



LOCAL GOVERNMENT PFI ANNUITY GRANT DETERMINATION (No 2) 2005 [No 31/171]

The Parliamentary Under Secretary of State ("The Parliamentary Under Secretary"), in exercise of the powers conferred on him by section 31 of the Local Government Act 2003, hereby makes the following determination:-

Citation

- 1) This determination may be cited as the Local Government PFI Annuity Grant Determination (No 2) 2005 [No 31/171].

Purpose of the grant

- 2) The purpose of the grant is to provide support to local authorities in England towards expenditure lawfully incurred by them.

Determination

- 3) The Parliamentary Under Secretary determines as the authorities to which grant is to be paid, the authorities named in Annex A¹, and that the amount of grant to be paid to each authority will be calculated in accordance with the methodology set out in Annex B.

Treasury consent

- 4) Before making this determination in relation to local authorities in England, the Parliamentary Under Secretary obtained the consent of the Treasury.

Grant conditions

- 5) Pursuant to section 31(3) and 31(4) of the Local Government Act 2003, the Parliamentary Under Secretary determines that the grant will be paid subject to the conditions in Annex C.

Signed by authority of the Parliamentary Under Secretary

Jon McGinty

A senior civil servant within the Office of the Deputy Prime Minister

27 September 2005

¹ The Authorities listed in Annex A of this determination are in addition to those already listed in Determination (No 1) 2005 (No 31/128).

ANNEX A

Authorities

Bristol City Council
Cumbria County Council
Gloucestershire Police Authority

ANNEX B

CALCULATION OF PFI ANNUITY GRANT

- For each authority listed in Annex A, the amount of grant payable to each authority will be the sum of the amounts calculated as follows for each of the authority's supported PFI projects:

$$\text{Grant} = \frac{P}{\left(\frac{1 - (1 + r)^{-n}}{r} \right)} \times S \times X$$

where

- P = PFI credits
- r = interest rate
- n = period between start and end dates (measured in years)
- S = scaling factor
- X = start / end dates

- FACTOR P : PFI CREDITS.** The PFI credits will normally be the figure agreed between the sponsoring department and the authority in respect of the particular PFI project entered into. However, for:

- (i) those projects endorsed by the Project Review Group (PRG) before 1 April 2002; and
- (ii) those schools projects endorsed by PRG after 1 April 2002 but where the Notional Credit Approval (NCA) was nonetheless calculated by discounting to the date of contract signature rather than the service commencement date;

the PFI credits will be increased by the interest rate applying in the year of contract signature for each full financial year of delay between the financial year in which the contract is signed and the financial year in which the service commences (the "uplift").

The values of the uplift factors to be used are shown in the table below:

Year contract signed	Year of service commencement				
	2001/02	2002/03	2003/04	2004/05	2005/06
1997/98	1.291	1.406			
1998/99	1.184	1.288	1.401		
1999/2000	1.084	1.175	1.274	1.381	
2000/01	1	1.079	1.164	1.256	1.355
2001/02	1	1	1.075	1.156	1.243
2002/03	-	1	1	1.072	1.149
2003/04	-	-	1	1	1.070
2004/05	-	-	-	1	1

3. **FACTOR *r*: INTEREST RATE.** This is the amount given by the table below and the relevant financial year shall be:

- (i) the financial year in which the PFI contract was signed for those projects which reached contract signature before 1 April 2005, as recognised by the issuing of a PFI credit letter by the sponsoring department;
- (ii) the financial year in which the letter of endorsement was issued by the sponsoring department for those projects endorsed after 31 March 2005; or
- (iii) 2005-06 for those projects which were endorsed before 1 April 2005 but which did not reach contract signature before that same date.

Financial Year	Interest Rate
1997/98	0.089
1998/99	0.088
1999/2000	0.084
2000/01	0.079
2001/02	0.075
2002/03	0.072
2003/04	0.070
2004/05	0.066
2005/06	0.063

4. **FACTOR *n*: PERIOD BETWEEN START AND END DATES.** This is the period, measured in years, between the “start date” and the “end date” as defined in sub-paragraphs (a) and (b) below:

(a) The “start date” is the date on which the authority first becomes eligible for PFI annuity grant:

- (i) for those projects in respect of which the authority received PFI grant in 2004-05², this will be 1 April 2005;
- (ii) for those projects in respect of which the authority did not receive PFI grant in 2004-05³ but which nonetheless reached service commencement, as defined in the *Local Government PFI Grant Determination 2004 No 31/39* dated 28 June 2004, before 1 April 2005, this will be 1 April 2005; and
- (iii) for all other projects this will be the mid-point of the month in which the condition for payment of grant set out in the PFI credit letter issued for that project is met.

(b) The “end date” is the mid-point of the month in which the contract expiry date occurs. Any extension, such as a secondary contract

² This refers to payment of grant under either the Local Government PFI Grant Determination (No 1) 2004 [No 31/20] dated 29 March 2004 or the Local Government PFI Grant Determination (2004) [No 31/39] dated 28 June 2004.

³ See footnote (2) above.

period, or other variation agreed to the contract will not alter the PFI annuity grant payments. Any support in respect of that extension or variation would be dependent on additional PFI credits being issued.

For both "start date" and "end date" the mid-point of the month will be calculated as the following fraction of a year:

Start / End Date	
Mid January	0.042
Mid February	0.125
Mid March	0.208
Mid April	0.292
Mid May	0.375
Mid June	0.458
Mid July	0.542
Mid August	0.625
Mid September	0.708
Mid October	0.792
Mid November	0.875
Mid December	0.958

5. **FACTOR S: SCALING FACTOR.** The total grant is multiplied by a Scaling Factor, which will be determined by the year in which the project was endorsed as shown in the table below:

Financial Year	Scaling Factor
Earlier than 2005/06	1.0
2005/06	1.0

6. **FACTOR X: START / END DATES.** In the first and last financial years in which PFI annuity grant is paid, the level of support will be reduced according to the "start date" or "end date", as defined in paragraph 4. The factor applied is given by the following table:

Start / End Date	First Year	Last Year
1 April 2005	1.000	N/A
Mid April 2005	0.958	0.042
Mid May 2005	0.875	0.125
Mid June 2005	0.792	0.208
Mid July 2005	0.708	0.292
Mid August 2005	0.625	0.375
Mid September 2005	0.542	0.458
Mid October 2005	0.458	0.542
Mid November 2005	0.375	0.625
Mid December 2005	0.292	0.708
Mid January 2006	0.208	0.792
Mid February 2006	0.125	0.875
Mid March 2006	0.042	0.958

7. For authorities where the service commencement date falls before 1st April 2005 but no grant was paid during 2004/05⁴, in addition to the grant calculated using the factors set out above, an amount of grant will also be paid under this Report to cover the period before 1st April 2004 using the formula and factors set out in the *Local Government PFI Grant Determination 2004 No 31/39* dated 28 June 2004.

⁴ See footnote (2) above.

ANNEX C

GRANT CONDITIONS

1. In this Annex:
 - a) “eligible project” means a PFI project or a LeasePlus Agreement under the NHS LIFT initiative which has been issued with a PFI credit letter from a central government department, and in respect of which the local authority has notified the Parliamentary Under Secretary that it wishes to paid grant on an annuity basis, i.e. in accordance with the methodology set out in Annex B;
 - b) “PFI grant” means grant paid in respect of an eligible project during the financial year 2005/06 under Grant Determination (No 1) 2005 (No 31/128).
2. Payment of grant under this Determination will only be made in respect of an eligible project.
3. Payment of grant to a local authority under this Determination in respect of an eligible project, which previously received PFI grant, is conditional upon the receipt, at least 3 weeks before the end of the of the relevant quarter, by the Parliamentary Under Secretary, of confirmation of those project details, using a form issued by the Parliamentary Under Secretary and signed by the authority’s Chief Finance Officer.
4. Payment of grant under this Determination to a local authority in respect of an eligible project, which has not previously received PFI grant will be made when:
 - a) the project has reached the start date as defined in paragraph 4 (a) of Annex B;
 - b) the local authority has made the first payment of fees to the contractor; and
 - c) a valid claim has been received by the Parliamentary Under Secretary using a form issued by him and signed by the authority’s Chief Finance Officer.
5. Where PFI grant has previously been paid, grant will be paid by four equal quarterly payments at the end of each quarter.
6. Where PFI grant has not previously been paid the number of instalments and timing of the first instalments will depend on the date when the claim form is received.
7. An authority which receives grant under this Determination must submit a valid certification of payment to the Parliamentary Under Secretary, not later than 31 December 2006, using a form issued by the Parliamentary Under Secretary, signed by the authority’s Chief Finance Officer, and

certified by an auditor appointed by the Audit Commission.

8. The authority must share experience and final contract documentation (excluding any information of genuine commercial sensitivity), at no cost, with other local authorities procuring similar projects, with Government departments and with the Public Private Partnerships Programme (the "4ps").
9. If an authority fails to comply with any of these conditions or if an overpayment is made under this grant or any amount is paid in error, the Parliamentary Under Secretary may require the repayment of the whole or part of the grant monies paid, as may be determined by the Parliamentary Under Secretary and notified in writing to the authority. Such sum as has been notified shall immediately become repayable to the Parliamentary Under Secretary.