



## **PFI SUPPORT FOR LOCAL AUTHORITIES TAKING OUT A LEASEPLUS AGREEMENT IN AN NHS LIFT BUILDING – VERSION 2.2**

This guidance note was developed by ODPM in conjunction with 4ps, Partnerships for Health, the Department of Health and PUK.

The note addresses the technical questions concerning central government PFI support for projects where LIFT is the best value for money procurement route. As with other forms of PFI, support is on the basis of particular projects chosen by sponsoring departments. In most cases projects will be chosen through a competitive bidding round, which will prioritise on the basis of the the quality of the scheme itself (i.e. how well it meets departmental priorities and policies), and not whether it is aimed at being procured under LIFT or another route.

### **1. What is LIFT?**

The NHS Local Investment Finance Trust (LIFT) initiative is designed to deliver a step change in primary and social care by developing and supplying new and refurbished health and social care facilities. It is specifically designed to encourage greater integration of service delivery within the primary and community care sector, for example by facilitating the co-location of GP surgeries with Primary Care Trust (PCT) services, other primary care service providers such as pharmacists and dentists. The LIFT initiative is sponsored by the Department of Health (DH) and is being taken forward by Partnerships for Health (PfH), which is a joint venture between DH and Partnerships UK. LIFT schemes are all being delivered to a common approach, developed by PfH.

### **2. Why and when might local authorities wish to be involved in LIFT?**

Government policy is to support integration of public service delivery. One of the most common partners in such joint working is the health sector since local authorities undertake and are responsible for many health related functions. There is therefore a well-recognised need for local authorities and other health care providers to develop ways of joining up for the benefit of end users and cost efficiency. The options for doing so depend on local circumstances.

In an area where a LIFT company has been established, the PCT will have signed an exclusivity agreement to use that company as the first option for the supply of serviced accommodation (subject to it meeting public sector requirements, VFM and affordability). If a local authority wishes to co-locate some of its services with a range of health services it should therefore determine whether the LIFT company is the chosen route for the PCT. The LIFT company effectively becomes the first option for the project, with the

local authority taking out a Leaseplus Agreement (LPA). The local authority may also have entered into some form of exclusivity arrangement with the LIFT company for wider reasons, which will influence its options.

A local authority in a LIFT area may also wish to use the LIFT company to develop a building entirely for its own services or to co-locate with health practitioners who are not employed by the PCT, including (most) GPs, opticians, dentists or pharmacists. In these circumstances an options appraisal should be undertaken to determine whether PFI, conventional procurement or a LPA in a LIFT building offers better value for money (depending on any arrangement the local authority may have entered into with the LIFT company, as noted above).

If there is no LIFT company in the area, a local authority can invite the PCT and/or other health practitioners to lease space in a building which it acquires, including through PFI. If PFI credits are sought, the leases of partners such as the PCT will be expected to cover their share of capital and service costs, in the same way that a local authority would in a LIFT building. PFI credits will therefore support only the local authority part of the building.

### **3. Would a LPA meet PFI requirements?**

Under the current capital finance system, set out in the Local Government Act 2003, there are no specific PFI regulations. However in order to be eligible for support any project, include one involving a LIFT LPA, needs to meet the criteria set out in the ODPM Guide on PFI Project support - available at [www.local.odpm.gov.uk/pfi/grantcond.pdf](http://www.local.odpm.gov.uk/pfi/grantcond.pdf). That includes being considered a PFI contract under accounting standard FRS5. If it does so it will be eligible to apply to central government for 'PFI credits', which show the level of investment which will be supported.

### **4. Where should a request for PFI support be submitted?**

There is no separate allocation of PFI credits for local authority involvement in LIFT schemes and any proposals must be assessed and prioritised against other competing projects. The obvious sources of support are the Department of Health (DH) social services PFI allocation and/or the ODPM PFI joint service centre programme, aimed at combining service delivery across a range of services and agencies. Both are relatively small. It is possible that other sectors may also become relevant.

In November 2004 ODPM and DH (together with DCMS) issued a joint invitation for new PFI projects, including LIFT schemes, with a closing date of 12 March 2005. This will facilitate projects which require joint funding. Those projects which are prioritised will be invited to submit a fully worked up Outline Business Case (OBC) seeking endorsement that the project can proceed to procurement. It is expected that a further bidding round will be held, although the precise timetable cannot be determined at this stage.

## **5. How would a bid for PFI credits fit in with the way in which work is programmed in LIFT?**

One of the features of NHS LIFT is that individual investment projects will be agreed and delivered over the life of a long term partnering agreement, rather than all being clearly identified, specified and scoped “up front” as would generally be the case in a PFI scheme. A local authority may apply for support part way through the life of a LIFT company so long as none of the buildings which a local authority includes in its application are ones already agreed in a Strategic Service Delivery Plan (SSDP). Applications for central government funding via PFI do not have to be made prior to procurement of the LIFT company.

A local authority may wish to bundle a number of LIFT projects which may be developed over time and which will therefore be included in different SSDPs. In such cases, the sponsoring department may choose to endorse and thus provide an assurance of funding for the whole project. However, the PFI credits will be considered to be 'phased' and different start dates for PFI grant will apply to each phase (as described in the 2005-06 PFI Support Guide, Section C, paragraph 1.5).

## **6. Is there a minimum level of PFI credits which may be sought?**

HM Treasury guidelines state that any PFI schemes should be approved only if they have a capital value element in excess of £20 million. This is on the basis that larger schemes experience similar procurement costs as smaller schemes thus providing better VFM. There are also concerns about the commercial attractiveness of small projects.

This limit does not apply to LIFT projects - the fact that they are part of the larger LIFT contract addresses the concerns mentioned above. Any minimum limit would, rather, be a function of what is needed to meet departmental criteria, although the authority would be expected to fund limited levels of involvement from its own resources.

## **7. What is the process for assessing LIFT projects?**

Where proposals for PFI credits are submitted as part of a bidding round, as described above, an Expression of Interest will be requested and the format set out in the invitation letter. Authorities should therefore follow that guidance. For those projects which are prioritised and invited to develop an OBC, this will be assessed in a similar way to any other proposal for PFI credits. The local authority should allow at least 6 weeks for the assessment to be completed.

The assessment will cover whatever sectoral criteria were established for the particular bidding round. It will also include the areas listed below in section 8. Applications by local authorities for traditional PFI credits are subject to a further review process by the inter-departmental Project Review Group (PRG), which indicates whether the project is commercially deliverable and ready to

start procurement. This is not necessary for a LIFT contract since the project will go through an alternative and equally rigorous gateway process in the development and approval of the SSDP. A LIFT project can therefore be endorsed by the sponsoring department as soon as they are content with the OBC. Local authorities should allow at least 6 weeks for endorsement of their OBC. Endorsement represents an agreement by the sponsoring department to provide PFI credits - and therefore revenue support in due course - providing the final project does not change significantly in purpose, cost or scope.

Sponsoring Departments will notify PRG of any LIFT projects they have endorsed and the level of PFI credits allocated. For completeness, such allocations of PFI credits will be included in the published list of PFI projects - located on the internet at [www.local.odpm.gov.uk/pfi/endorsed.htm](http://www.local.odpm.gov.uk/pfi/endorsed.htm).

### **8. What material needs to be included in an Local Authority OBC application for PFI credits for a LIFT project?**

Material needed in OBCs where an authority is applying for PFI support for a LIFT project is as follows:

Compliance with general and sector criteria
Diversity / Innovation / Consistency with wider plans
Commitment of sponsors & users
Business need / Project options <sup>1</sup>
VFM / PSC Comparison <sup>2</sup>
Accounting treatment
PFI credits required / Affordability (inc local authority agreement to their contribution)
Project management
Timetable
Statutory processes

1. A description of how 'soft FM' services (cleaning, security, etc) and the provision of fixed furniture and fittings and ICT will be handled must also be included. These items are not part of the standard LPA.

2. A LIFT project needs to show that LIFT is better VFM than both conventional and traditional PFI routes. The OBC should therefore compare all three options and include the following items which should be considered in conjunction with other to give an overall assessment. The first two items should be in line with the latest Treasury guidance on assessing value for money.

- i. A qualitative assessment which follows the Treasury outline, based on the stage 1 assessment which should be supplied by the sponsoring department.

- ii. A quantitative assessment, using the Treasury model, but modified as necessary for LIFT projects. Authorities should bear in mind that any modifications should retain the model's simplicity since it is only a part of the overall VFM assessment.
- iii. Any independent review which the District Valuer (DV) may have carried out on behalf of the PCT in assessing the value for money of the proposed rentals - although this review will be concluded fairly close to financial close. Other similar reviews can also be used to strengthen the case if available.

Various criteria which would normally be required in a PFI OBC will have been addressed in the SSDP checklist, and therefore do not need to be repeated in the OBC, as follows:

Design Quality / Sustainability	Incorporated into standard specification
Outputs / Specification	Compliance with standard specification
Risk transfer / Accounting treatment	Incorporated into standard approach and agreements, including accounting and capital charges guidance
Contract terms & conditions	Compliance with standard agreements
Advisors	Use of nationally appointed advisors
Bankability	Incorporated into standard approach and agreements. Site availability and commercial opportunities are specifically addressed. LIFT addresses bankability at "programme" level ie as a programmed initiative

**9. What material needs to be included in a Local Authority FBC application for PFI credits for a LIFT project?**

Approval of the FBC is necessary before PFI credits can be issued - the assurance which an authority will need in order to agree to the buildings being included in the SSDP. The aim of the FBC is to provide re-assurance that the project continues to support the aims and outputs approved at OBC, and that any changes since then have been agreed. As with an OBC 6 weeks should be allowed for the sponsoring department to complete its review, unless prior agreement has been reached that less is necessary, for example where the FBC is a short document for the reasons set out below.

The authority should indicate where any material already provided in the OBC needs to be updated to reflect changes in the scope of the project, better financial information and progress in procurement. Where the business case has not changed from the OBC, material does not need to be repeated, but the FBC should confirm that there is no change. Where the project is being developed as part of an existing LIFT company and there is therefore a very short period between receiving the OBC and contract signature it may not be necessary to submit a separate FBC. A short letter confirming the date of

contract signature and that there have been no changes may suffice. The sponsoring department should be consulted on this.

## **10. Further Information**

The following sources of further information are available:

- specific local government guidance from the 4ps at [www.4ps.gov.uk](http://www.4ps.gov.uk), including an extranet service which is available to help local authorities with LIFT related issues. Information about the 4ps service can be obtained from Rob Hann (Tel: 020 7808 1484).
- general information and guidance on LIFT on e-portal <http://nhslift.baextra.net>.
- ODPM: Simon Oliver, 020 7944 4229, [simon.oliver@odpm.gsi.gov.uk](mailto:simon.oliver@odpm.gsi.gov.uk)  
Ayoola Ladega, 020 7944 4228, [ayoola.ladega@odpm.gsi.gov.uk](mailto:ayoola.ladega@odpm.gsi.gov.uk)
- DH (PSS): Susan Peak, 0113 254 5305, [susan.peak@dh.gsi.gov.uk](mailto:susan.peak@dh.gsi.gov.uk)  
Julie O'Connell, 020 7633 4107, [julie.o'connell@dh.gsi.gov.uk](mailto:julie.o'connell@dh.gsi.gov.uk)
- DH (LIFT): Chris Harris, 0113 254 6295, [chris.harris@dh.gsi.gov.uk](mailto:chris.harris@dh.gsi.gov.uk)

Simon Oliver  
Local Government Finance 4  
Office of the Deputy Prime Minister

April 2005

## **PFI credit calculation under a LIFT LPA**

The basic principle that PFI credits can only cover the capital element of the private finance transaction applies as much as with traditional PFI. Local authorities applying for support for a LIFT LPA should attach a spreadsheet and associated assumptions to show the estimated capital value. As with PFI projects this will be a Present Value of all of the capital costs, discounted back to the date when services commence. If several buildings are being leased the costs should be discounted to service commencement of the first. The discount rate will be the prescribed PFI discount rate for the year in which the whole project is endorsed.

Where the scheme includes buildings in different SSDPs, the authority will need to supply both an indicative figure for the whole scheme but a more accurate one for the current wave. The latter will be used as the basis of the first PFI credits to be issued. The authority will then need to provide accurate figures when these are known for subsequent SSDPs.

### *Capital element*

A 70/30 revenue abatement (often applied to PFI building projects) is not suitable and so the capital value method should be used. The figures to be discounted should all be based on the form completed by the District Valuer (a version of which is shown at Annex B), a copy of which should be included in the OBC. Note that pass through costs are not considered in any of these calculations.

The capital element should include the following:

1. Basic rent.
2. Lifecycle costs.
3. Buildings (non-pass through) Insurance
4. A proportion of the set-up and LIFTCo overhead / running costs. This should be done by calculating the proportion of capital (items 1-4 above) to revenue (FM + service charge) costs, and dividing the set-up costs on a pro rata basis.
5. Share of the bid costs, depending on the number of buildings to be supported relative to the total in the bid.

### *Residual value*

Most PFI projects result in the local authority owning the asset and this is funded through the regular payments and therefore attracts PFI credits. In a LIFT LPA purchase (at residual value) is at the end of the contract. To provide

equitable treatment two approaches are acceptable, so long as the overall calculation is consistent:

1. The preferred approach is to exclude 'rent reduction due to adopted Residual Value' in the basic calculation of the capital value, as indicated above.
- 2.. If for some reason that is difficult and it is easier to include 'rent reduction due to adopted RV', then the residual value of the asset(s) should also be included in the final year of the contract in the LIFT PFI credit calculation.

#### *Fixed Furniture & Fittings and ICT costs*

Certain furniture and ICT costs could be considered capital items. These are initial fixed furniture & fitting costs, but not replacement/repair; and ICT infrastructure. However, PFI credits can only be used to support such costs if they are provided by the LIFT company under the LPA. PFI credits are not available to support other forms of leasing which do not meet all the general criteria, even though part of the same project.

**DISTRICT VALUER: VALUATION ANALYSIS**  
**TECHNICAL CLARIFICATION**

LIFT .....

Bidder .....

Date of Bid .....Lease Term: .....

An apportionment is required of the unitary charge per annum for this tranche of the LIFT. The figures to be provided should be apportioned between the items shown below as at the bid date. Include Primary Care, Health Trust and Local Authority accommodation and state here the GIA of this space as shown in your proposed designs: GIA.....sq m ..... (exclude from GIA double height areas with no first/second etc floor and state the area of such space .....sq m).

	£	Remarks
Basic rent * £/sq m GIA		
Lifecycle costs ** £/sq m GIA		
FM Costs £/sq m GIA		
Set up costs £/sq m GIA		
LIFTCo overheads / running costs £/sq m GIA		
Buildings Insurance £/sq m GIA		
Utilities pass through £/sq m GIA		
Rates pass through £/sq m GIA		
Rent reduction due to adopted RV ***		
<b>Total Unitary Charge per sq m GIA, Health+LA</b>		
<b>RV available for debt re-payment at end of lease</b>		<b>RV Adopted: £</b>

\* **Basic Rent** is the rent for the premises excluding items in the remaining columns, ie, on the basis of a commercial rent as a full repairing and insuring lease plus a number of less quantifiable risks and benefits to the parties from the Lease Plus Agreement.

\*\* **Lifecycle Costs** The figure for the whole 25 year period is not required. What is required is the annual equivalent at today's prices.

\*\*\* **RV** means Residual Value