analysis on [PFI in the NHS](#) to look at the education sector in England, in particular:
 - the amount of taxpayers' money that has been transferred to the profits of PFI companies providing PFI schools schemes between 2010 – 2016:
= **£329m in pre-tax profits; £180m in dividend payments**
 - the estimated amount of taxpayers' money that will go directly to PFI profits in schools schemes over the 4 years between 2017 – 2020
= **£270m in pre-tax profits**
 - the ring-fenced interest repayments on PFI debts for 8 local authorities with PFI schools schemes over the next 3-5 years:
= **£252m**
 - the amount which PFI companies will have saved from reductions in corporation tax from when the deals were first signed.
= **£33m (estimated between sign off of deal and 2016)**
= **£27m (estimated between 2017-2020)**

Total value and cost of PFI schools schemes to local authorities in England

2. Over the past seven years (between 2010 and 2016) local authorities in England have paid just over **£7bn** for schools and other facilities built under PFI. There are 172 contracts with a capital value of £8.6bn.
3. Over the lifetime of these contracts taxpayers will pay **£32bn** for these contracts which include the building and refurbishment of schools as well as the provision of facilities maintenance services such as cleaning and repairs.

4. The payments which are made to the PFI companies by local authorities come out of the funds which go to individual schools for the maintenance of their buildings. The Department for Education provides much of the funding for PFI schemes to local authorities in the form of PFI credits, however, local authorities must find any shortfalls from their own budgets.

The amount of profits that has been made on the schemes

5. The PFI companies which hold education PFI contracts have made profits of **£329m** over the past seven years (based on a review of the accounts of 139 PFI operators where information was available). This equates to around 5.6% of the money paid to the operators. Of those profits **£180m** have been paid out as dividends to shareholders.
6. Assuming that 5.6% of all future taxpayer payments to PFI contractors over all 172 schemes will also go to pre-tax profits, we calculate that around **£270m** will go to pretax profits over the next 4 years. Between 2017/18 and 2020/21 the total payments to PFI companies according to the Treasury database will be **£4.8bn**.
7. Whether this is a 'fair' rate of return for the shareholders of the PFI company is hard to calculate given the lack of public information available. However, [research](#) on a sample of PFI projects in the health sector has found that they have made excessive returns given the cost of their funding.
8. The impact of these payments to PFI companies on the finances of local authorities is problematic, because at a time of austerity and where both schools and local authorities have been subject to significant reductions in funding from central government, the payments to PFI companies (and subsequently their profits) are ring-fenced and since protected. That means that when local authorities and schools are looking to making funding cuts areas they are not able to touch these payments to the PFI companies.
9. In Northamptonshire County Council whilst the Council has had to make planned cuts of £53m over the course of next year. The payments to PFI companies and their profits and dividends have been protected. Despite this the payments and the profits to PFI companies are guaranteed as **Table 1** shows.

Table 1: Payments to PFI schools company, pre – tax profits and dividends paid
Northamptonshire County Council PFI Schools Scheme – Northants Schools Ltd

Year	Unitary Charge	Pre-tax Profit	Dividend paid
2016	£28.0m	£3.1m	£2.8m
2015	£27.7m	£3.1m	£2.2m
2014	£27.5m	£2.9m	£2.6m
2013	£26.2m	£2.5m	£3.8m
2012	£25.9m	£2.7m	£1.3m
2011	£25.6m	£3.1m	£4.0m
2010	£25.3m	£6.2m	-
2009	£24.4m	£5.7m	-
2008	£22.7m	£793k	
2007	£17.1m	£50k	-
2006	£13.5m	£845k	-
Total	£263.8m	£31.3m	£16.7m

(Source: Companies House accounts; HMT database on PFI contracts)

10. In addition to the profits which go directly to those who have shares in PFI companies, the lenders also receive significant amounts in interest. As **Table 2** shows, using data taken from the statutory accounts of 8 local authorities with the largest annual Unitary Charge Payments to PFI Schools companies in 2017 (and where the data is available) the total amount of debt repayment on these schemes over the next 3 to 5 years is **£252m**. As the National Audit Office have recently shown, the cost of borrowing using the PFI is substantially higher than that which local authorities would pay if they raised the capital to refurbish these schools themselves. Again these interest repayments to the lenders of the capital are protected and must be paid even when a looking to make savings.

Table 2 – Debt and Interest payments to PFI schools projects for 8 Local Authorities

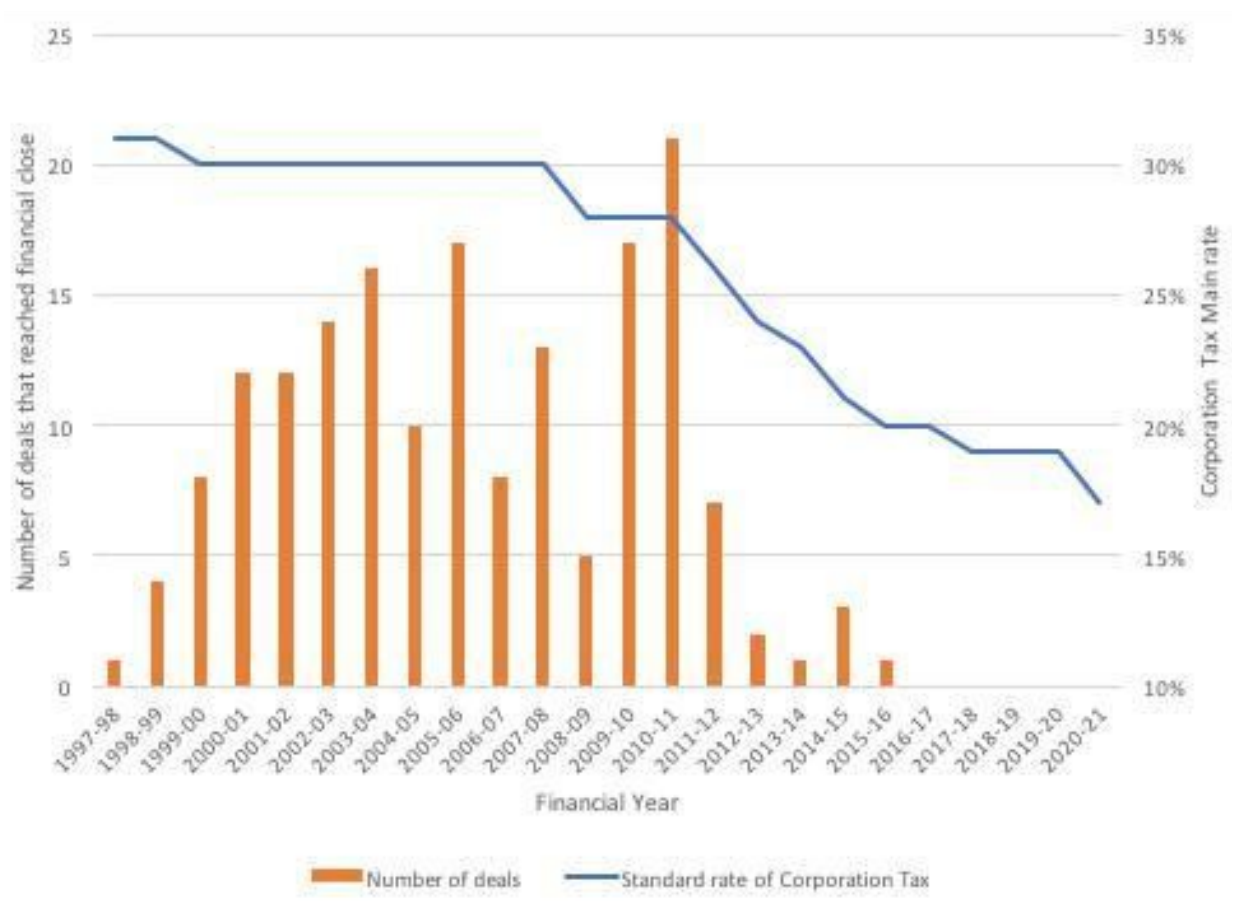
Local Authority PFI Schools Schemes including time period for payments	Payment for Services provided by PFI companies	Repayment for Debt raised by PFI companies	Repayment of Interest on Debt
Leeds PFI Schools Schemes over the next 2-5 years	£55.8m	£41.4m	£60.5m
Knowsley Borough Council PFI Schools Schemes over the next 2-5 years	£20m	£17.2m	£30m
Kirkless Council PFI Schools Schemes over the next 3 years 2018/19 - 2020/21	£5m	£1.8m	£2.5m
Bristol City Council PFI Schools 3 years 2017/18 - 2020/21	£21m	£13.8m	£25.5m
Greenwich 3 years 2018/19 -2021/22	£19m	£9.2m	£32.4m
Bradford Building Schools for the Future PFI scheme (1) 2-5 years	£16.5m	£10.7m	£22.0m
Bradford Building Schools for the Future (2) 2-5 years	£38m	£20.9m	£44.1m
Tower Hamlets PFI Mulberry Schools scheme 2-5 years	£2.7m	£1.3m	£2.2m
Tower Hamlets PFI Group Schools 2-5 years	£11.7m	£6.1m	£16.2m
Stoke on Trent PFI Schools Scheme 2-5 years	£32m	£16m	£17m
Total	£221m	£138.7m	£252.5m

(Source: Local Authority Statement of Accounts 2016-17)

How PFI companies have benefitted from a reduction in Corporation Tax to make additional windfall profits

- Like NHS PFI schemes, many education PFI schemes were signed before corporation tax rates fell from 30% in 2008/09. Of the 172 schemes, 115 were signed before corporation tax rates fell to 30% in 2008/09 and a further 43 were signed before they fell again to 26% in 2011/12. As described in depth in an [earlier blog](#) the expected return for the PFI investors was calculated at the higher tax rates (30% and 28%) which means that many have experienced a windfall as tax rates have fallen over the past few years.

Figure 1: Education PFI deals signed and the Corporation Tax Rate



(Source: HM Treasury. Private Finance Initiative and Private Finance 2 projects: 2016 summary data)

- Without access to each company’s corporation tax return a precise overall figure for the amount that has been saved by these companies as a result of the changes to corporation tax cannot be known. However a good estimate can be made by looking at the corporation tax charge (in their published accounts) for each year from 2008 (when corporation tax rates dropped from 30%) and comparing it to the estimated corporation tax charge if tax rates had stayed at 30% or 28% (depending on when the deal was signed).

Table 3: Tax saving made by the 128 education PFI operators with accounts available that reached financial close before 2008/09 or before 2011/12

Profits Before Tax (PBT) 2008-16	Actual tax charge per accounts 2008-16	Estimated tax charge (at main rate 30% or 28%) 2008-16	Estimated corporation tax saving to the PFI company
£352m	£77.5m	£105m	£32.5m

(Source: Review of PFI operators’ accounts available at Companies House)

13. In **Table 3** the **£33m estimated corporation tax saving** represents 9% of Profit Before Tax (PBT) for the period and represents a **45%** increase on the actual tax charge.
14. Going forwards, we estimate that the 158 PFI education companies which reached financial close before 2011/12 will save a further **£27m as a result of the reduction in corporation tax savings** from 2017-2020.
15. As with our work on the gains made by PFI companies in the health sector as a result of the reduction in corporation tax these are estimates and a precise figure cannot be reached for the reasons explained in this [appendix](#).

The accounting treatment of profits in PFI schemes: profit - and hence tax on profits - is reduced because of government policy

16. PFI operators are set up to be 90% debt and 10% equity. When looking at the profit and loss accounts of PFI companies it is clear that all companies offset the amount of interest that they pay to those who have loaned money to them against their profits, allowing them to reduce their overall apparent and taxable profits.
17. As we have shown above, between 2010 and 2016 education the 158 PFI companies operators made a pre-tax profit of £329m but this was after paying interest charges (which reduce their profits) of **£2.3bn**.
18. Allowing PFI companies to offset their interest payments against profits is government policy; the current corporation tax take for PFI companies would be substantially higher if this policy was reversed.
19. In addition, as a recent [National Audit Office report](#) has also shown, PFI companies could refinance their debt at current lower rates of interest and share the resulting savings with the public sector, further significantly reducing the cost of schemes to the taxpayer.