

Public Private Partnerships and the Private Finance Initiative (PPP & PFI)

Quick Guide

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Introduction

There are no formally agreed definitions of the terms PPP and PFI, and the terms are often used interchangeably. The following gives a feel of the overall principles behind these terms.

Public Private Partnership (PPP)

Any joint venture between the public and private sectors to improve the efficiency of public sector services

Private Finance Initiative (PFI)

A form of PPP which involves using private sector funding to deliver projects that were traditionally provided by the public sector. PFI involves the private sector owning and operating, while the public sector has a larger role in regulation.

The PFI is a form of PPP which marries a public procurement programme, (where the public sector purchases capital items from the private sector), to an extension of contracting out (where public services are contracted from the private sector). The private sector partner raises finance to fund the project, generally via a mix of debt finance and equity finance. The PFI effectively changes the role of the public sector from owner and provider to enabler and purchaser.

The guiding principles of the PFI are; the private sector should assume risk against loss without guarantee by the taxpayer and value for money should be demonstrated for any expenditure by the public sector.

Overview of PFI

PFI commonly involves the provision of a capital asset and operational services relating to that asset. In the most common models, the private sector designs, builds, finances and operates (DBFO), or designs, constructs, maintains and finances (DCMF) facilities, based on a specification determined by the public sector. The public sector does not own the asset, but defines the level of service delivered in return for a revenue payment, the **unitary charge** (see box below), to the private sector partner. If the private sector body fails to meet the agreed standards, it loses an element of the unitary charge payment until standards improve. On termination of the contract, ownership of the asset either transfers to the public sector, or remains with the private sector, depending on the terms laid down in the contract. Thus, any PFI project is dependent on the standard of contract used, and the willingness of both parties to enforce it.

Unitary Charge

The unitary charge covers payment for the provision of services, facilities management and maintenance over the period of the contract, as well as incorporating an element of compensation for the transfer of risks, if appropriate. **It is not valid to look at the unitary charge as a payment merely for the capital asset associated with the**

PFI project, other elements included within the unitary charge payment must also be taken into consideration.

PFI projects

According to the PUK Projects Database, to date there have been **798 PFI projects undertaken within the UK as a whole, representing a total capital value of £58 billion**. Table 1 provides details of the distribution of these projects between the member countries of the UK and details of their capital value. It should be noted that UK figures include provision for non-devolved projects occurring within Scotland and Wales, which have been commissioned by UK Government departments. This includes 13 projects with a total capital value of £661 million.

Table 1: Private finance projects in the UK to date

	Number of projects	% projects	Capital Value (£m)	% Capital Value	Population	Capital Value per head (£)
England	602	75	50,240	87	50,762,900	990
Scotland	107	13	5,121	9	5,116,900	1,001
Wales	35	4	607	1	2,965,900	205
Northern Ireland	41	5	1,048	2	1,741,600	602
Non-devolved projects in Scotland/Wales ⁽¹⁾	13	2	661	1	N/A	N/A
UK ⁽²⁾	772	97	57,016	99	60,587,300	941
Total UK	798	100	57,677	100	60,587,300	952

Source: Partnerships UK and ONS.

Note: discrepancies in totals due to rounding.

(1) Note that there are no such projects in Northern Ireland.

(2) Excluding projects commissioned by UK Government departments occurring within devolved administrations.

PFI in Wales

There are 35 PFI projects in Wales (excluding those which are non-devolved) representing a total capital value of £607 million. There have been two bidding rounds in Wales (1997 and 1999) for PFI credits¹ to support local authority projects. All the PFI projects currently active within local government in Wales are a result of these bidding rounds. Guidance for these projects was produced by the Welsh Office.²

In 2000, the National Assembly for Wales undertook a consultation on the development of PPP/PFI in Wales. As a result of this consultation exercise, the following proposals were highlighted;

- The development of the Private Finance Unit as a 'clearing house' for good practice
- A clear statement in respect of future PFI credit bidding rounds in local government
- Streamlining of the bureaucracy associated with PFI

¹ **PFI credits** - represent a commitment on the part of the government to provide a certain level of revenue support to a local authority, under the *Local Government (Capital Finance) Regulations 1997*.

² *Local Government in Wales and the Private Finance Initiative: An explanatory note on PFI and Public/Private Partnerships in local government*. Welsh Office. (1999).

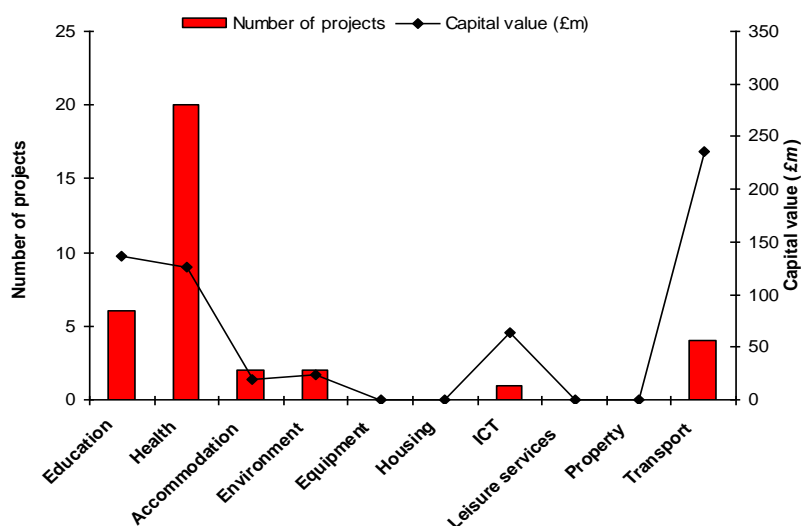
- Investment in the development of a strategic framework for the development of PPP/PFI projects in Wales³.

In July 2003, the Finance Minister (Sue Essex) announced at the Local Government and Public Services Committee⁴, that there would be no further local government rounds of PFI bidding, reflecting the introduction of the prudential borrowing system⁵.

In the 2007 document *One Wales: A Progressive Agenda for the Government of Wales*,⁶ it was stated that the use of PFI would be ruled out within the Welsh health service.

Figure 1 below shows a profile of the private finance market in Wales. The majority of projects occur within the health and education sectors, however the greatest amount of funding is attributable to transport, mainly due to the fact that these projects are generally large and more costly.

Figure 1: Projects by sector - Wales



Evaluation of PFI

The National Audit Office (NAO) has produced a number of reports on individual projects (although none specifically in Wales), which are available on their website.⁷

A recent report by the NAO on managing changes in PFI contracts⁸ found that although PFI deals provide sufficient flexibility, value for money is generally not achieved when contractual changes are made.

HM Treasury have issued guidance for new projects which sets out good practice in change management. Within the NAO report are recommendations to complement this guidance, aimed at operational PFI projects

³ Welsh Assembly Government, *Consultation Paper on Public Private Partnerships and the Private Finance Initiative (PPP/PFI) in Wales*, 2000.

⁴ **Local Government and Public Services Committee Meeting, 9 July 2003 Minutes**

⁵ **Prudential borrowing** - allows local authorities to borrow for capital investment without having to seek permission from government.

⁶ *One Wales: A progressive agenda for the government of Wales*. (June 2007). <http://new.wales.gov.uk/about/strategy/onewales/?lang=en>

⁷ National Audit Office Value for Money Reports. <http://www.nao.org.uk/publications/vfmsublist/index.asp?type=vfm>

⁸ *Making Changes in Operational PFI Projects*. By the Comptroller & Auditor General. HC 205 Session 2007-2008. (17 January 2008).

http://www.nao.org.uk/publications/nao_reports/07-08/0708205.pdf

Further information

For further information on aspects of **Public Private Partnerships and the Private Finance Initiative (PPP & PFI)**, please contact **Dr. Eleanor Roy** (Eleanor.Roy@wales.gov.uk), Research Service.

For further information on the topics below, double click on the links.

- Private Finance Unit, HM Treasury. http://www.hm-treasury.gov.uk/documents/public_private_partnerships/ppp_index.cfm
- HM Treasury. Signed projects list. http://www.hm-treasury.gov.uk/documents/public_private_partnerships/ppp_pfi_stats.cfm
- Partnerships UK. <http://www.partnershipsuk.org.uk/>
- PUK Projects Database. <http://www.partnershipsuk.org.uk/projectsDatabase/projects-dbase.asp>
- National Audit Office, Private Finance Evaluation Framework http://www.nao.org.uk/practice_areas/private_finance/evaluation.htm
- NAO, PPP and PFI Recommendations Database. http://www.nao.org.uk/practice_areas/private_finance/recommendations.htm

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