

PUBLIC ACCOUNTS SELECT COMMITTEE			
REPORT TITLE	Update on Private Finance Initiatives (PFI's)		
KEY DECISION	No	Item No.	5
WARD	N/A		
CONTRIBUTORS	Head of Financial Services		
CLASS	Part 1	Date	20 December 2017

1. EXECUTIVE SUMMARY

- 1.1 The Council has eight operational PFI schemes. This report provides summary information regarding those schemes and sets out the rationale and key financial considerations.

2. PURPOSE

- 2.1 The purpose of this report is to provide members of the Public Accounts Select Committee with an overview and update on the Council's existing PFI schemes and to engender a wider discussion at the committee.

3. RECOMMENDATION

- 3.1 The Public Accounts Select Committee is recommended to note the contents of this report concerning the Council's PFI schemes.

4. POLICY CONTEXT

- 4.1 Presenting financial information in a clear and meaningful format contributes directly to the council's tenth corporate priority: inspiring efficiency, effectiveness and equity.
- 4.2 The Council's PFI schemes directly contribute to the achievement of the Council's corporate priorities of Young People's achievement and involvement (School PFI schemes), Decent Homes for all (Brockley Housing PFI scheme), Active Healthy Citizens (Downham Lifestyles PFI) and Clean, Green and Liveable (Street Lighting PFI).

5. BACKGROUND TO PRIVATE FINANCE INITIATIVES

- 5.1 The Private Finance Initiative (PFI) schemes are a public-private partnership used to deliver capital investment. Typically, the private sector takes on responsibility for the design, build, financing and operation (DBFO) of a new asset, with the public sector agreeing to provide revenue funding over the life of the scheme. A key feature of PFI schemes is that an element of risk associated with each stage of delivery has been transferred from the public sector to the private sector. As there

are various aspects to PFI schemes, the private sector partner usually consists of a consortium of companies who are specialists in each area.

- 5.2 The key differences between a conventional public sector delivery of a new asset, and delivery through a PFI scheme are set out in the table below:

Public Sector conventional delivery	PFI scheme delivery
Public sector is purchaser of <i>assets</i>	Public sector is purchaser of <i>services</i>
Public sector generally designs or builds the asset to its own specification	Private sector consortium generally designs, builds, owns, operates and maintains <i>physical assets</i>
Public sector directly meets the costs of designing and building the asset, as those costs are incurred	Private consortium designs and builds the assets, and funds that work, in the expectation of recovering the cost over the life of the contract through on-going charges that the public sector will pay for the service over the life of the PFI scheme

- 5.3 As at 31 March 2016, across the UK there were 716 PFI and PF2¹ projects (686 operational) with a total capital value of £59.4 billion.

- 5.4 PFIs have long been criticised for being an expensive way to deliver assets with significant profits being generated for the private sector partners. At the 2017 Labour party conference, the Shadow Chancellor went so far as to suggest that a new Labour government would review all PFI contracts and, if necessary, bring them under government control. There is an argument, however, that the PFI has enabled the public sector to procure both a range and standard of new assets that would have been much more difficult to deliver under traditional procurement methods and limited capital budgets².

6. OVERVIEW OF LEWISHAM COUNCIL'S PFI SCHEMES

- 6.1 The Council has eight operational PFI schemes. Five of these are related to Schools, one to Housing (Brockley), one to Leisure (Downham) and one to Street Lighting. The table below is taken from the Council's Statement of Accounts and shows for each scheme: the start and end date; the total estimated cost; total PFI credits (grant income from government); and the net cost.

PFI Scheme	Brockley Housing	Downham Lifestyles	Grouped Schools	BSF 1	BSF 2	BSF 3	BSF 4	Street Lighting
Start of Contract	2007	2007	2007	2009	2011	2012	2012	2011
End of Contract	2027	2039	2036	2035	2037	2037	2038	2036
Total Estimated Cost	£285m	£76m	£226m	£240m	£85m	£118m	£223m	£95m
Total PFI Credits	£207m	£30m		£674m				£54m
Net PFI Cost	£78m	£46m		£218m				£41m

Note: BSF = Building Schools for the Future

¹ PF2 was a modification to PFI launched by the government in 2012

² Public Finance article 23 October 2017

Summary description of schemes

- 6.2 Brockley Housing: the provision of the housing management services, repairs and maintenance and Decent Homes standard refurbishment work to 1,845 leasehold and tenanted properties in the Brockley area.
- 6.3 Downham Lifestyles: the provision of the Downham Lifestyles Centre, providing health and leisure facilities.
- 6.4 Grouped Schools PFI: the rebuild and running of three schools (Greenvale special school, Forest Hill secondary school and Prendergast Ladywell school).
- 6.5 BSF 1: the rebuild and running of two secondary schools (Conisborough and Sedghill).
- 6.6 BSF 2: the construction and running of Trinity school.
- 6.7 BSF 3: the rebuild and running of Deptford Green school.
- 6.8 BSF 4: the rebuild and running of two secondary schools (Bonus Pastor and Prendergast the Vale) and Drumbeat special needs school.
- 6.9 Street Lighting: a joint scheme with the London Borough of Croydon for the replacement and maintenance of street lighting columns.

7. FINANCING OF LEWISHAM COUNCIL'S PFI SCHEMES

- 7.1 As set out in section 5, in a PFI scheme the private sector is responsible for the upfront financing costs associated with delivering the new assets. The Council's contribution towards the scheme costs is through unitary charge payments which are made throughout the life of the scheme. The cost to the Council is also subsidised by the government through PFI credits which are grant payments made at a fixed rate throughout the life of each scheme.
- 7.2 The unitary charge payments include a fixed element and an element which is linked to inflation. This means the overall value of unitary charges increases each year by an amount linked to inflation. The total unitary charges paid by the Council amounted to £51,868k in 2016/17 (£51,087k in 2015/16); the breakdown of these charges by scheme is set out in the table below:

	Brockley housing	Downham Lifestyles	Grouped Schools	BSF 1	BSF 2	BSF 3	BSF 4	Street Lighting	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
2016/17	14,821	2,349	7,310	8,634	2,957	4,221	7,912	3,664	51,868
2015/16	14,620	2,314	7,253	8,534	2,935	4,184	7,815	3,433	51,087

8. VALUE FOR MONEY OF PFI SCHEMES

8.1 As PFI's have evolved and both the public and private sectors have better understood the levels of risk transfer and the most effective ways to manage these, PFI contracts have been refined and standardised to provide the public sector with improved mechanisms to ensure better value for money. Combined with robust and proactive contract management by officers within the Council, the following provisions included within PFI's are designed to deliver value for money:

- Periodic benchmarking of costs.
- Regular liaison meetings between Council officers and private sector partners.
- A requirement for the private sector partners to support the Council in the continuous achievement of best value as defined by economy, efficiency and effectiveness including social value.
- A sharing of efficiencies achieved in procurement of e.g. insurance, financing and utilities.
- Contractual provision for deductions from unitary charge in the event of sub-standard service.

8.2 These provisions help the Council to ensure it is getting the best possible outcomes and value for money from its PFI schemes.

8.3 The Council actively monitors these contracts to ensure that all of the mechanisms identified above are appropriately applied and savings or efficiencies realised. Most recently, the Council has worked with CIPFA to undertake an efficiency review of a sample PFI scheme to see whether benefits could be realised. This review was based primarily on the Treasury guidance 'Making Savings in Operational PFI Contracts' and CIPFA's experience. The exercise has to date been able to deliver minor benefits across a range of areas within the contract and the review continues to explore whether further savings can be achieved. Officers will be able to discuss this in greater depth at the meeting.

9. FINANCIAL IMPLICATIONS

9.1 This report provides members of the Public Accounts Select Committee with an overview of the Council's PFI schemes. There are no direct financial implications in noting this report.

10. LEGAL IMPLICATIONS

10.1 There are no legal implications directly arising from this report.

11. CRIME AND DISORDER ACT IMPLICATIONS

11.1 There are no crime and disorder implications directly arising from this report.

12. EQUALITIES AND ENVIRONMENTAL IMPLICATIONS

- 12.1 There are no equalities or environmental implications directly arising from this report.

13. CONCLUSION

- 13.1 The Council has eight active PFI schemes supporting service delivery across a range of service area. The Council works with its private sector partners to ensure these schemes continue to provide value for money.

BACKGROUND PAPERS AND REFERENCES

Lewisham Council Statement of Audited Accounts 2016/17
(see page 68 for note re PFI schemes)

<https://www.lewisham.gov.uk/mayorandcouncil/aboutthecouncil/finances/Documents/StatementofAccounts16-17AuditedV3.pdf>

Note on PFI's produced by Scrutiny Unit of House of Commons:

<https://www.parliament.uk/documents/upload/0807pfi.pdf>

HM Treasury: 2016 summary data on PFI's

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/579271/PFI_and_PF2_projects_2016_summary_data.pdf

Article in Public Finance magazine 23 October 2017

http://www.publicfinance.co.uk/feature/2017/10/saving-private-finance?utm_source=Adestra&utm_medium=email&utm_term=

For further information on this report, please contact Selwyn Thompson, Head of Financial Services on 020 8314 6932