

ORIGINS

- **1992 – a means of procurement / privatization**
- **1997 – developed by Labour**
- **to improve Value for Money**
- **lower cost / better managed services**
- **under funding of capital spending in the past**

Kp/GDP	1970/71	6.0%
	2002/03	1.1%

- **PFI means of filling the infrastructure gap**
- **PFI spending**

**1997/2002 £22 billion worth of contracts
over 500 hundred projects**

PFI PROCESS

- 1. Establish business need**
- 2. Appraise the options**
- 3. Business case and reference projects**
- 4. Develop the team**
- 5. Decide tactics**
- 6. Invite expressions of interest**
- 7. Pre-qualify bidders**
- 8. Select the shortlist**
- 9. Refine the appraisal**
- 10. Negotiate**
- 11. Receive and evaluate the bids**
- 12. Select preferred bidder and final evaluation**
- 13. Contract award and final close**
- 14. Contract management**

(Source: Fischbacher and Beaumont (2003))

OPTIONS

- **O1 PUBLIC SECTOR COMPARATOR**
 - O2 DO NOTHING**
 - O3 PFI**
-
- **CHOOSE LOWEST NET PRESENT COSTS (NPC)**
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- **PSC – HYPOTHETICAL**

RATIONALE FOR PFI

- **Increases in the number of capital projects started each year**
- **Improvements in the delivery times of capital projects**
- **Reductions in life cycle costs**
- **A more efficient allocation of risks**
- **Improvements in performance and service quality**
- **Improvements in public sector management**
- **Socio-economic benefit**

Table 1 Risk Transfer and Value for Money in New Hospital Projects

	Public Sector Comparator
PFI Option	
	NPV (£m)
NPV (£m)	
1. Carlisle Hospital Trust	
1.1 Without risk	151.1
167.0	
1.2 Risk	21.8
0	
1.3 Risk adjusted	172.9
167.0	
2. North Durham Health Care NHS Trust	
2.1 Without Risk	157.3
173.9	

2.2 Risk	23.6
3.1	
2.3 Risk adjusted	180.9
177.0	

Source: extracted from Department of Health memo submitted to the House of Commons Select Committee on Health, 13 July 1998.

RISK ISSUES

- **WHO BEARS THE RISKS?**
- **MEASURING RISKS**
- **RISK VS UNCERTAINTY**

VALUE FOR MONEY

- **VALUE FOR MONEY / BEST VALUE**

- **ECONOMY**

EFFICIENCY

EFFECTIVENESS

- **TECHNICAL EFFICIENCY**

ALLOCATIVE EFFICIENCY

- **WHOSE VALUE?**

ISSUES AND PROBLEMS

- **TREATMENT OF RISK**
- **ACCOUNTING ASPECTS OF PFI**
- **CHOICE OF DISCOUNT RATE**
- **FISCAL CONSTRAINTS AND THE GOLDEN RULE**

RISKS

- **DEMAND RISKS**
- **RESIDUAL VALUE RISKS**
- **DESIGN RISKS**
- **PERFORMANCE AND AVAILABILITY RISKS**
- **OPERATING COST RISKS**
- **CONSTRUCTION AND DEVELOPMENT RISK**