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United Kingdom PPP Forum
Overview of UK PFI market

PPP Forum

PPP Forum engagement with UK Government

Case Studies
The Private Finance Initiative (PFI) was announced in the 1992 Autumn Statement with the aim of achieving closer partnerships between the public and private sectors.
... the public sector defines what is required to meet public needs and ensures delivery of the outputs through the contract.

Consequently the private sector can be harnessed to deliver investment in better quality public services whilst frontline services are retained within the public sector.
The Government only uses PFI where it is appropriate and where it expects it to deliver value for money...

The Government is committed to securing the best value for its investment programme by ensuring that there is no inherent bias in favour of one procurement option over another.

Rt. Hon. Gordon Brown MP
Chancellor of the Exchequer
Market Size

Since PFI began in 1992 over 400 projects, each with a capital value of over £15 million and a combined value of over £42 billion have been signed.

PPP Forum, February 2006
PFI represents between 10 and 13 per cent of investment in public infrastructure in the UK.

The Government is committed to ensuring that decisions on investment, whether through conventional procurement routes or PFI, are informed by a sound evidence based and meets its requirements of equity, efficiency and accountability.
Chart 1: Number and value of PFI projects by year

Source: HM Treasury
Chart 2: Number of projects grouped by Capital Value
Chart 3: Total capital value of projects by department

- Dept of Health: 22%
- Dept for Environment Food and Rural Affairs: 16%
- Ministry of Defence: 10%
- Dept for Education and Skills: 13%
- Home Office: 6%
- Dept for Work and Pensions: 5%
- Office of the Deputy Prime Minister: 5%
- Inland Revenue: 5%
- Economic Development Administration: 3%
- Dept for Transport: 2%
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**Health**

- 108 projects with a capital value of over £15m and a combined total capital value of over £6.5bn have been signed.

- Example:

  The Norfolk and Norwich University Hospital opened its doors to the first patients in November 2001. Occupying a 63-acre site, the 987-bed teaching hospital brought together under one roof the work of two old hospitals.
Education

- 81 projects with a capital value of over £15m and a combined total capital value of almost £3bn

- Example: Stoke Schools PFI Project

The project is to upgrade, maintain and supply energy to the entire schools estate within the City of Stoke-on-Trent comprising:

- 6 Special Schools
- 11 Nursery Schools
- 88 Primary Schools
- 17 High Schools

Of these 122 existing schools, 22 are within the Voluntary Aided sector and 2 were former Grant Maintained
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Defence

- 44 projects with a capital value of over £15m and a combined total capital value of over £3.5bn

- Example: Main Building Refurbishment, Whitehall

This was a £352 million scheme redeveloped and modernised this early 1950s Grade I listed building and on completion was the largest PFI contract of its time. The scheme created a modern and flexible working environment for the MOD, whilst ensuring areas of historic and architectural interest were protected and restored.
Chart 4: A typical commercial structure of a PFI project

Government customer: Procuring Authority and ongoing users of public services

Operation: Services delivered in return for annual charge

Special Purpose Vehicle: Unitary charge payment

Construction contractor

Equity and sub debt finance

Facilities mgmt (FM) operator

Finance: Debt investor

Construction investor

Facilities mgmt (FM) investor

3rd party equity investor
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**Typical Private Sector Solution**

**Accommodation Project**
- 90% debt 10% equity

**Market Risk Project**
- 80% debt 10% equity

**Equity sponsors** - specialist funds
- banks
- industry sponsors
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Stakeholders in UK PFI deals

- The Authority
- Sponsoring Department Private Finance Unit (PFU)
- Her Majesty’s Treasury PFU
- Her Majesty’s Treasury Expenditure Team
- Projects Review Group
- Private Sector Partner
- National Audit Office
- Parliamentary Accounts Committee
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Stages of Procurement

OJ EC notice
Competitive Dialogue
Prequalification
Invitation to Negotiate
BAFO
Contract Award
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Chart 5: Bidder Selection Criteria

- Price: 38%
- Bidder track record: 7%
- Reputation: 19%
- Design: 19%
- Wider organisational: 13%
- Other: 4%
PFI Assessment

National Audit Office (NAO)

- The NAO is the primary body charged with assessing the Government’s PFI programme
- It audits the procurement policy, conduct of procurement and the value for money of selected projects
- It is independent of Government and reports to Parliament

Public Accounts Committee (PAC)

- The Committee consists of sixteen Members of Parliament
- They frequently follow up NAO reports with hearings and reports of its own
PFI Performance to date

- Research into construction performance demonstrated that over 75 per cent of all PFI projects were delivered on time or early and in no case did the public sector bear the cost of construction overruns.
  

- 80 per cent of all users of PFI projects are always or almost always satisfied with the service being provided.
  

- 98 per cent of projects surveyed were meeting service level agreements and 71 per cent were delivering more than contractually specified.

  KPMG/BSA, “Effectiveness of operational contracts in PFI”, November 2005
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Established in 2001 as the private sector industry body with 7 member companies

Membership has grown to include almost 110 companies to date
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Mission Statement

- Demonstrate the success that PFI is achieving in delivering modern public service infrastructure

- Take part in public debate and present an informed and business based perspective on PFI and the issues

- Engage with Government Departments and related organisations involved in developing PFI policy
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Demonstrating success

- Website
  - News
  - Parliamentary monitoring
  - Project reviews

- Ministerial Briefings

- Journalists Briefings
Engagement with Government

Policy Forums
- Treasury
- Health
- Defence
- Education
- Waste
- Scotland
- Northern Ireland
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Aims:

- Helping the Government become more efficient in procurement
- A single point of contact for private sector views
- Raising awareness of PFI issues in non-PFI legislation
- Disseminating Best Practice
Case Study 1

- Insurance Mediation Directive

Issue:

UK legislation implementing EU Directive could have required PFI SPVs to register with the Financial Services Authority (FSA)

Outcome:

FSA Guidance note
Case Study 2

**Issue:**

The procedure for hospital variations in early hospital contracts is not well developed

**Outcome:**

Joint guidance to be issued by the Department of Health and the PPP Forum setting out a code of best practice
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Case Study 3

- Issue:
  
  DEFRA looking to procuring more waste disposal facilities using PFI

- Outcome:
  
  Working group to liaise with DEFRA and PartnershipsUK to review PFI standard contact and amendments needed for a waste contract
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**PPP Forum Membership**

**Corporate (32)**


**Financial (44)**


**Professional (33)**