

UK PPP's Introduction

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International Context

Countries with active / developing PPP programmes include:

Australia, Canada, Chile, Czech Republic, France, Germany, Greece, Hungary, Ireland, Italy, Japan, Mexico, Netherlands, Poland, Portugal, South Africa, Spain and UK.

PPPs Are Not Standardised Internationally

Each Country's approach to PPP is:

- Designed to meet the policy objectives of its Government
- Developed to complement other public procurement and public service delivery methods
- Implemented according to the available public and private sector resources

Tailored and Unique

What Are The Common Features Of Different PPP Programmes?

- Applied across a broad range of sectors
- Mostly applies where major capital investment is required
- Based upon long-term (e.g. greater than 10 years) arrangements
- Private sector capital at risk to performance in the delivery of public services
- Fixed price, output-based contracts

Core Characteristics

- Capital at risk
 - Incentives
 - Compare public sector approach
- Fixed Price
 - Certainty of whole-life costs
 - Benefit of contractual payment
- Output-based
 - Revolution in public procurement

Common Sectors



Transport



Education



Prison



Health

Common Sectors (cont'd)



Defence



Leisure



Government Office

- Also
- Environment
 - Housing
 - Courts
 - Technology
 - Other

UK Experience - PFI

Almost 660
PFI Contracts
Signed

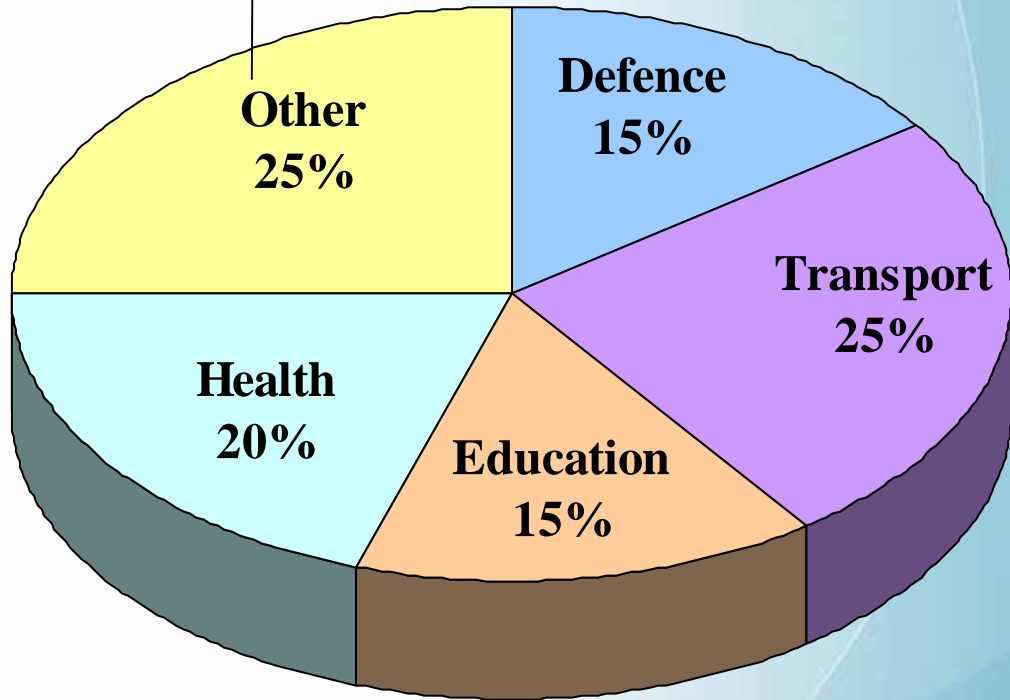
€60 Billion
Capital Value

450 Projects now
operational

€6 Billion p.a.
of new projects
in procurement

Sector Analysis

- Prisons
- Environment
- Courts
- IT
- Leisure
- Other



Capital Values

Public Expenditure Context

PPP represents 11% of UK total public sector Investment during 1998-2004.

PPP is an important technique for procuring public services but is only one of a family of procurement methods.

UK Accounting for PFI Assets

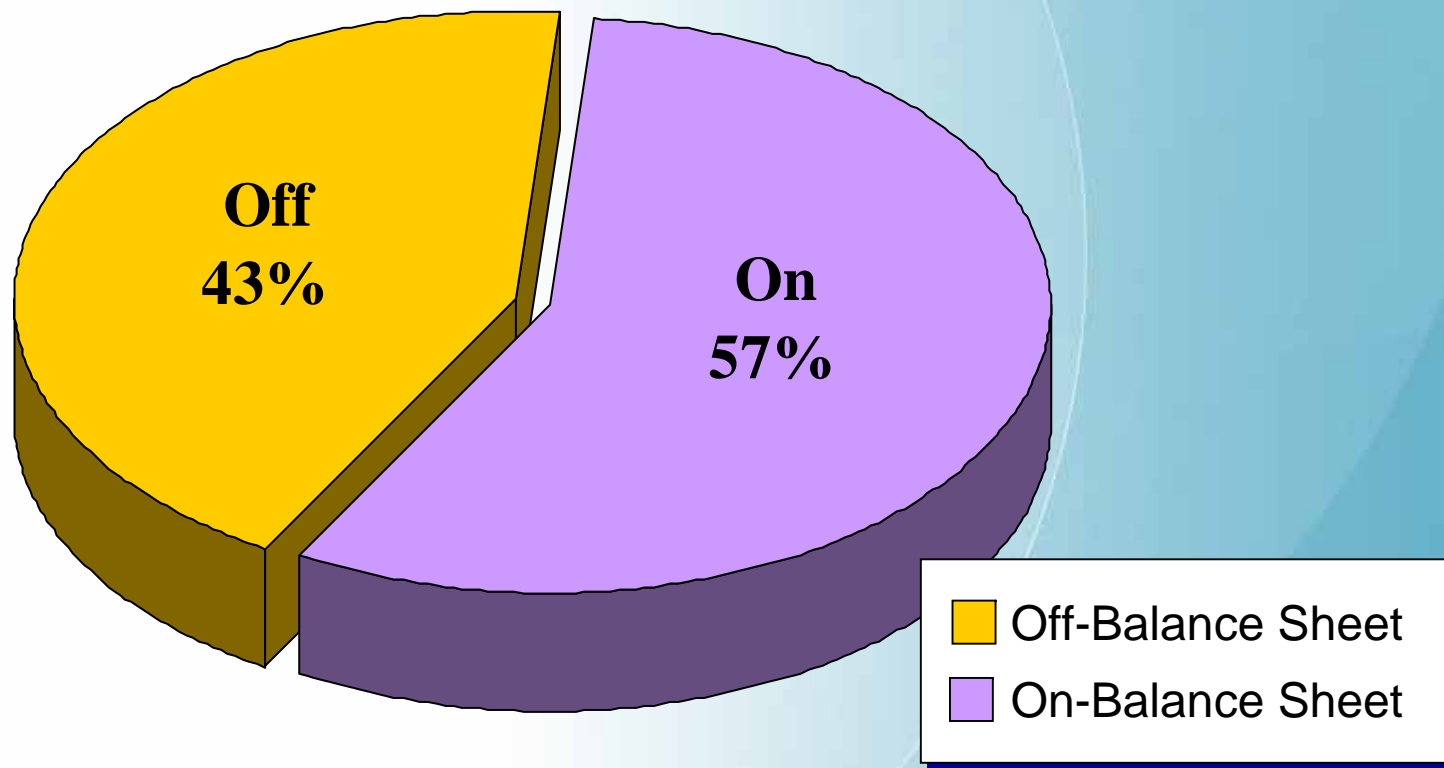
Public Expenditure Outcomes

- ‘On-balance sheet’ – capital value scores against public borrowing.
- ‘Off-balance sheet’ – service charges score against current expenditure.

Aim to get PPPs Off Balance Sheet

** Financial reporting standard*

Balance Sheet Treatment of UK PFI Projects by Value



Why Embark on a PFI Programme

- Improved value-for-money procurement of public services.
- Reform / modernisation of public services.
- Competition in delivery of public services.
- Improved transparency of costs of public services delivery.
- Overcome capital budget constraints.

The Most Common Questions?

- Isn't public sector finance cheaper and so better value for money?
- Aren't you privatising the nation's schools and hospitals?
- Wont profit get in the way of performance?
- How will you keep the "public sector ethos"?
- Doesn't it take too long?
- Aren't bid costs too high?
- The old ways are best!

POLITICAL STIGMA?

Key Drivers of Value for Money in PPPs

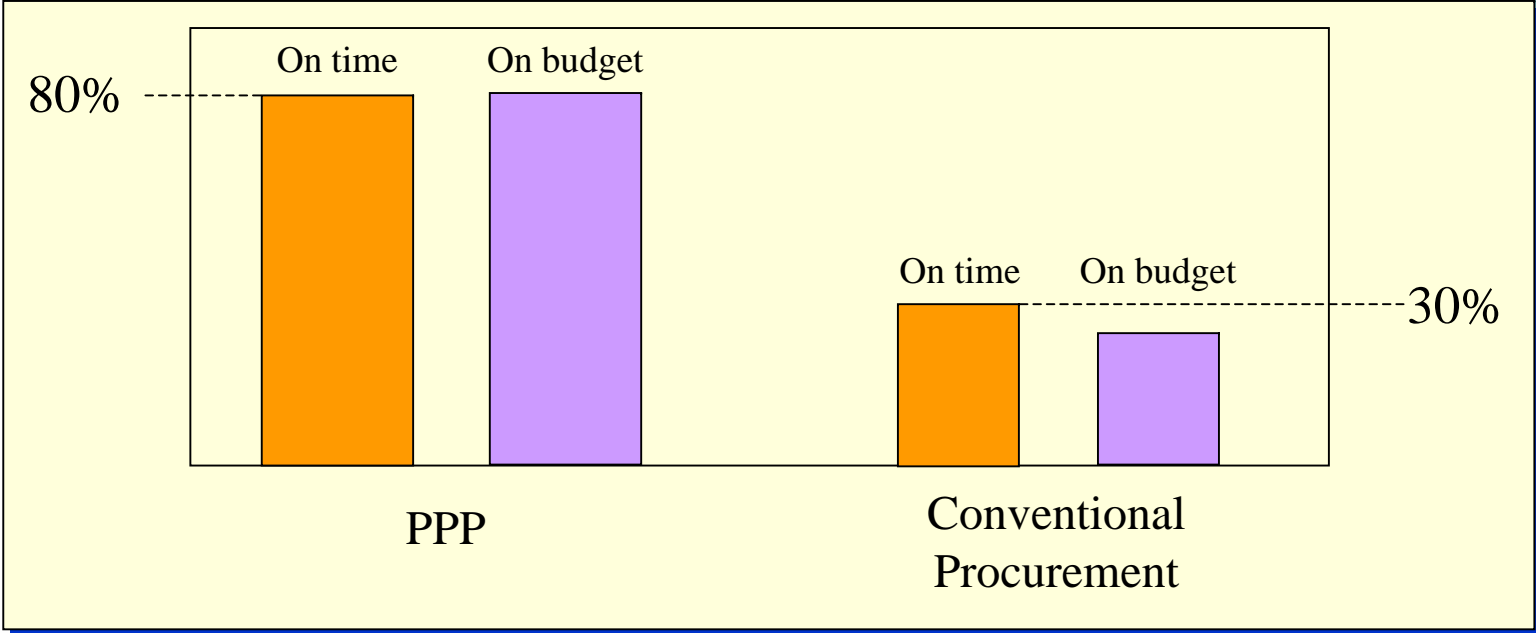
- Output based contracts
- Whole life-of-asset costings
- Single point responsibility – integration / scope
- Innovation
- Competition
- Economies of scale
- Capital at risk to long term performance
- Risk transfer

Key Principles of PPP Contracts for Services (PFI)

- Authority transfers responsibility and risk for asset / service to Contractor.
- Contractor takes on obligations for c.20-30 years.
- Contractor designs, builds, manages, maintains asset and provides services.
- Lenders fund Contractor on limited recourse basis.
- Authority pays “Unitary Charge” for available / acceptable service.
- The PFI Contract (and associated documents) must regulate a network of relationships.

Comparison with Conventional Procurement - Evidence

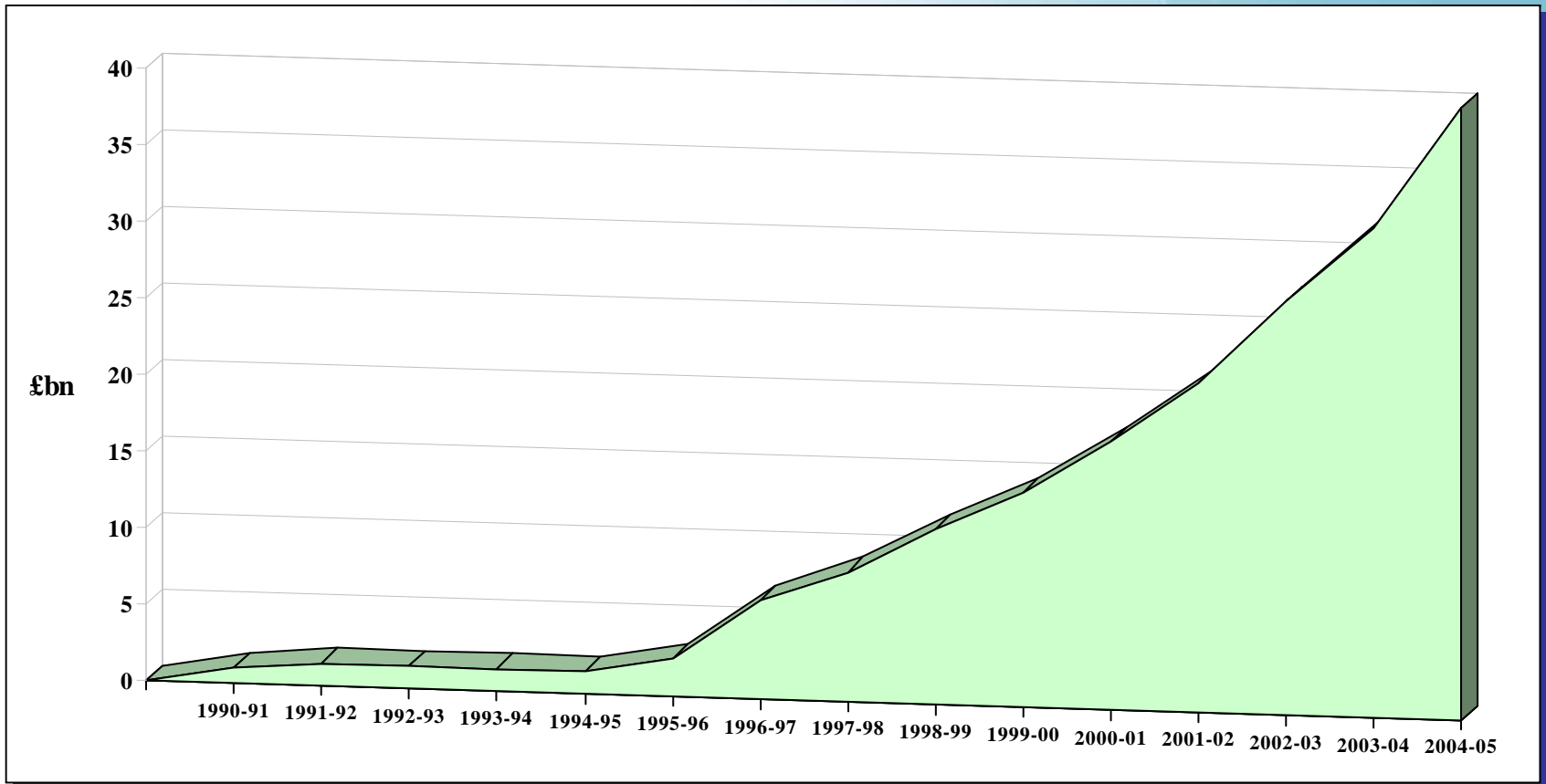
Delivery on time and on budget



Performance of completed projects – No. of Projects

Sources: National Audit Office – UK Parliament - Expenditure Auditor

Implementing a PPP Programme: - UK Experience

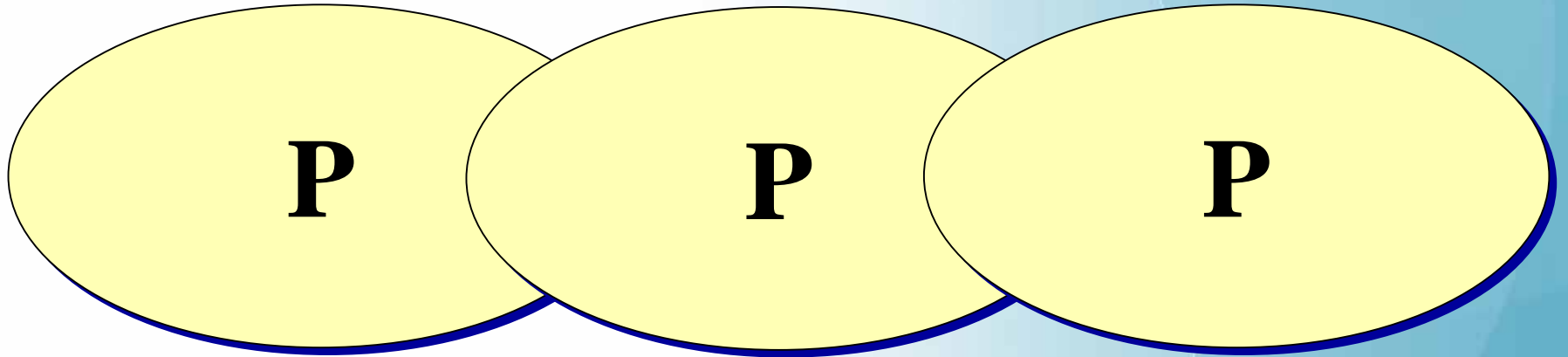


Lessons Learnt

- Legislative framework
- Policy framework
- Capacity building:
 - Public sector
 - Private sector
- Central support
- Communication strategy
- Programme development
- Quality Control

Conclusions

- PPPs offer improved public service delivery through better risk management
- Powerful incentives for the private sector lead to improved benefits realisation
- Improved value-for-money from long-term fixed price, output-based (service) contracts



Public Sector

Partnership

Private Sector

Service Requirement

Service Delivery