

National Assembly for Wales



Finance Committee Investigation into PPP – Summary of Consultation Responses

February 2008



Terms of Reference

- Finance committee of the National Assembly for Wales (NAW) has submitted a call for evidence to support its inquiry into the use of public private partnerships including PFI in Wales
- The terms of reference for the inquiry are as follows:
 - *To examine the scope for drawing on private finance for public sector projects with particular reference to:*
 - *The potential benefits, costs and risks that may be involved;*
 - *Any policy changes (whether to remove barriers or apply controls) that may be needed to realise the optimum outcome; and*
 - *Practical guidance to enable the public sector to strike the most advantageous arrangements within the agreed policy framework*

Inquiry Responses

- Call for evidence announced – October 2007
- 19 written responses received to December 2007
- 2 oral responses received to December 2007
- Analysis focuses on written response

Key themes from Responses

PPP/PFI not a panacea and broad debate required encompassing all options – NUT, UNISON, WLGA

Cost of borrowing – Unions and Universities of Bristol and Manchester sceptical. ICA, KPMG, CBI, WLGA – can be justified by efficiency gains/risk transfer

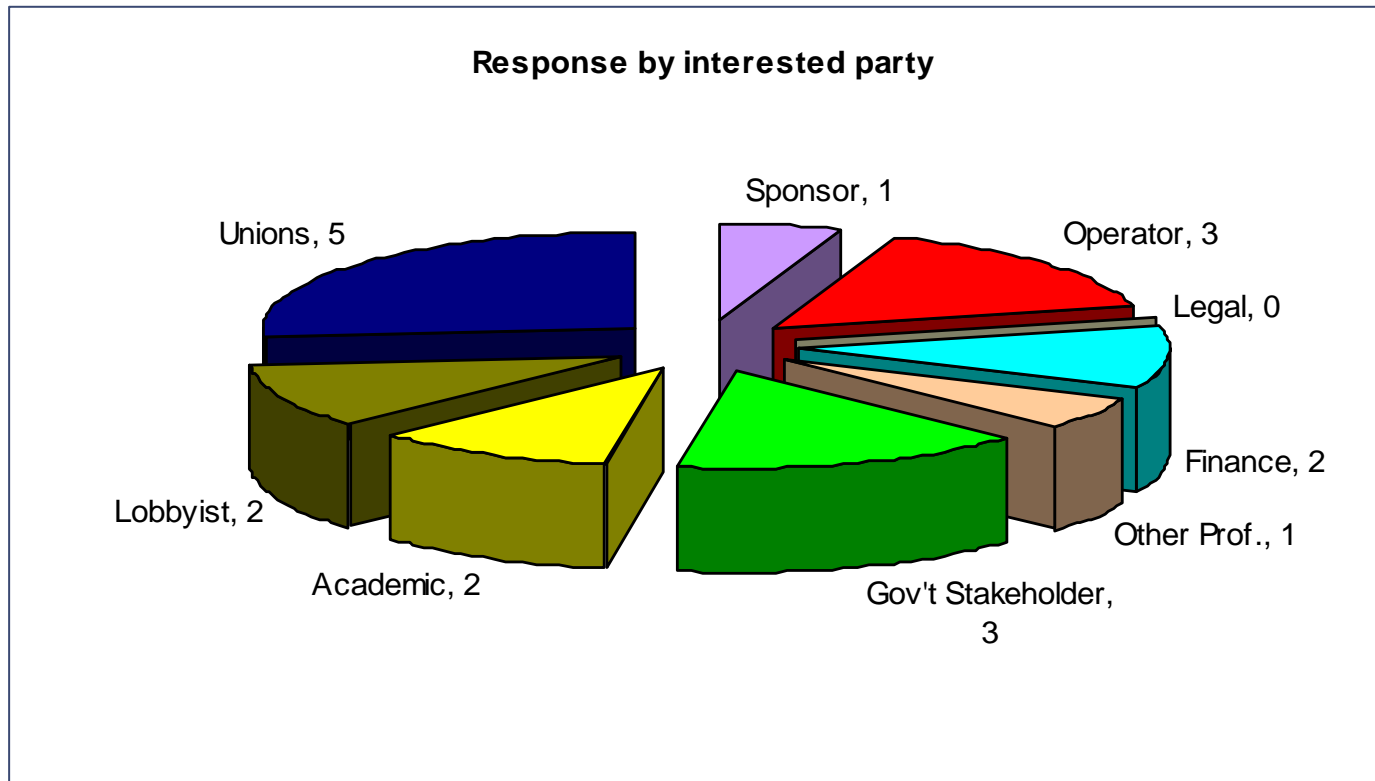
Risk transfer/service delivery – Users (eg Bro Morgannwg NHS Trust, WLGA) and providers (GLS, Seren, BT) believe there can be significant benefits. Unions say little evidence and much risk still rests with public sector. KPMG provide some evidence of more PFI buildings completed to time/budget than traditionally procured.

Skills/resourcing – to make PPPs work effectively requires partnering, proper specification and management. This requires strong skills base (WLGA, CBI)

Negative impact on transferred workforce – Unions. But NB effect of improved TUPE regime.

Effect of current uncertainty – “Wales closed for business” – WLGA

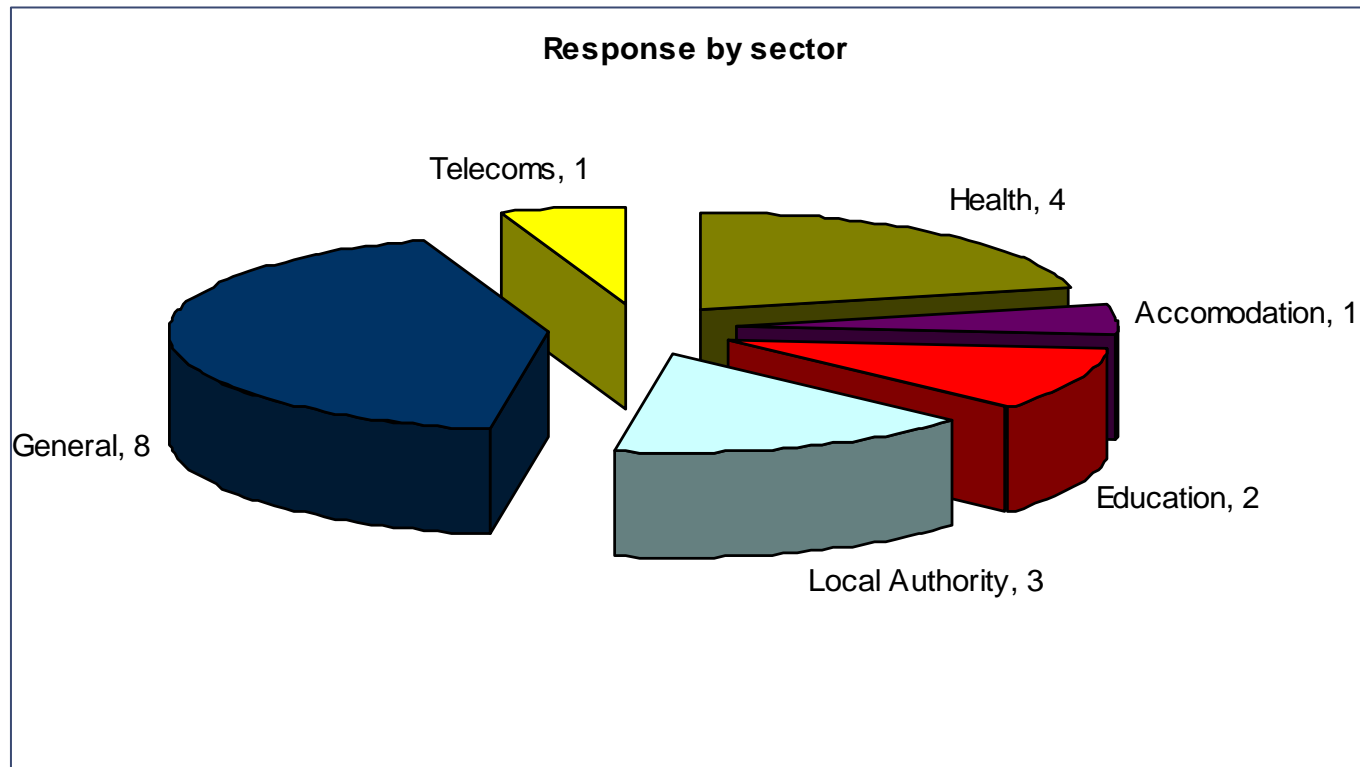
Response by Interested Party



19 responses received

- Largest number from Government stakeholders (4) and unions (4)
- No responses received from legal or banking organisations
- Limited responses from large scale operators and sponsors

Response by Sector



19 responses received

- Largest number from general (8) and health (4)
- General sector accounts for non sector specific research

Response by Sector v Sectoral Private Finance Projects

	% of responses received by sector (number)	% of private finance projects in the UK by capital value	% of private finance projects in Wales by capital value
Education	11 (2 responses)	13	23
Health	21 (4 responses)	21	21
Accommodation	5 (1 response)	10	3
Environment	-	4	4
Equipment	-	2	0
Housing	-	2	0
ICT	5 (1 response)	4	11
Leisure services	-	0	0
Property	-	1	0
Transport	-	42	39
Local authority (cross cutting)	16 (3 responses)	-	-
General (cross cutting)	42 (8 responses)	-	-

Limited number of sector specific responses received – no response from the transport, housing and environment sectors

Response by Sponsor / Operator

- 4 responses received from sponsor / operators
- No response from the larger operators and construction companies
- Only 1 response from a Welsh based sponsor

Sector	No. of Responses
Health – Bro Morgannwg	1
Housing	1
General	1
Telecoms	1

Coverage

Key:	✓ Response received	✗ No response received
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1. Area

Sponsor	Operator	Legal	Finance	Other Prof.	Gov. Stakeholder	Academic	Lobbyist	Unions	Facilities Mang.	Const./property	Banking
✓	✓	✗	✓	✓	✓	✓	✓	✓	✗	✗	✗

2. Sector

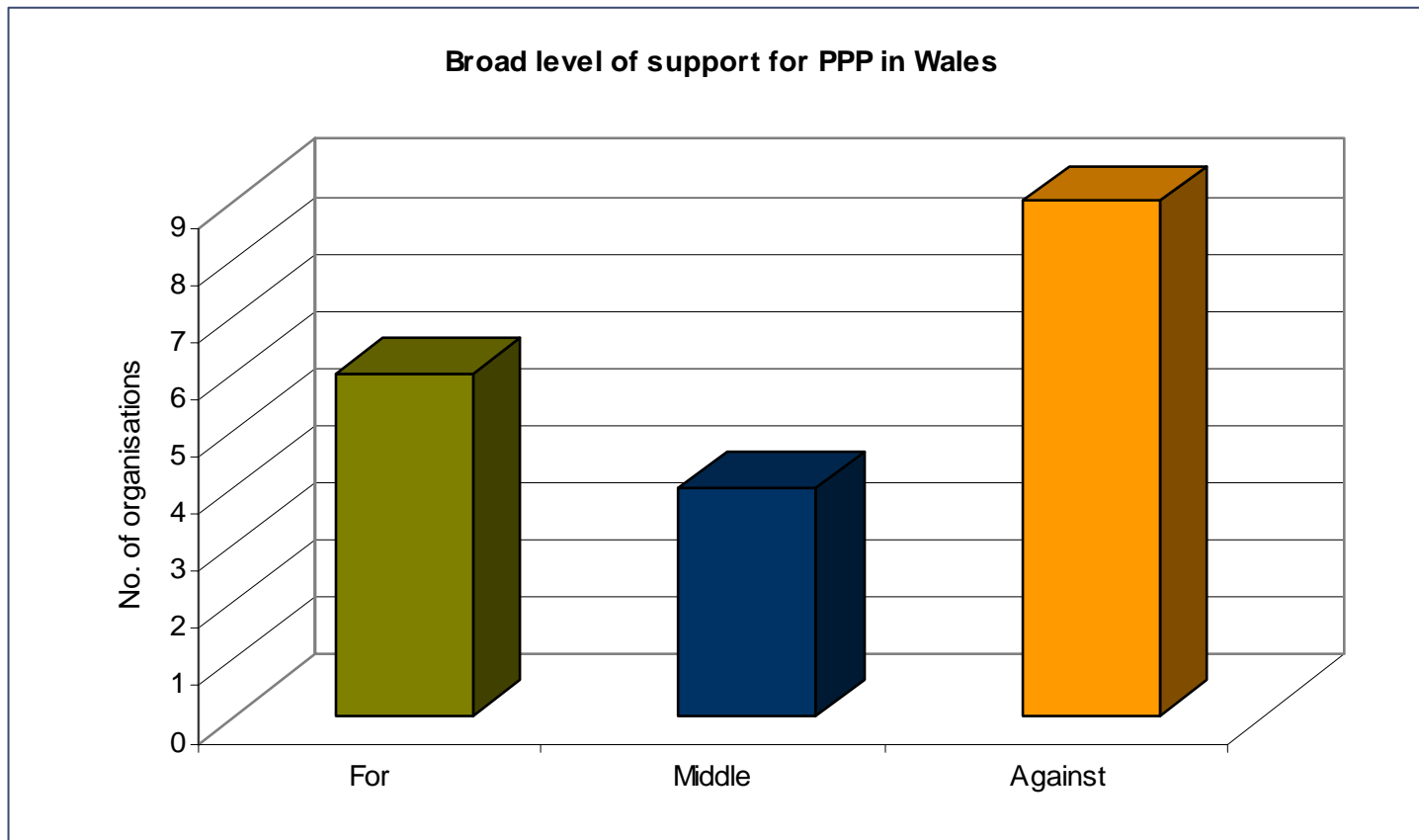
Health	Housing	Education	Accomm.	Local Authority	General	Transport	ICT	Shared Services	Property	Environ.
✓	✗	✓	✓	✓	✓	✗	✓	✗	✗	✗

3. Sponsor / operator sector analysis

Health	Housing	Education	Accomm.	Local Authority	General	Transport	ICT	Shared Services
✓	✓	✗	✗	✓	✓	✗	✓	✗

Consultation Responses

- Based on responses received, the broad level of support expressed by organisations for the use of PPP in Wales is as follows:



Consultation Response

- Body of evidence appears to have been submitted by organisations who typically are opposed to PPP
- Inquiry needs to consider whether sufficient evidence has been received from organisations that are supportive of PPP eg operators and financiers. There has been a limited response from these sectors to date

Key Themes Emerging from Evidence

In favour (selected)

- Potential for risk transfer to private sector
- Leveraging of significant private sector investment
- Flexible structure of project frameworks
- Offers the opportunity to develop a long term partnership with a committed private sector organisation
- Improved levels of service and efficiency
- Opportunity to tap into private sector technical, management, and financial resources and expertise
- Reduction in industrial action
- Release of public sector management time to enable more focus on key business

Against (selected)

- Poor quality buildings caused by private sector cost cutting
- Lack of consultation with teaching staff during project specification for schools PPPs
- Little has been gained from PPP / PFIs that could not have been obtained via an increase in traditional spending methods
- Risk transfer can be loaded in favour of the private sector
- High additional cost of private sector borrowing
- No reliable evidence that the private sector is more efficient than the public sector – promised efficiency increases not always delivered
- Annual payments to private sector partners can be higher than expected
- Long term contracts may lock public sector in to an outmoded model of service provision

Key Themes Emerging from Evidence (cont.)

- The need for informed debate as to the different options for public sector procurement
- The need for informed procurement where the public sector demonstrates genuine expertise, ownership and involvement
- Importance of basing procurement decisions on a clear understanding of the financial and operational implications of different options

Key Themes – Issues to be Addressed by the Inquiry

- **VFM**
 - Does PFI / PPP provide VFM?
- **Workforce / skills**
 - Does PFI / PPP create a two tier workforce and does Wales' public sector possess relevant skills?
- **Risk transfer**
 - Does PFI lead to risk transfer?
- **Contractual framework / flexibility**
 - PFI is typically complex with little flexibility for change
- **Alternative model**
 - A number of alternative models have been mentioned. Are these relevant to Wales?

Potential Alternative Models

- Alternative models to consider include:
 - **LIFT**
 - Form of PFI
 - **BASF**
 - Form of PFI
 - **NPDO**
 - Can be a form of PFI
 - **Bond**
 - **Design, build, maintain, and operate contracts**

Next Steps

Conclusion from evidence

- PFI and PPP markets are evolving
- Evidence can be found to support and reject benefits of typical PFI / PPP models
- Different respondents often used the same projects or data sets to support and reject PFI
- Common view was that private sector has role in the delivery of public services
- *“If NAW wishes to increase the capital expenditure of local authorities in Wales, this can only be done via two ways:*
 - *By increasing capital grants; and*
 - *By increasing the revenue support that it offers through the ‘supporting borrowing’ element of the revenue support grant and thus allowing increased borrowing by local authorities”*

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