National Assembly for Wales

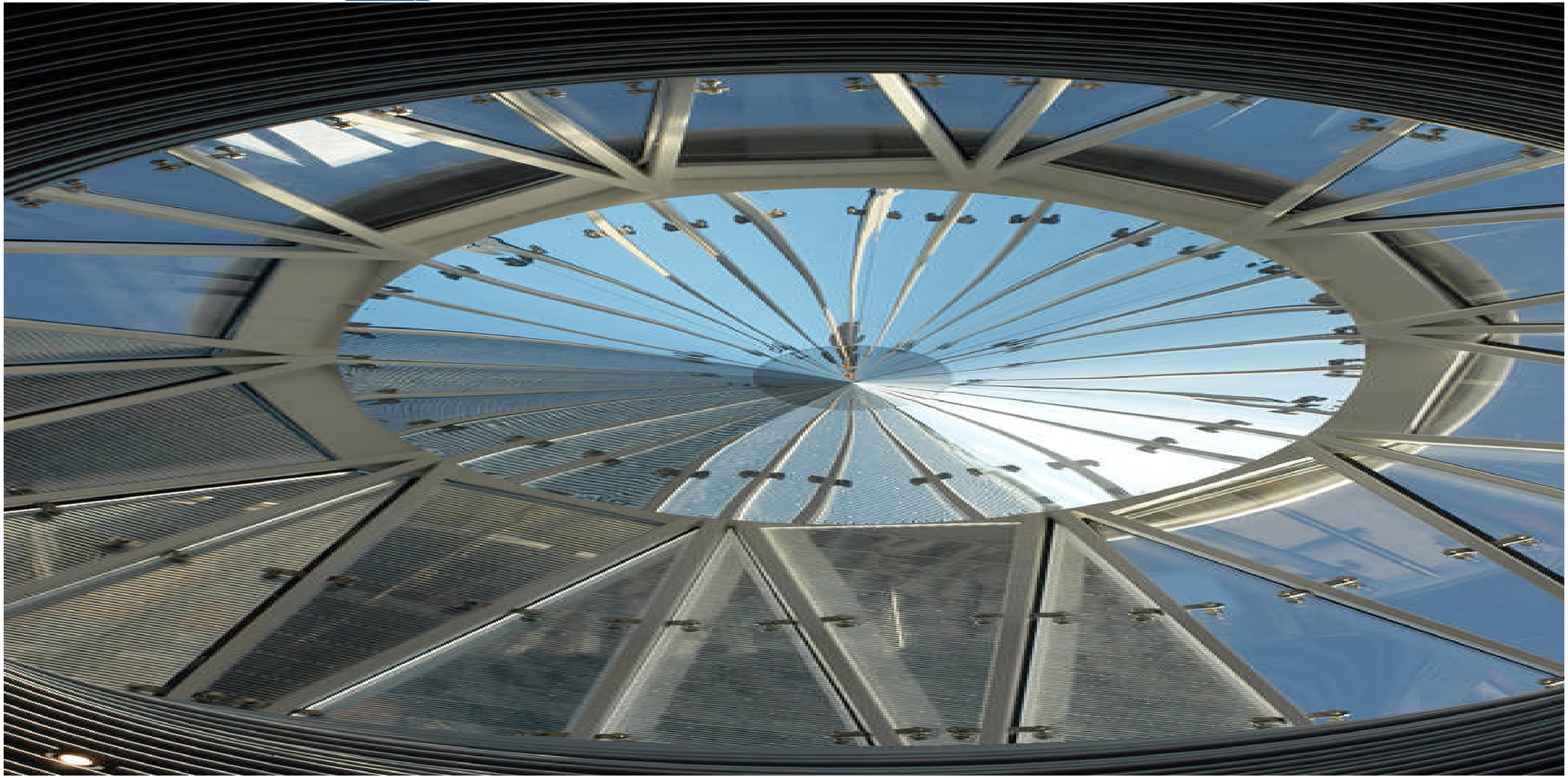
Finance Committee Investigation into PPP

31 January 2008

Cynulliad Cenedlaethol Cymru
National Assembly for Wales

Morgan Cole

PricewaterhouseCoopers



Expert advisors

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Is there a role for PPP in Wales?

- How well does PPP meet the public sector’s needs?
- Does PPP provide value for money for public sector ?

Unison – ‘need wide-ranging and genuine debate on range of options, not just PFI’

What is PPP?

- No formally agreed definition of PPP

- Most professionals would consider it to include:
  - Joint venture between a public body and private company
  - Risk transfer from public to private sector
  - Significant investment from private sector

Typical PPP models

- Typical PPP models can include:

  - PFI
  - Local Authority backed vehicles (LABV)
  - LIFT
  - Partnerships
  - “Barnet” Bond Model
  - Not for Profit Distribution (NFPO)
  - Outsourcing

Evidence received to date

- Written response – 19
- Oral evidence – 2

- Composition of written responses:
  - Public sector – 10
  - Private sector – 7
  - Academic – 2

  Limited response from typical PFI contractors and operators

- Public Sector response focused on:
  - Schools
  - Health

Themes emerging from evidence

- Focus on PFI
- Value for money
- Workforce issues
- Complexity and skills
- Risk transfer
- Recognition of benefits of shared goals

Not covered in responses but introduction of IFRS and new accounting treatment for PFI need to be considered

Next steps

- Matrix analysis of evidence
- Identification of key messages and gaps
- Recommendation on further evidence reflecting above, to include:
  - visits
  - oral evidence
  - further written evidence
- Focus on issues raised and possible structures
- Summarise broad themes and conclusion

Annex 1

National Assembly for Wales

Getting value for money from PFI for major projects

13 December 2007

Morgan Cole

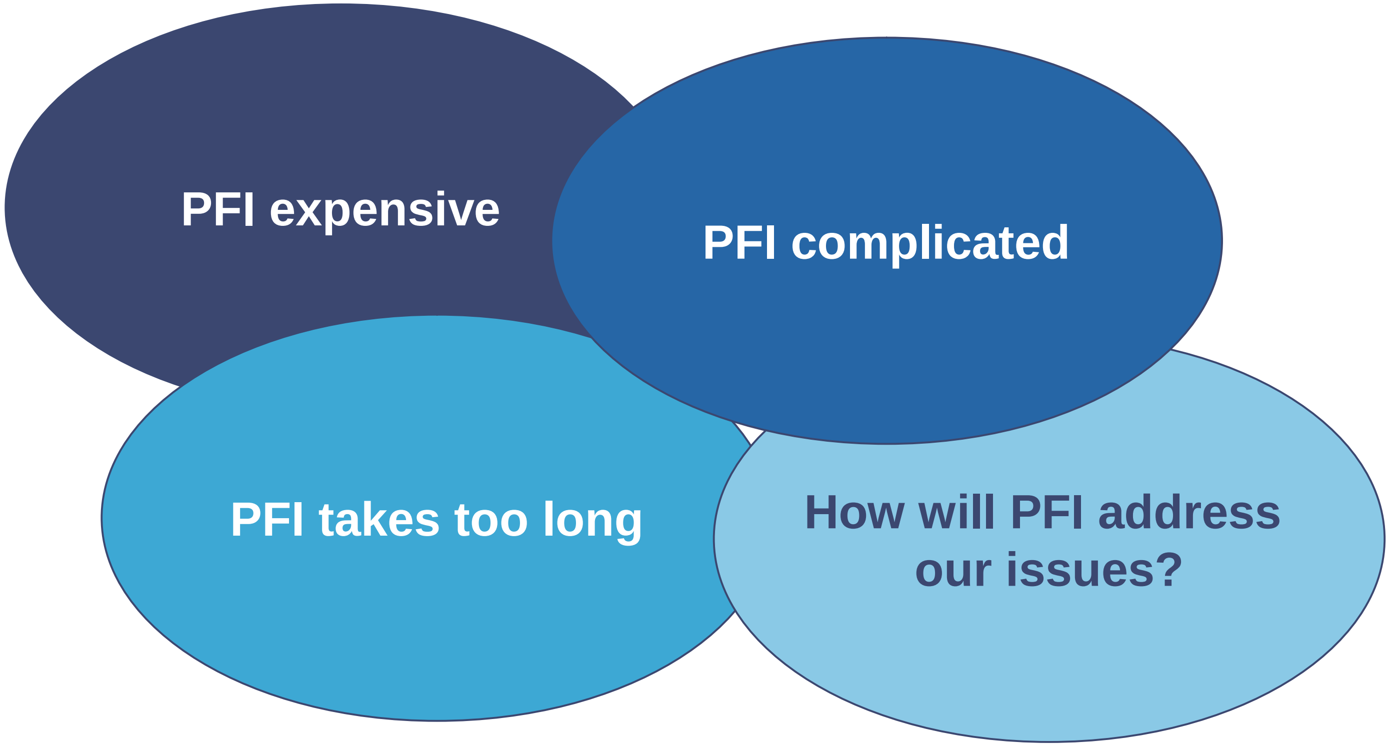
PricewaterhouseCoopers

“How would you go about assessing whether PFI is value for money”?

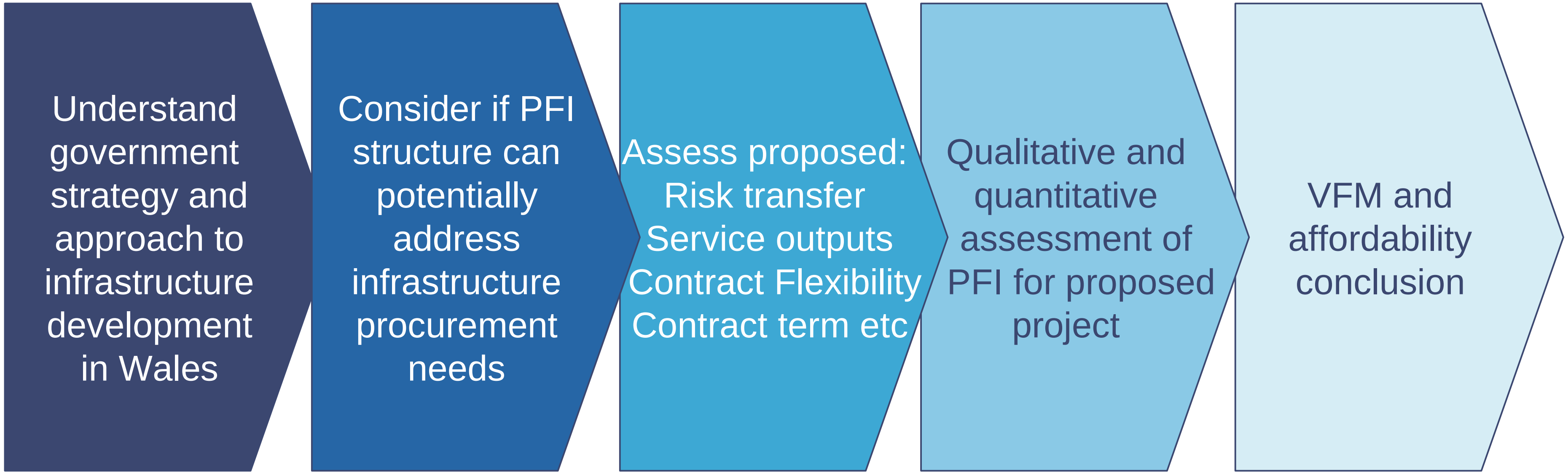
PFI is not an appropriate structure for all infrastructure projects

PFI is one specific subset of a PPP arrangement involving standardised contract terms. It will typically see the public sector contract to purchase services from the private sector on a long term basis and will see the private sector construct and maintain infrastructure

Typical issues raised



Approach


Understand government strategy and approach to infrastructure development in Wales
Consider if PFI structure can potentially address infrastructure procurement needs
Assess proposed:
Risk transfer
Service outputs
Contract Flexibility
Contract term etc
Qualitative and quantitative assessment of PFI for proposed project
VFM and affordability conclusion

Quantitative factors

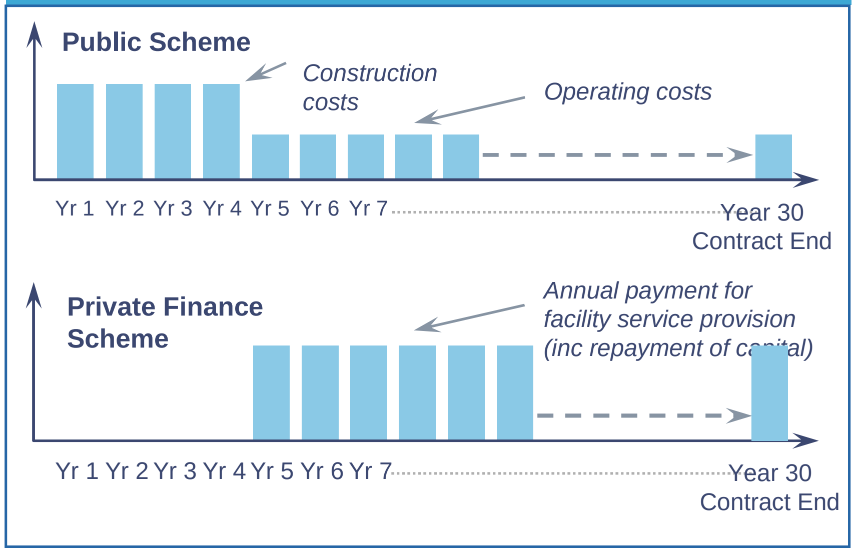
Quantitative factors - Develop a 'Public Sector Comparator' (PSC). This involves making a whole-of-life long term comparison of projects under PFI and public sector procurement. Factors considered include:

- Capital costs
- Lifecycle costs
- Finance costs
- Procurement costs
- Optimum bias
- Risk transfer
- Delay and construction risk

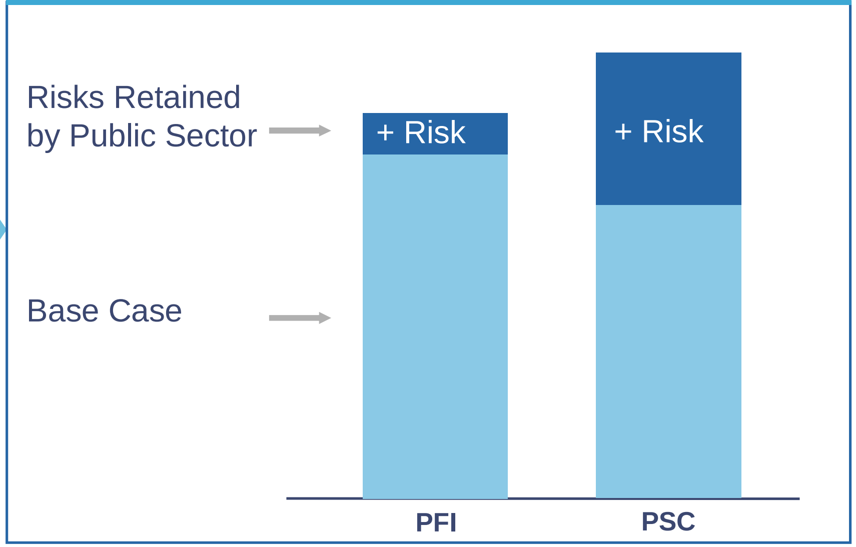
Summarise on a discounted cashflow model

Example of typical project cashflows

Public Sector Schemes v PFI



Value for Money



Qualitative factors

Qualitative factors include:

- Viability – project and private sector
- Capability and capacity – private and public sector
- Achievability – market interest
- Affordability – budget certainty
- Desirability
- Risk
- Availability of funding

Summary

- PFI can deliver VFM but only as part of a wider infrastructure delivery mechanism and when appropriate risk transfer and robust evaluation is carried out
- PFI does not provide VFM solution if only looking to offset a funding gap
- VFM only achieved if risk transfer and private sector management skills offset funding cost differential

Contacts

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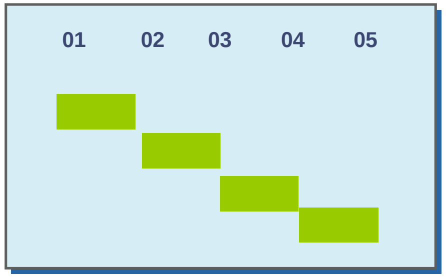
Why the need?

What are the main drivers behind PPPs?

Service need and Historic Underinvestment

Public sector budgetary constraints



Better procurement

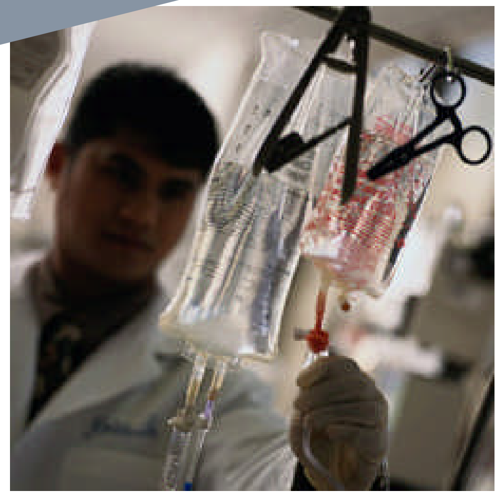
Value for money

Why the need?

Rationale for PPPs – Value for Money – Transferring Key Risks

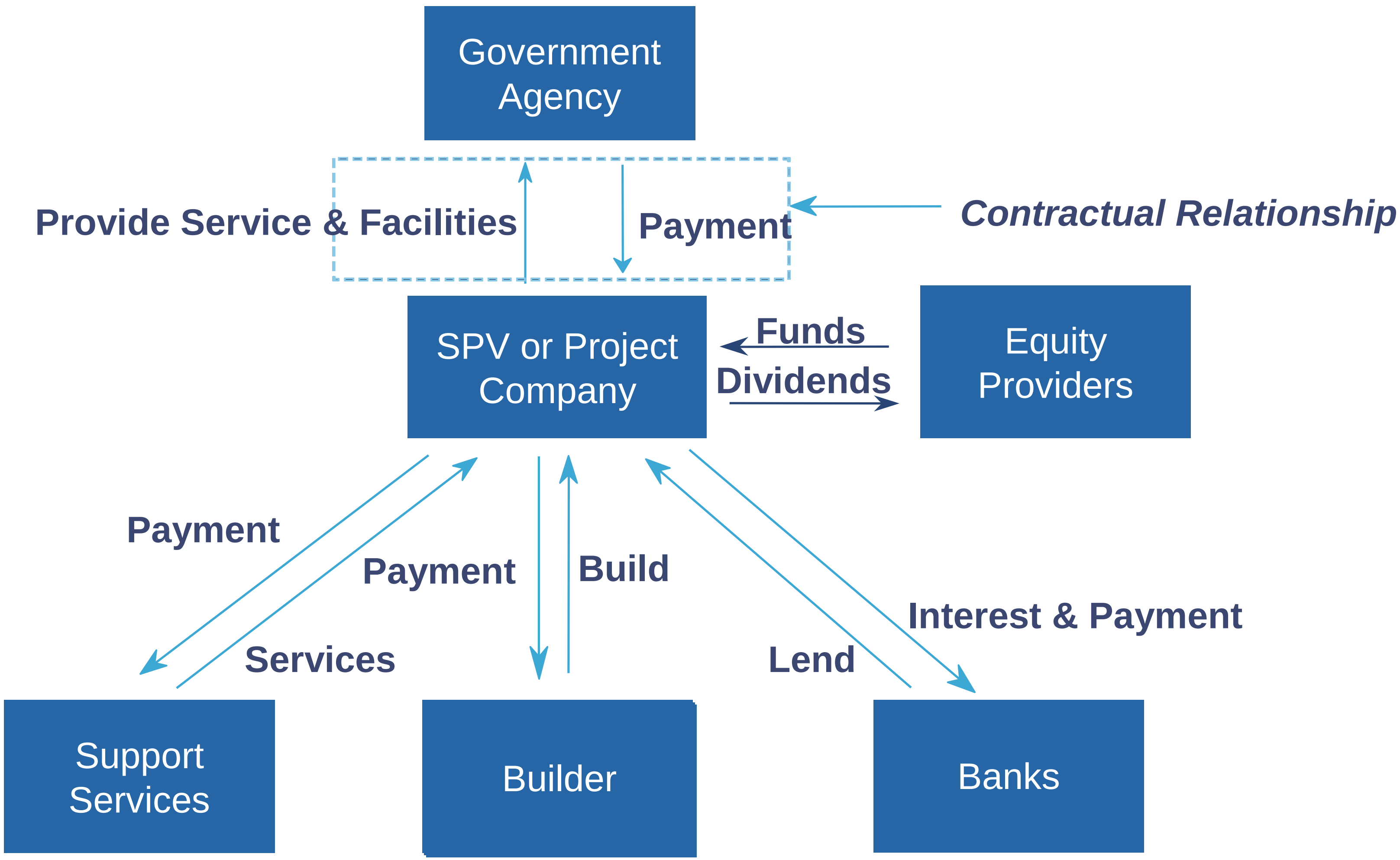
Private sector manage key risks

Guys Hospital was publicly procured but ended up 3 years late and over £115m (428% over budget)



Isle of Wight, new publicly funded hospital built in 1991, NHS paid £20 million to correct design defects

Payment/ Risk Flow in a Typical Consortium Structure



Risk

"Risks should be allocated to the party best able to manage them"

Public	**Shared**	**Private**
Government should retain risks that are inherently governmental		Private sector should manage risks that are inherently commercial

Annex 2

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