



PS Solutions
public sector solutions - management consultants

Building Management Capacity Public Private Partnership



Public Private Partnership **Private Finance Initiative**

University of Wales
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What we'll cover

- PPP/ PFI – an overview
- Why PFI?
- PFI contract types
- PFI project structure
- PFI value drivers
- PFI – pros and cons
- PFI project appraisal: Value for Money Assessment
- PFI – UK Experience

- The twentieth century was marked by a reliance on the public sector for developing infrastructure projects.
- In the last three decades, however, there has been a shift in the model of development from the public sector to greater private sector participation.
- The most common of these is called public-private partnerships or PPPs.

Public Private Partnership

- PPPs are typified by joint working between the public and the private sector, where the delivery of public services involves private sector investment in infrastructure.

Public Private Partnership

- A long term contract between a private party and a government agency, for the provision of a public asset or service in which the private party bears significant risk and management responsibility.

Public Private Partnership - PFI

- The form of PPPs mainly used in the UK are Public Finance Initiatives or PFI

Private Finance Initiative

- The Private Finance Initiative (PFI) was introduced in 1992 as a means of harnessing the private sector's management skills and commercial expertise, to bring discipline to the delivery of public infrastructure.

PPP/ PFI – an overview

Public Private Partnership

- PFI aimed at improving poor public sector track record in infrastructure procurement and its associated long term management.

UK PFI Policy

The overall aim of the PFI in the UK is to achieve better value for money for the taxpayer by ensuring that infrastructure projects are delivered to time and to cost, and that assets are well maintained.

Private Finance Initiative - UK

- The UK has done more PPPs than any other country in the world.
- Over 700 PFI projects, with total capital costs of £54.7 billion reached financial close in 2012.
- Projects have been delivered across a broad range of sectors including schools, hospitals, roads, prisons, housing, defence and waste facilities.

Private Finance Initiative

Conventional Procurement

- Conventional procurement continues to be the key route for procuring public assets in the UK.
- Since PFI was introduced, it has remained a small but important part of the Government's overall investment in public infrastructure.
- In the financial year 2011/12 PFI projects that reached financial closure was £2.1bn of a total Public Sector Net Investment of £26.7billion.

Private Finance Initiative

- PPP aim to deliver better value for money through
 - the transfer of appropriate risks to the private sector,
 - a clear focus on the whole of life costs of projects; and
 - an innovative approach to service delivery.

When appropriately implemented

- PFI ensures that buildings are constructed to a high quality ;
- assets are maintained to a high standard throughout their life due to the long term nature of contractual commitments .
[The private sector considers costs over the entire length of the contract, rather than just during design and construction phase].
- facilities are completed on time and within budget;
- The private sector is incentivised to manage risks effectively and penalised when they fall short.

PPP/ PFI – an overview

Pre-requisites for PFIs

Overarching pre-requisite for PFIs

- ▶ Public interest in the provision of the service.
- ▶ Must involve significant risks and management responsibility transfer to the private sector.

Why PFI?

Challenges of Governments

- ▶ Lack of capital outlay - infrastructure is hugely costly; competing demands.
- ▶ Poor and inadequate infrastructure.
- ▶ Poor planning and coordination leading to wrong choices.
- ▶ Poor delivery to time and price.

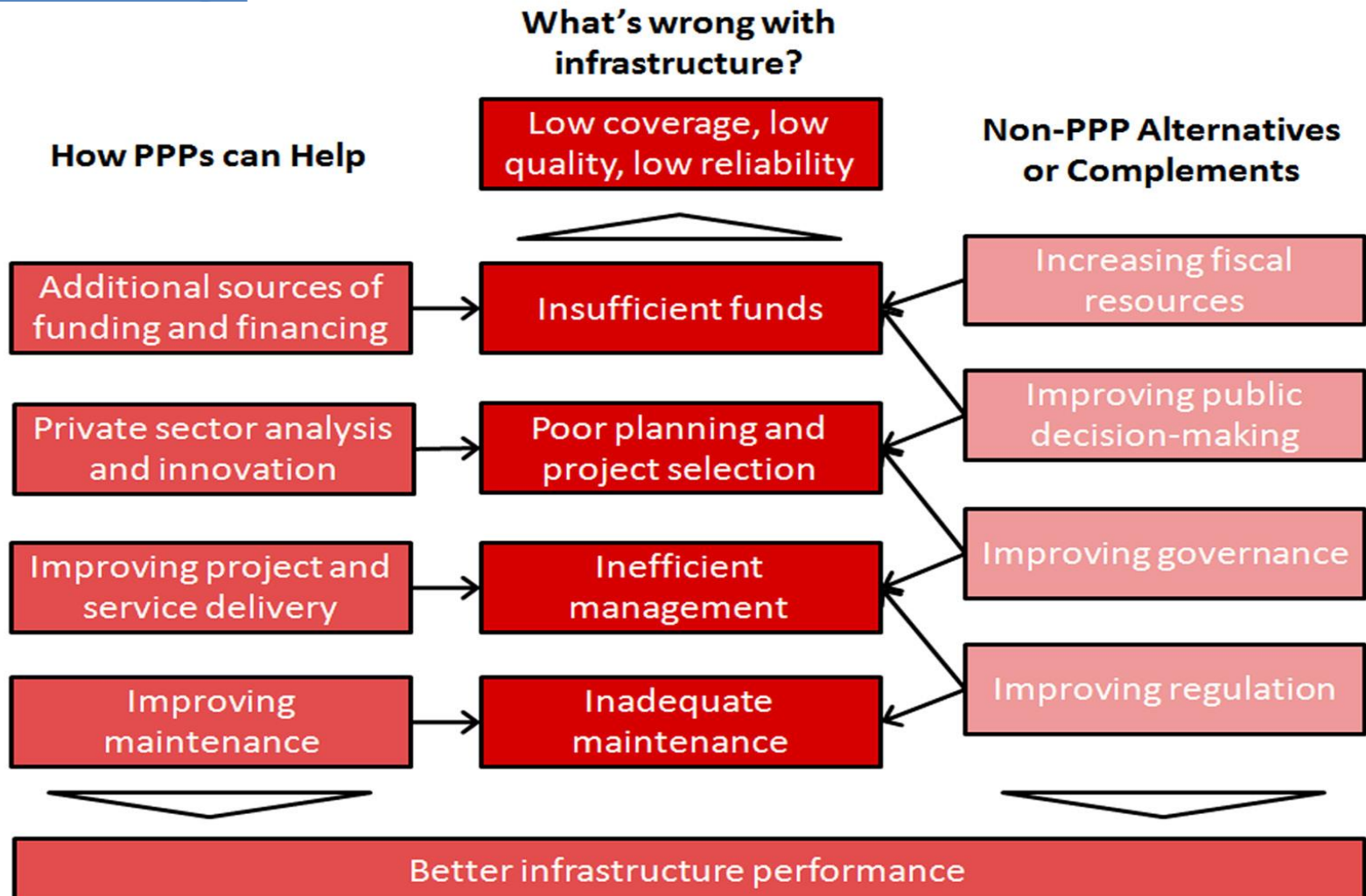
Why PFI

Challenges of Governments

- ▶ Infrastructure assets are often poorly maintained increasing costs and reducing benefits.
- ▶ Poor quality delivery - below user standards.
- ▶ Corruption and politics exacerbates all the above challenges – limited resources often spent on wrong projects.

Why PFI

The challenge



Why PFI

Traditional Procurement v PFI Projects

Traditional Procurement v PFI Project

Traditional Procurement

The public sector pays the capital cost of the project upfront, followed by a 'contingent' amount for ongoing maintenance over the life of the asset

PPP Procurement

The public sector does not pay for the project's capital costs over the construction period.

Once the project is operational and is performing to the required standard, the public sector pays a unitary charge (whole life costs) which includes operational costs plus finance charges and some element of profit.

Traditional Procurement v PFI Project

Traditional Procurement	PPP Procurement
Contract is usually short term to cover design and construction. Requirements tend to be specified on an inputs basis.	A long-term contract (c.20-30 years) integrating design, build, finance, and , sometimes, maintenance of the facility Requirements are specified as outputs to maximise private sector innovation

Traditional Procurement v PFI Project

Traditional Procurement	PPP Procurement
The procuring authority usually holds the risk on construction delays and cost overruns	The private sector partner holds the risk of construction delays and cost overruns to provide incentives for delivery to time and to cost.
The procuring authority pays for the capital costs at the beginning of the project through capital budget.	The capital costs of construction are financed by the private sector borrower, and the costs are amortised over the life of the project.

Traditional Procurement v PFI Project

Traditional Procurement	PPP Procurement
The procuring authority pays for the costs of construction, maintenance and services as they arise.	All costs are included in a “unitary” payment which is fixed over the life of the contract and is not payable until construction is complete and services have commenced to an agreed standard.

Traditional Procurement v PFI Project

Traditional Procurement	PPP Procurement
Payment for maintenance and services are not generally linked to performance.	The unitary charge payments are linked to a performance regime. Deductions may be made if services are not delivered to contractual requirements.
There is no long-term contractual commitment for the provision of maintenance. Only a small number of authorities put in place planned maintenance regimes.	The public sector pays for ongoing maintenance and lifecycle replacement costs as part of the annual unitary charge, and the costs are therefore smoothed across the contract term. This means that the asset is properly maintained over the project's life, as the costs of maintenance are effectively locked in over this period.

- **PPP/ PFI Contract Types**

PFI Contract Types

- Many PFIs involve **new infrastructure assets**—often called a “**greenfield**” project.
- PFIs can also be used to transfer responsibility for upgrading and managing **existing infrastructure** to a private company. When this involves **rehabilitating and maintaining an existing asset**, it is called “**brownfield**” project.

PFI Contract Types

Private Finance Initiative

The term 'Private Finance Initiative' or PFI is typically used to describe PPP as a way to design, build, finance, and operate/ maintain new infrastructure

PFI Contract Types

Private Finance Initiative

Typical Risks/ Functions transferred to the private party

- **Design** – developing project from initial concept making ready for construction
- **Build** or Rehabilitate new assets
- **Finance**
- **Maintain**
- **Operate**

PFI Contract Types

PPP payment mechanism

- User pays
- Government pays
- Combination of above two

PFI Contract Types

Design-Build-Finance-Operate (DBFO)

Design-Build-Operate (DBO)

Operations and Maintenance (O&M)

- **Description**
The PFIs in this contract type is described by the functions transferred to the private sector. The “maintain” function may be left out of the description.
- **Type of Asset**
New infrastructure
- **Functions Transferred**
As described in contract name
- **Payment Mechanism**
Can be government or user pays

PFI Contract Types

Build-Operate-Transfer (BOT),

Build-Transfer-Operate (BTO)

- **Description**

This approach to describing PPPs for new assets captures legal ownership and control of the project assets.

Under a BOT project, the private company owns the project assets until they are transferred at the end of the contract.

In contrast a Build-Transfer Operate (BTO) is transferred once construction is complete.

- **Type of Asset**

New infrastructure

- **Functions Transferred**

Typically, design, build, finance, maintain, and some or all operations.

- **Payment Mechanism**

Can be either government or user pays

PFI Contract Types

Rehabilitate- Operate-Transfer (ROT)

- **Description**
In the naming conventions “Rehabilitate” may take the place of “Build” where the private party is responsible for rehabilitating, upgrading, or extending existing assets.
- **Type of Asset**
Existing infrastructure.
- **Functions Transferred**
Typically, design, rehabilitate, finance, maintain, and some or all operations.
- **Payment Mechanism**
Can be government or user pays

PFI Contract Types

Concession

- **Description**

Concession is mostly used to describe a “user-pays” PPP. For example, in Brazil, the “concession law” applies only to fully user-pays contracts whilst in some other countries it is a catch-all term for both user and government- pays contracts.

- **Type of Asset**

New or existing infrastructure

- **Functions Transferred**

Design, rehabilitate, extend or build, finance, maintain, and operate—typically providing services to users.

- **Payment Mechanism**

User pays—in some countries, depending on the financial viability of the concession, the private party might pay a fee to government, or might receive a subsidy.

PFI (PPP) Contract Types

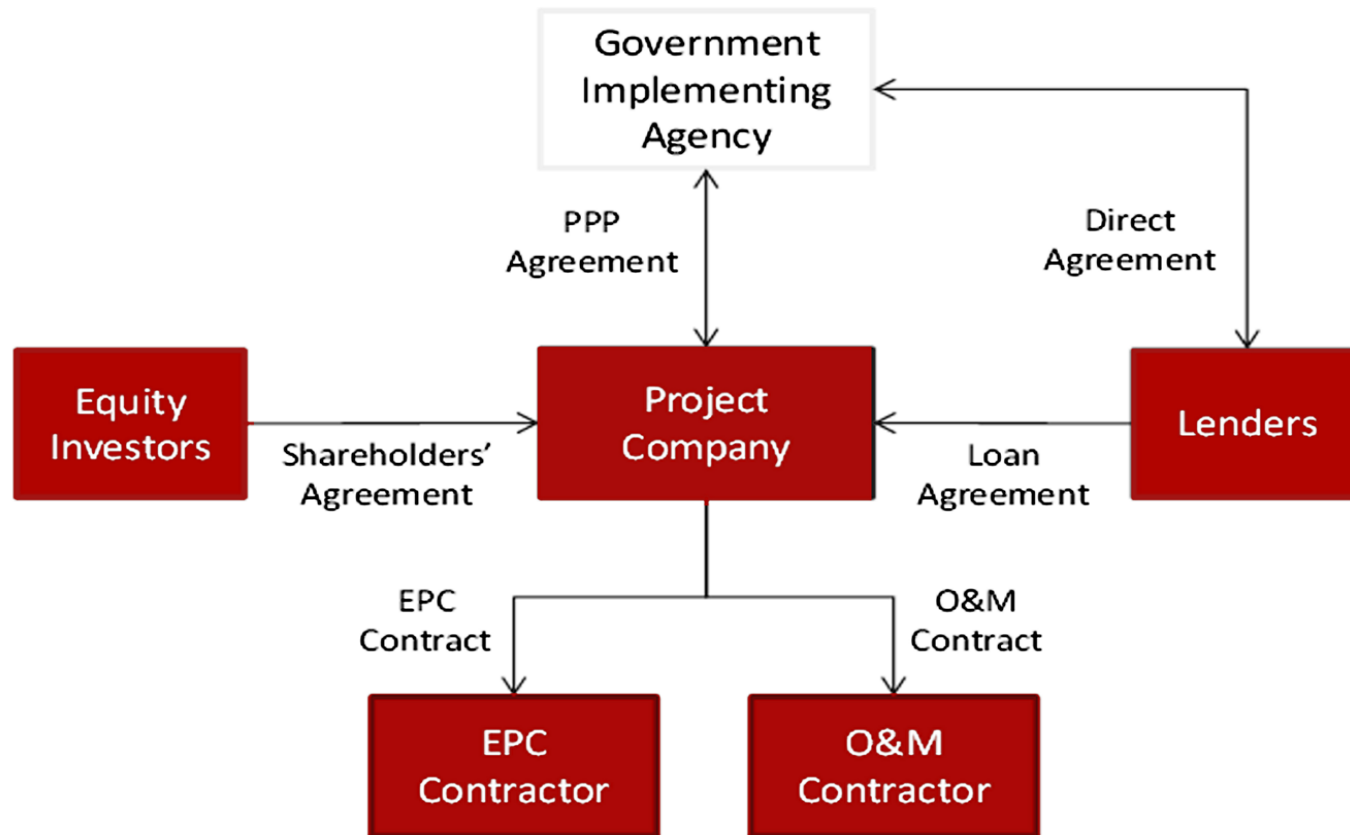
Lease or Affermage contracts

- **Description**
Leases and Affermage contracts are generally public-private sector arrangements under which the private operator is responsible for operating and maintaining the utility but not for financing the investment.
- **Type of Asset**
Existing.
- **Functions Transferred**
Maintain and operate, providing services to users.
- **Payment Mechanism**
User pays—private party typically remits part of user fees to government, to cover capital expenditures.

PFI Project Structure

PFI Project Structure

Typical PPP Project Structure



Source: World Bank

PPP Value Drivers – Improving Value for Money

Improving Value for Money

- **Whole of life**

Full integration incentivizes the single party to complete each project function (design, build, operate, maintain) in a way that minimizes total costs

Improving Value for Money

- **Risk transfer**

Risk retained by the public bodies in owning and operating infrastructure is substantial, and often, unvalued cost.

Allocating some of the risk to a private party which can better manage it can reduce the project's overall cost to government

Improving Value for Money

- **Innovation**

Specifying outputs in a contract, rather than prescribing inputs provides wider opportunity for innovation.

Competitive procurement of these contracts incentivizes bidders to develop innovative solutions for meeting these specifications.

Improving Value for Money

- **Focus on service delivery**

Allows a sponsoring department or agency to enter into a long-term contract for services to be delivered when and as required.

Improving Value for Money

- **Mobilization of additional funding**

Charging users for services can bring in more revenue, and can sometime be done better or more easily with private operation than in the public sector.

Improving Value for Money

- **Predictability and transparency of costs and funding—**

Provides budgetary predictability including any growth or upgrade over the life of the infrastructure and reduces the risks of funds not being available for maintenance after the project is constructed.

Improving Value for Money

- **Asset utilization—**

Private parties are motivated to use a single facility to support multiple revenue streams, reducing the cost of any particular service from the facility.

Improving Value for Money

- **Accountability**

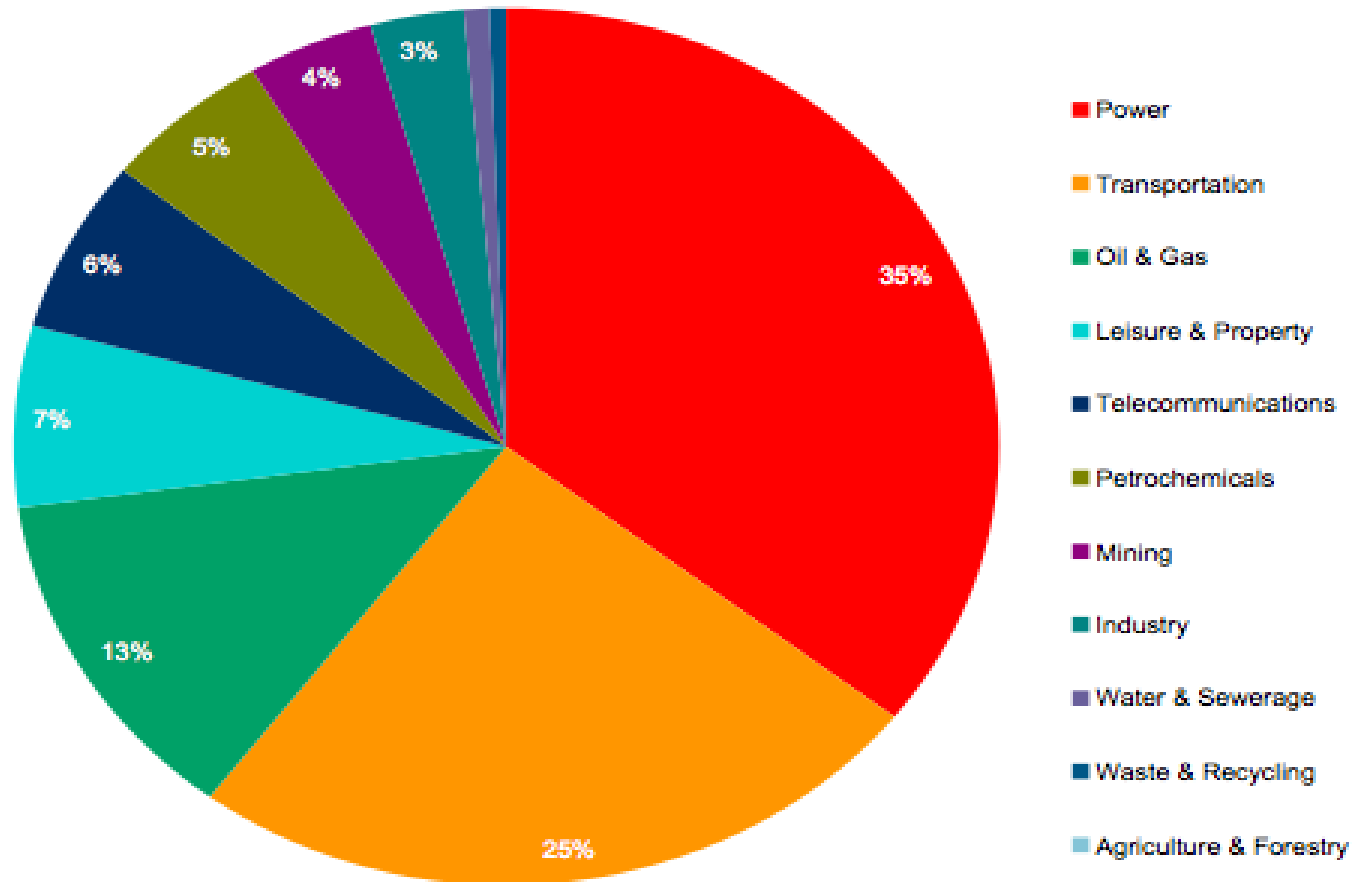
Payment by the public body is conditional on the private party providing the specified outputs at the agreed quality, quantity, and time frame.

If performance requirements are not met, service payments to the private sector party may be abated.

PPP and project finance

PFI and Project finance

Global Project Finance By Sector



Source: Thomson Reuters

PFI – Pros and Cons

PFI – Pros and Cons

Benefits - PFIs

- ▶ Provides means for funding major capital investments, without immediate recourse to the public purse.
- ▶ Avoids the need for upfront capital expenditure creating a stream of future govt payment commitments.

PFI – Pros and Cons

Benefits - PFIs

- ▶ PPPs manage construction better than traditional procurement - get benefit of private sector effectiveness/ efficiency at project delivery.
- ▶ Project come in on time and on budget more often.

PFI – pros and cons

Table 1.1.1: Comparing PPP and Public Procurement in the United Kingdom

Source	Comparison	Proportion of Projects Over Budget (%)		Proportion of Projects with Time Over-run (%)	
		PPP	Public	PPP	Public
National Audit Office, 2003 [#17]	Contract award to final	22%	73%	24%	70%
National Audit Office, 2008 [#18]	Contract award to final	35%	46%	31%	37%

Table 1.1.2: Comparing PPP and Public Procurement in Australia

Source	Comparison	Average Over Budget (% of original cost estimate)		Average Time Over run (% of original time estimate)	
		PPP	Public	PPP	Public
Infrastructure Partnerships Australia, 2007 [#19]	Original approval to final	12%	35%	13%	26%
	Contract to final	1%	15%	-3%	24%
Duffield review of PPP performance, 2008 [#20]	Original announcement to final	24%	52%	17%	15%
	Budget approval to final	8%	20%	12%	18%
	Contract to final	4%	18%	1.4%	26%

Source: World Bank

PPP – pros and cons

Benefits -PFIs

- ▶ Improved maintenance of infrastructure assets by building in performance incentives and penalties into the PPP contract.
- ▶ PPPs can help bring in more funding from sources where the government will be more reluctant (e.g. road user charging).

PFI – pros and cons

Benefits - PFIs

- ▶ PPPs can bring in additional revenue by improving asset utilisation. (e.g. halls letting).
- ▶ The PPP tender process can help act as a filter for non viable projects as private sector investors would want to make a profit.

PFI – pros and cons

Benefits - PFIs

- ▶ Improved efficiency and service delivery.

Limitations/ Pitfalls of using PFIs

Limitations and Pitfalls

- ▶ PPPs are by nature long term - as a result they can create potentially burdensome future fiscal commitments, as payments can be contingent on risks such as exchange rates and inflation.
- ▶ The govt may provide 'unwise' guarantees on demand for these contingencies whose future cost cannot be quantified with any certainty because they are eager to engage.

Limitations and Pitfalls

- ▶ PPPs may appear to relieve funding problems more than is actually the case if govt fiscal commitment to PPPs is unclear.
- ▶ Govt could accept higher fiscal commitment than would be consistent with prudent public financial management.

Limitations and Pitfalls

- ▶ Problem of optimism bias - tendency to minimise risks and costs and overstate income projections.
- ▶ Overestimation of demand to push through projects that are not viable and conceal the need for subsidies.

Limitations and Pitfalls

- ▶ PPPs can give rise to implicit liabilities – non contractual liabilities that may arise from moral obligations and public expectations.
- ▶ Weak contracts and inefficient enforcement can mean that governments fail to really achieve risk transfer.

PPP Project Sectors

Main PPP Sectors

- Transport.
- Power
- Waste and Water
- Social Infrastructure

Transport

- Roads, tunnels, and bridges.
- Rail
- Mass transit systems
- Ports
- Airports

PPP project sectors

Water and Waste

- Bulk water treatment.
- Water distribution and sewerage systems.
- Solid waste management services

Power

- Power generation (assets infrastructure).
- Power distribution. (distribution systems)

PPP project sectors

Social Infrastructure

- Education—school facilities and services.
- Health—hospitals and other health facilities and services.
- Prisons.
- Urban regeneration and social housing projects.

PFI project appraisal: Value for Money Assessment

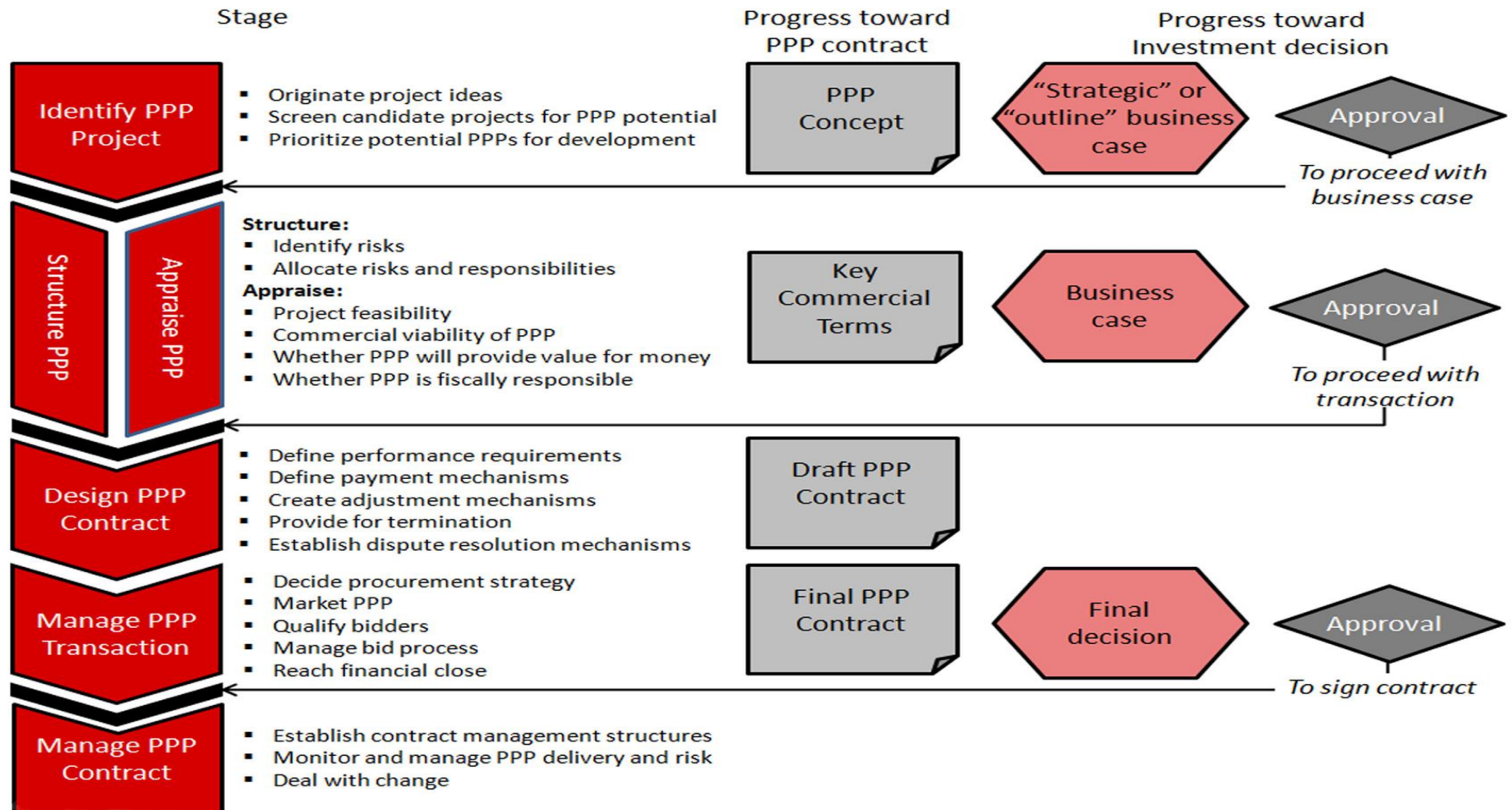
PPP project selection strategies

Originating and developing PPP project ideas

- Governments only want to develop “good” PPP projects.
- These are projects that are cost-benefit justified, fiscally responsible and where the PFI provides better value for money than traditional public procurement.

An overview – overall PPP Process

A Typical PPP Process



Source: World Bank

Appraising PFI projects

Value for Money

- A key objective of government in implementing PPPs is to achieve **value for money** in providing needed infrastructure.
- “Value for money” means achieving the optimal combination of benefits and costs, in delivering services users want.

Appraising PFI projects

Value for Money

Is the project likely to offer better value for the public than conventional public procurement?

Value for Money Assessment

Approaches to VFM assessment:

- Qualitative Assessment
- Quantitative Assessment

Qualitative Assessment

Qualitative VFM Assessment

- Qualitative VFN analysis typically involves sense checking the rationale for using PPP.
- Is the proposed project of the type likely to be suitable for private financing.
- This assessment often starts at a relatively early stage of the PFI development.

Qualitative VFM Assessment

Qualitative Assessment

- Is PFI likely to achieve value for money and are the conditions that are necessary to achieve value for money in place?
- Checking that the PFI has been structured well, to make the best possible use of the PPP value drivers
- Checking that the PFI is expected to generate competitive tension in the bidding process.

Qualitative VFM Assessment

The UK practice

- The UK Treasury has defined criteria for assessing suitability, and unsuitability for a PPP.
- **Suitability criteria include**
 - the long-term, predictable need for the service;
 - the ability to allocate risk effectively—including performance-related payments
 - sufficient risk transfer to private partner
 - likely ability of the private sector party to manage risk and take responsibility for delivery;
 - presence of stable and adequate policy and institutions; and
 - a competitive bidding market.

Qualitative VFM Assessment

The UK practice

- **Unsuitability criteria**
 - projects that are either too small or too complicated;
 - sectors where needs are likely to change or there is a risk of obsolescence (e.g. PFI projects are no longer used in the ICT sector in the UK); or
 - where the contracting authority is inadequately skilled to manage PPP.

Qualitative VFM Assessment

Virginia, USA

- **Criteria**

- whether a project is sufficiently complex to benefit from private sector innovation.
- whether a PPP can achieve appropriate risk transfer.
- the degree of stakeholder support.
- For say roads, the extent to which a project can generate revenues from tolls

Qualitative VFM Assessment

France

- **Criteria**

- Appropriateness of an integrated, whole-of-life approach to managing a project;
- commercial attractiveness; and
- the potential for optimal risk allocation.

PPP Value drivers

Qualitative Assessment

- **Risk transfer**—risk retained by the Government in owning and operating infrastructure typically carries substantial, and often, unvalued cost. Allocating some of the risk to a private party which can better manage it, can reduce the project's overall cost to government
- **Whole of life costing**— Full integration incentivizes the single party to complete each project function (design, build, operate, maintain) in a way that minimizes costs.
- **Innovation**—specifying outputs in a contract, rather than prescribing inputs, provides wider opportunity for innovation. Competitive innovative solutions for meeting these specifications procurement of these contracts incentivizes bidders to develop

PPP Value drivers

Qualitative Assessment

- **Innovation**—specifying outputs in a contract, rather than prescribing inputs, provides wider opportunity for innovation. Competitive procurement of these contracts incentivizes bidders to develop innovative solutions for meeting these specifications
- **Asset utilization**—private parties are motivated to use a single facility to support multiple revenue streams, reducing the cost of any particular service from the facility.

PPP Value drivers

Qualitative Assessment

- **Focus on service delivery**—allows a sponsoring department or agency to enter into a long-term contract for services to be delivered when and as required. Management in the PPP firm is then focused on the service to be delivered without having to consider other objectives or constraints typical in the public sector
- **Predictability and transparency of costs and funding**—whole-of-life costing and budgeting are considered, providing infrastructure and related ancillary services to specification for a significant period, and including any growth or upgrade requirements. This provides budgetary predictability over the life of the infrastructure and reduces the risks of funds not being available for maintenance after the project is constructed

PPP Value drivers

Qualitative Assessment

- **Mobilization of additional funding**—charging users for services can bring in more revenue, and can sometime be done better or more easily with private operation than in the public sector. Additionally, PPPs can provide alternative sources of financing for infrastructure, where governments face financing constraints
- **Accountability**—government payments are conditional on the private party providing the specified outputs at the agreed quality, quantity, and time frame. If performance requirements are not met, service payments to the private sector party may be abated

Quantitative Analysis

Value for Money Assessment

Quantitative Assessment

- This involves comparing the costs and benefits of the PFI under consideration against the traditional procurement route or the **“Public Sector Comparator”** .
- PFI appraisals require this assessment of value for money as it is easier to sell a PFI proposal to the electorate and politicians based on a quantitative assessment.

Quantitative VFM Assessment

Quantitative VFM analysis varies in methodology, country to country:

- Some governments simply compare the estimated fiscal cost of the PPP (that is, the payments that would be made to the private partner) and the cost of implementing the project under traditional public procurement.
- Most governments such as Canada, South Korea, and South Africa build into the “PSC” the cost of bearing those risks that would be transferred to the private partner under a PPP model.

Quantitative VFM Assessment

- The UK Treasury has withdrawn its previous PSC model and is in the process of considering whether and how quantitative VFM analysis could be applied to a broader set of procurement and delivery options.

Approaches to Value for Money Assessment

Quantitative Assessment

Fiscal Costs Approach – Public Sector Comparator (PSC)

- The focus of the Fiscal Cost approach to Value for Money analysis is the construction of a **Public Sector comparator (PSC)**
- This involves comparing the fiscal cost of a PFI delivery options with that of a conventional public delivery option.
- This is the cost to government of implementing the project through traditional or conventional public procurement route.

Approaches to Value for Money Assessment - Quantitative Assessment

Fiscal Cost Approach – Public Sector Comparator

This type of PSC can be used at two stages of the procurement process

- **Before the bidding process**—the PSC can be compared with a “shadow” or “reference” PFI, or “market comparator”—a model of the expected cost of the project under the PPP option. This can help identify whether the PPP can be expected to provide value for money, before deciding to go ahead with detailed preparation and procurement.
- **During the bidding process** —the PSC can also be compared with actual PFI bids received, to assess whether the bids provide value for money.

Approaches to Value for Money Assessment - Quantitative Assessment

Fiscal Cost Approach

Calculating the PSC

- Calculating a PSC can be complex. The starting point is typically the best estimate of the capital cost and lifetime operations and maintenance cost of implementing the project under public procurement.
- This is typically adjusted, to enable a fair comparison between the PSC and the PFI.

Quantitative Analysis

- Despite the appealing logic of the concept, there have been many criticisms of the usefulness of the PSC and fiscal cost comparison approach in countries where it has been used frequently, such as the United Kingdom and Australia.

Quantitative Assessment

PSC Pitfalls

- A **United Kingdom House of Lords' review of the PFI program** concluded that shortage of relevant data and methodological issues limit the value of the PSC.

Quantitative Analysis

PSC Pitfalls

- For many developing countries where public sector funding alternatives are limited PPP may be the only viable option.
- If public funding is unavailable, the PSC is largely irrelevant.

Quantitative Assessment

PSC Pitfalls

- Inaccurate/ lack of reliable data - **House of Lords review of the PFI program** argued that shortage of relevant data and methodological issues limit the value of the PSC.
- The numbers used in the PSC model are just estimates which are dependent on future events. For a long term project many things would change in 30yrs.
- There is lack of consensus on PSC methodology, and so the possibility of manipulation to reach the desired conclusion is real.
- Tend to focus solely on financial costs to government.

Approaches to Value for Money Assessment - Quantitative Assessment

Fiscal Cost Approach

Pitfalls- PSC and Fiscal Cost Assessment

- Large risks omitted – because of difficulty of estimation. E.g say if govt has to step in to bail out private party.
- Discount rate use is subjective to a large extent and potentially could lead to wrong decisions. Small changes in discount rates could lead to dramatic results.
- Cost of modelling PSC/ PPP – can be enormously expensive in time and money.

Approaches to Value for Money Assessment - Quantitative Assessment

Fiscal Cost Approach

Pitfalls- PSC and Fiscal Cost Assessment

- Can be a very expensive futile exercise: The bidding process establishes the PPP costs with much more accuracy than a PPP reference does. But by the time bids are received, cancelling the procurement process on the grounds that the bid price is higher than the PSC costs is almost impossible.
- Large risks omitted – because of difficulty of estimation. E.g say if govt has to step in to bail out private party.
- Discount rate use is subjective to a large extent and potentially could lead to wrong decisions. Small changes in discount rates could lead to dramatic results.
- Cost of modelling PSC/ PFI – can be enormously expensive in time and money.

Approaches to Value for Money Assessment - Quantitative Assessment

Quantitative Analysis

Caveat

- For example, if there is no public-sector option for a project (for example, because the country lacks the fiscal space to implement it), or if there is ample anecdotal evidence that, say, privately financed toll roads in a country perform better than public ones, then a detailed comparative exercise may not be warranted.
- Also when the availability of data is limited, then a PSC approach is less useful.

Economic Cost Benefit Approach

Approaches to Value for Money Assessment - Quantitative Assessment

Economic Cost Benefit Approach

Economic Cost Benefit comparison of PPP and Public Procurement

- One of the criticisms sometimes levelled at the PSC is that it focuses solely on the financial cost to government of PFI or public procurement.
- Economic Cost Benefit Analysis compares the net economic benefit under PPP with conventional procurement.

Approaches to Value for Money Assessment - Quantitative Assessment

Economic Cost Benefit Approach

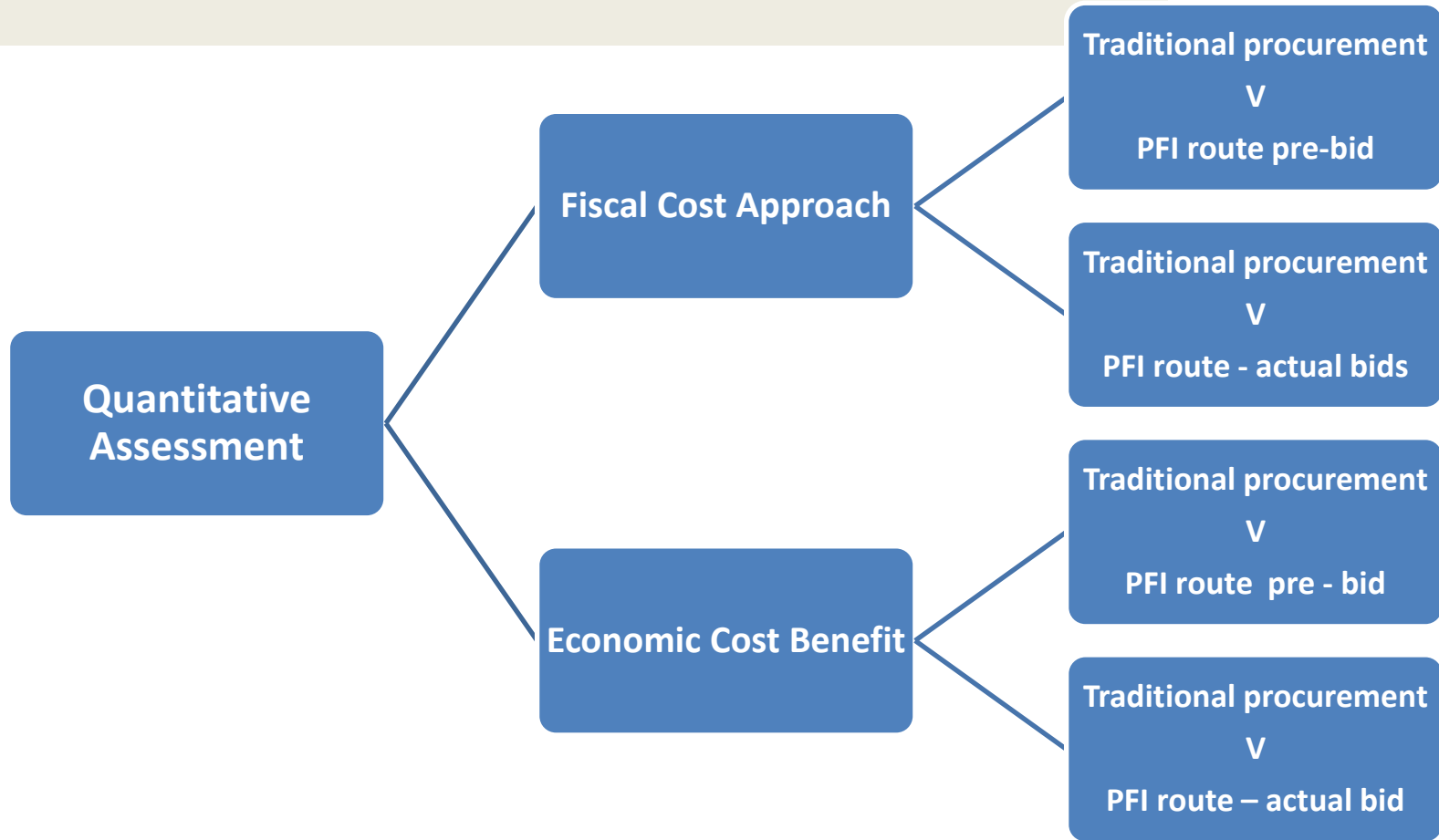
- The aim for many countries is not just to reduce cost, but to transform service delivery.
- For example, governments would want public infrastructure to be maintained and run better, believing that this in turn would deliver greater benefits in terms of trade and economic development. These changes in service levels and quality cannot be captured by comparing fiscal costs of PFI and public procurement.
- Where these expected benefits are important, economic cost-benefit analysis will likely be the better approach to assessing value for money.

Approaches to Value for Money Assessment - Quantitative Assessment

Economic Cost Benefit Approach

- Few countries have introduced this kind of analysis in practice because of the potential of this assessment to be overly subjective.
- **New Zealand** adopts cost-benefit analysis as the main tool for assessing procurement options. Their PFI guidance asks practitioners to identify the possible benefits of PFI over traditional public procurement—from among the **PFI value drivers**

Value for Money Assessment Quantitative Assessment



PFI – the UK experience

What has worked well ?

– a UK perspective

Public Private Partnership

What has worked well

- Private sector investment used to upgrade and procure new public infrastructure that would have been difficult otherwise.
- Examples, PFI has built /renovate 100s of hospitals, health centres, school buildings, roads.

Public Private Partnership

What has worked well

- Projects delivered to time and to budget, creating incentives for the private sector to manage risk effectively.
- Assets maintained during the contract term without recourse to public purse.
- Public sector successful to a large extent in transferring risks of public infrastructure to the private sector.

Jarvis Ltd

- In 2004, the construction costs of several projects involving Jarvis companies exceeded those anticipated during the bidding process.
- Jarvis plc and other PFI investors bore the costs of filling the £120million funding gap in projects including Whittington Hospital, Tyne and Wear fire stations, Lancaster University and Wirral Schools

Source National Audit Office, 2012 report on Equity Investment in privately financed projects.

PPP/ PFI - Stakeholder Concerns

PPP/ PFI The UK Experience

- **Slow and expensive procurement process** - the PFI procurement process has often been slow and expensive for both the public and the private sector, and has reduced value for money for the taxpayer.
- **Insufficiently flexible contracts:** making alterations during the operational period of the PPP contract has been difficult due to inflexibility of PPP contracts.
- **Perception that PFI has delivered a bad deal for the public:** equity investors in PFI projects are perceived to have made windfall gains, and this has led to concerns about the value for money of PPP projects.

PPP/ PFI The UK Experience

- **Lack of transparency** of the future liabilities created by PPP projects on taxpayers and on returns made by investors;
- **Risk transfer:** inappropriate risks transferred to the private sector has in some cases resulted in a higher risk premium being charged to the public sector
- **Constrained debt market :** difficulty in raising funds.

Example of Contract Inflexibility

Avon and Somerset Courts PPP project

- In the Avon and Somerset courts PPP project an extra 15% was charged by the project company for a major change request.
- When the procuring authority challenged the project company on where the contract stated that a fee could be charged for a major change, the project company responded by arguing that the contract did not specify that it could not be charged.

Source: National Audit Office, 2008.

Other Concerns

PFI has proven to be unsuitable where

- the transaction costs of pursuing the PFI route are disproportionate compared to the value of the project;
- fast paced technological changes make it difficult to establish requirements in the long term;
- the nature of the services being delivered do not allow the public sector to clearly define its needs over the long term;
- insufficient attention has been paid to forecasting demand for the asset over the long term.
- due to the long term nature of the contractual commitments under PFI it is more costly for the public sector to unwind a PFI project than a conventionally procured project if it is not required in the future; and
- more attention paid to accounting arrangements rather than appropriateness of project as a PPP.

1. VfM Assessment Guidance, HM Treasury, 2006
2. Lessons from PFI and Other Projects, National Audit Office, 2011.
3. The failure of Metronet, Department of Transport, 2009.
4. PPP reference guide, The World Bank Group