

**PFI Credits for Local Authority LIFT Schemes**



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- 1 A number of local authorities are now using LIFT as a procurement route to deliver facilities aimed at joining up service delivery with other service providers within the local health community or for the provision of other health or social services related functions.
- 2 Of particular note is the fact that the ODPM has sponsored a tranche of local authorities to pilot the delivery of a number of joint service centres by allocating a proportion of PFI credits to appropriate schemes meeting criteria set out by the ODPM in successive PFI credit bid rounds. For example, Newcastle City Council has committed to use LIFT as the delivery vehicle for the supply of 4 joint service centres and has secured funding from ODPM for the capital element of its lease-plus interest in these facilities (see the 4ps LIFT Extranet where a case study has been developed on the steps Newcastle took to developing its business case and options appraisal for its scheme).
- 3 Other Government departments are also prepared to consider the provision of PFI credit funding to local authorities who are procuring facilities through the LIFT route. The Department of Health, for example, has allocated PFI credits to an authority pursuing the procurement of social services facilities via LIFT. The ODPM are considering whether certain health related housing initiatives (such as extra-care) can be procured via LIFT using PFI credits and a guidance note is being developed by 4ps on how certain types of housing scheme might be procured using LIFT as the procurement vehicle.
- 4 A joint bidding round for the allocation of around £300m of additional PFI credits was announced by three government departments before Christmas (namely the ODPM, DH and DCMS) which invited proposals from local authorities for projects covering :
  - social care
  - libraries and/or sport
  - joint service centres or
  - proposals combining these elements and possibly others
- 5 The joint bid letter mentions that schemes proposed to be delivered by local authorities via LIFT and/or Building Schools for the Future may be supported by these departments. Moreover, in line with HM treasury guidelines, whilst PFI schemes with a capital value of less than £20m are unlikely to be approved for funding by the sponsoring departments, this financial limit does not apply to schemes procured under LIFT or BSF.
- 6 Although this bid round has a deadline of the 12<sup>th</sup> March 2005, there may be future opportunities for local authorities to explore PFI funding for LIFT schemes with relevant sponsoring departments. Consequently, it is important for local authorities to be aware of these potential funding opportunities and to understand what the relevant processes are for applying for credits and what the funding is designed to meet.

- 7 The PFI credit support applied for should be based on an estimate of the capital expenditure to be incurred by the contractor. The relevant departmental bid guidance and criteria recommends that authorities set out the basis of their assessment (normally anticipating using a 70/30 abatement split unless there is a good reason not to) and any assumptions made.
- 8 In the case of projects using LIFT as the delivery vehicle the appropriate methodology is set out in an ODPM guidance note (which was developed jointly with the 4ps) "PFI support for local authorities taking out a lease-plus agreement in an NHS building – version 2" available at [www.local.odpm.gov.uk/pfi/lift2.pdf](http://www.local.odpm.gov.uk/pfi/lift2.pdf)
- 9 Authorities are also expected to reduce the need for credits by use of capital receipts wherever possible and should demonstrate the extent to which this has been done. Other sources of funding that have been secured, both public and private, should also be identified and the level of funding apportioned to each funding source clearly shown. Details of how the project would be delivered should this funding not be realised should be included, together with an assessment of the certainty of each
- 10 The proposal should set out the cost in terms of PFI credits per square metre floor area. This information will be used to benchmark the proposal against existing projects. Any issues which are likely to make project abnormal in terms of costs should be identified.
- 11 Where a building is jointly occupied by partner agencies (including any primary care trust or other public sector body) on a permanent basis, the PFI credits sought should be reduced to exclude any floor area occupied by them. They would be expected to cover the capital costs of their part of the building in any lease which they pay.
- 12 The former local government capital finance system has been repealed including the regulations which formerly governed PFI. However, if applying for central government funding by way of PFI credits, balance sheet accounting treatment of the scheme remains an issue to be addressed at an early stage of the project. Bidding guidance requires local authorities to provide an indication of whether they expect the scheme to be on or off balance sheet. A full balance sheet assessment does not necessarily need to be done at the bid stage but local authorities should base their views on a comparison with other projects and put forward any early views on risk transfer.
- 13 The local authority will also need to explain why the LIFT procurement route was chosen over other possible procurement options. That appraisal should consider the options of conventional procurement against PFI, and, where appropriate, LIFT or BSF. However, a full value for money assessment is not expected at the initial bid stage for PFI credits but local authorities should include a qualitative assessment and note any areas which are likely to have a major affect on the quantitative assessment.
- 14 The HM Treasury procedure for assessing value for money requires local authorities to complete a 'Stage 2 assessment' at OBC stage, based on sponsoring departments' Stage 1 assessments (see Treasury guidance on the assessment of vfm, available at [www.hm-](http://www.hm-)

treasury.gov.uk/media//CE2C2/pfi\_vfmguidance\_040819.pdf for a full description of the procedure).

- 15 Local authorities intending to submit bids for funding should request the Stage 1 assessment produced by the relevant sponsoring department and should comment on any areas where they expect their assessments to differ. Any supporting material such as comparison with similar projects would also be useful.
  
- 16 Finally, it should be noted that the amount of available funding for schemes of this nature is limited and with over 120 local authorities now situated in designated LIFT areas, it is likely that demand for additional central government funding in the form of PFI credits, will exceed supply. However, local authorities have much greater freedoms and flexibilities than was previously the case, to explore other methods of funding following the introduction of the Prudential finance regime in 2004. Consequently, LIFT remains a potentially attractive option to progress smaller value capital schemes whether or not PFI funding is made available through bid rounds. A number of local authorities are now progressing such schemes along with their PCT partners.

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