

UK Experience in PPP's

Ben King
Partnerships UK

7 December 2005

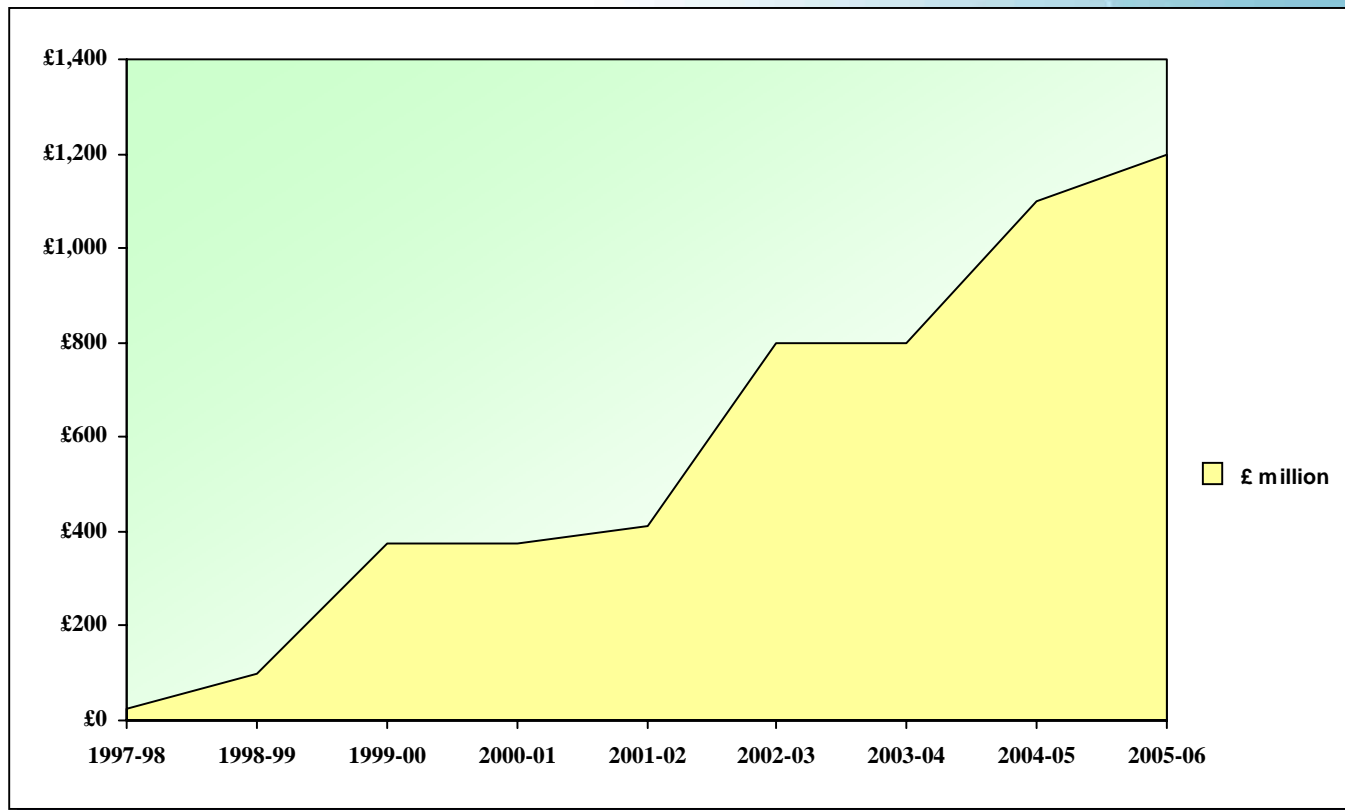
PFI in the Education Sector

Development of Schools PFI

- Single schools
- Grouped schools
- Whole school estates
- Secondary schools in defined geographical area
- BSF Programme



PFI in Schools: funding



Source: Department for Education and Skills

Local authority schools PFI - England

- 239 PRG Approved Schemes (PFI – all sectors)
- 78 signed schools PFI Projects
- 41 operational schools PFI Projects
- 29 have PRG Approval (in procurement)
- 101 of 140 English Local Education Authorities have bid
- Average capital value £40m

Lessons learnt

- Affordability
- Single v grouped v whole estates
- Refurbishment v new build
- Resourcing
- Planning
- Achieving consensus / stakeholders
- ICT inclusion
- Standardisation
- It takes a lot of effort - but remember what the contract is worth
- Take time to get the output specification right - and then make sure it is realistic
- Make sure the project is viable for the private sector - and affordable for the client

Lessons learnt

**PFI will not turn a bad project
into a good one**

Building Schools for the future

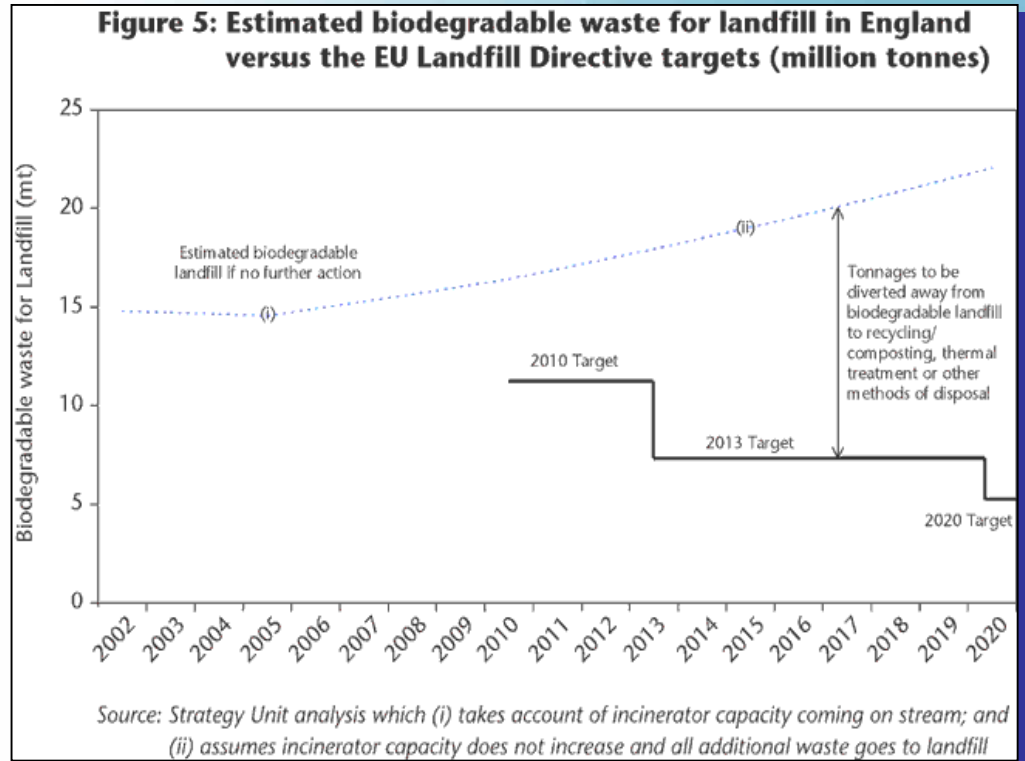
- Programme announced / launched by P.M. February 2004
- New approach to capital investment via ongoing Partnering
- Long term programme for Secondary Schools
 - 21st century schools for all in 10-15 years from 2005/06
 - Local area investment programmes
 - Investment focused on supporting transformation change over long term
- £2bn (of £5bn school capital) earmarked for BSF strategic funding from 2005/06
- Delivery through PPP / PFI
- Maximum impact on Educational Achievement



Environmental (Waste) PPP/PFI

PFI/PPP Waste Market - Drivers

- Targets
 - Waste Strategy 2000
 - Best Value
 - Landfill diversion
 - 2010 - 75% of 1995 level
 - 2013 - 50% of 1995 level
 - 2020 - 35% of 1995 level



PFI/PPP Waste Market - Stakeholders

- Local Authorities
- DEFRA
- Waste Management Contractors
- Investors
- Financiers (public / private)

PFI/PPP Waste Market – Procurement Process

Targets	Bid costs
Output Specification	Advisors: Technical, Finance, Legal/Contractual
Tender/OJEU	
Pre Qualification	10 bidders £5K = £50k
ISOP	7 bidders £25K = £175k
ITN	4 bidders £250K = £1.0m
BAFO	2 bidders £1.5m = £3.0m
Preferred bidder	
Contract Award	Total per contract = £4.25m
Targets	

Source: industry player estimate

Waste PFI Projects Implementation

- Scope
- Output Specification
- Performance Standard
- Payment Mechanism

Implementation - Scope

Combinations of the following principal services:

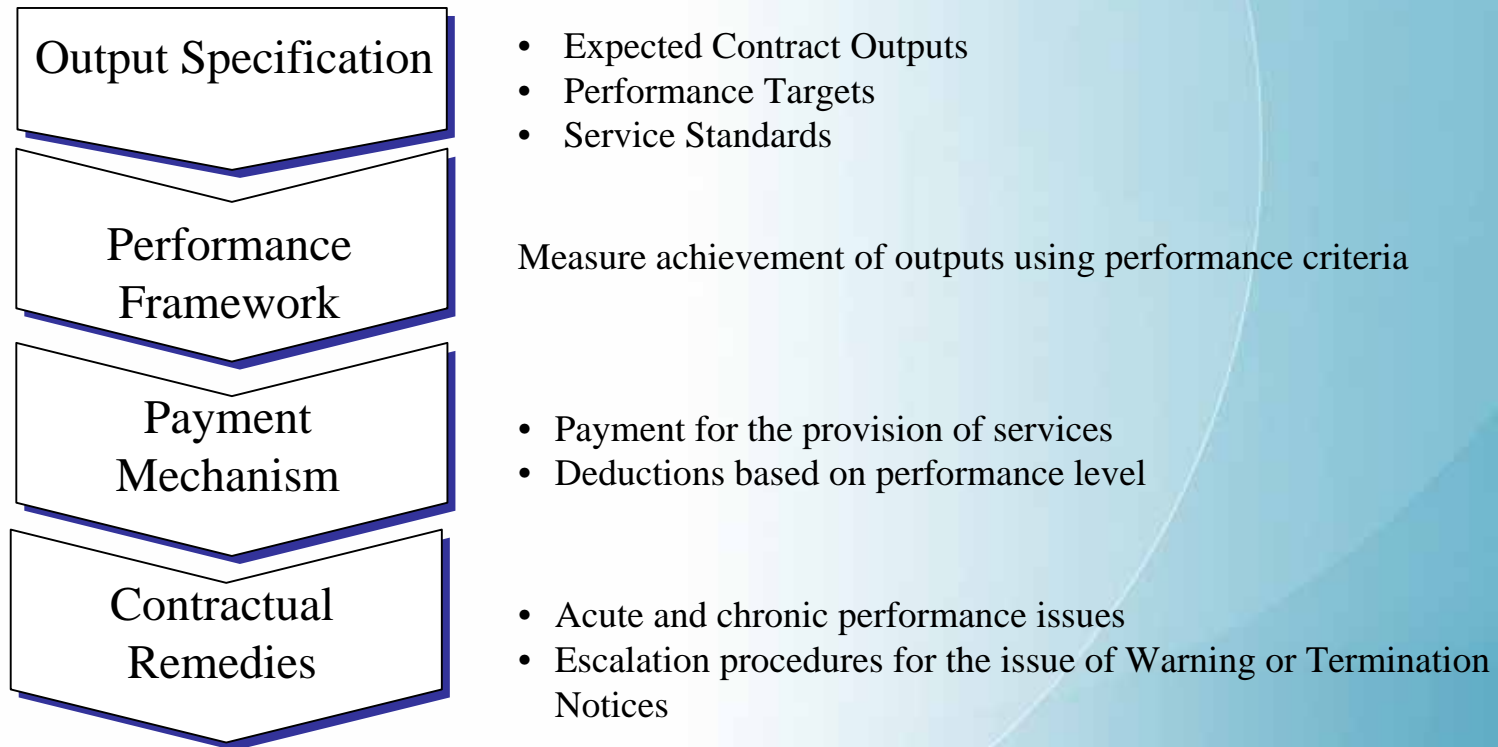
- Waste collection
- Civic amenity site management
- Waste recycling
- Treatment
- Landfill disposal services

Also sometimes:

- Street cleansing
- Abandoned vehicles etc.

Implementation – Output Specification

Relationship of the Output Specification with other elements of the Contract:



Implementation – Example Output Specification

Service headings may include:

- Waste minimisation
- Community liaison
- Waste collection
- Waste reception and transfer
- Waste treatment and disposal
- Civic amenity sites and bring sites
- Mobilisation, contingency and expiry arrangements
- Service management
- Health, safety and welfare

Implementation – Payment Mechanism

Key differentiating characteristics in Payment Mechanism

Waste Management PFI	Accommodation Style PFI
<p>Payments vary with tonnages</p> <p>Some performance standards may increase over the life of the project</p> <p>May include compensation payment due to actions/inactions of the authority e.g. failure to meet input specification</p>	<p>Payments do not vary with usage</p> <p>Mostly remained unchanged</p> <p>Not generally reliant on the action of the authority to meet the output specification</p>

Example of payment mechanism:

$$UC = An \pm V + L + B - C - D$$

Diagram illustrating the components of the payment mechanism equation:

- UC**: Total unitary charge
- An**: Unadjusted unitary charge
- V**: Tonnage adjustment
- L**: Landfill payment
- B**: Bonus
- C**: Compensation
- D**: Performance and availability deductions

Project Examples

- Integrated waste management - Leicester
- Non integrated waste management - West Sussex
- Combined Heat and Power Plant - South-East London
Combined Heat and Power Plant (SELCHP)

Ministry of Defence

Why PFI in the MOD?

- MOD in competition for funds with other public services
 - health, education, pensions, etc.
- Increased costs of maintaining defence capability:
 - Cost of weapons platforms and other equipment
 - Cost of training and retaining personnel
 - Need to improve living and working conditions
- Must get improved value for money
- PFI is one tool to achieve this

MOD PFI Programme

- 12 projects in active procurement (£7Bn capital value)
- 8 projects being reviewed for private finance solution
- 3 projects in process of refinancing
- 53 projects in operation (£4.3Bn capital value)

MOD PFI Programme

- Training
- Simulators
- Skynet 5
- Heavy Equipment
- Air tankers
- Housing
- Barracks
- RoRo
- Field Power



Key Principles

- Before involving industry and therefore spending bidders money:
 - MOD must be clear about the deal it wants to do
 - Key internal issues must be resolved with the Customer and stakeholders
 - Customer and stakeholders must “buy-in” to the proposed deal so the MOD speaks to industry with one voice
 - Can’t resolve things “on the hoof” during the bidding phase
 - Project team must be resourced / have right skills, including advisers

Key Principles cont'd

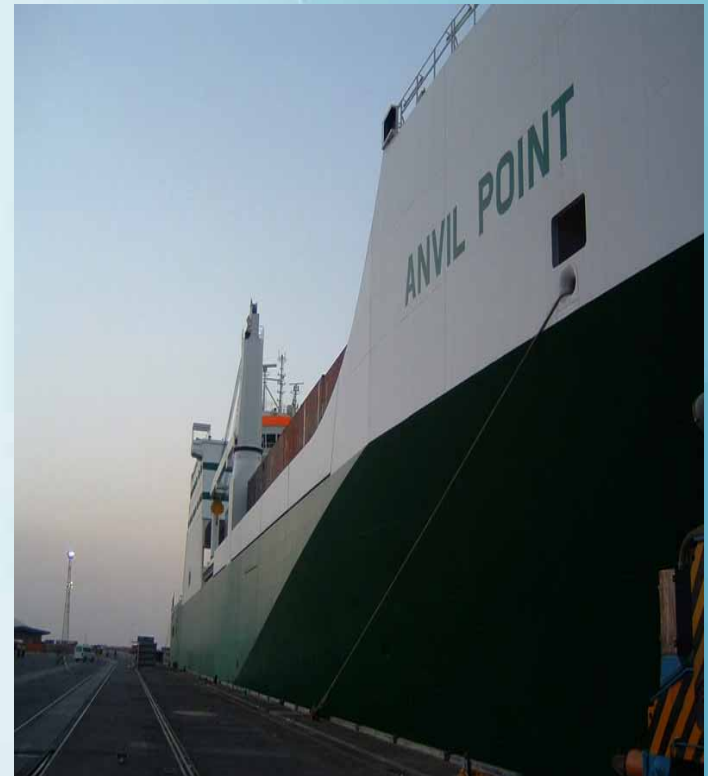
- Need to keep the bidding process as short as possible
- Get it right first time - avoid multiple bidding rounds (Revise or Confirm / Best and Final Offers etc.)
- This means a great deal of work in the early stages of the project - SCOPING

RoRo



RoRo

- SDR '97 – need for rapidly deployable forces
- Contract with ASWR signed 26th June 2002
- Capital value £175m
- Contract value £950m over 25 years



RoRo

- Long procurement process
- Deal structure and funding issues
- Political issues
- 2 ships built at Harland & Wolf
- 4 at Flensburger Yard, Germany



RoRo

- World-wide service; moving vehicles and troops
- Tested fully in gulf deployment
- Sponsored Reserve crews - flexibility
- Significant 3rd party revenue
- 4 ships with MOD, 2 out on commercial work



Conclusion

- The MOD has a wide, rich and expanding PPP programme supported by the private sector
- A range of PPP techniques to choose from
- Seeking to build upon experiences to deliver new and innovative forms of PPP

