

NORTH LANARKSHIRE COUNCIL

REPORT

TO: ECONOMIC DEVELOPMENT COMMITTEE		Subject: PRIVATE FINANCE INITIATIVE. A CONSULTATIVE PAPER FROM THE SCOTTISH COUNCIL DEVELOPMENT AND INDUSTRY
From: DIRECTOR OF PLANNING & DEVELOPMENT		
Date: 3 SEPTEMBER 1996	Ref: SC/LMcW/REP-069	

Background

This paper is provided for information.

The Private Finance Initiative (PFI) has been introduced by the Government. It is aimed at increasing the role of the private sector in delivering public services and has been developed with the view that in many instances, private sector provision will represent better value-for-money. Public sector institutions are still to be responsible for deciding what services should be provided but how they might be provided and financed becomes a responsibility shared with the private sector. The Scottish Council Development and Industry (SCDI) have produced a consultative paper on this issue, a copy of which has been placed in the Members Lounge for information.

The Development Interest

SCDI is a federation of disparate development interests. It has made an attempt to outline the "best effects" of the PFI. From the private sector point-of-view as potential PFI providers, best effect involves:

- (i) a speedy realisation of potential projects and value for money to taxpayers and those using the relevant service;
- (ii) establishment and/or growth of corporate entities as suppliers to this new source of demand: this may involve Scottish PFI supply to other parts of the UK.

From the public sector point-of-view, best effect also requires that:

- (i) value for money gains are not outweighed by deteriorating terms and conditions of employment transfer of labour demand from public sector to private sector;
- (ii) the PFI assessment process does not unduly delay implementation of non-PFI provision by public sector organisations as well as those projects which are justified.

The Contest of PFI Implementation

The SCDI see the PFI as having benefits in improving infrastructure in Scotland and Scotland's competitiveness as a location. Improvements to the road network are cited as an example.

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With Government seeking to reduce public sector expenditure and the proposals from opposition parties not being radically different, the PFI is seen as an opportunity to increase the amount of funding available for public sector infrastructure projects. Any assessment of potential PFI projects will include some combination of better service provision, sooner provision or improved value for money. In the extreme, it can also deal with the threat of no provision because of capital spending constraints.

The PFI may seem useful in principle, but causes problems in practice. For the long term, there is the question of how to estimate value-for-money in PFI relative to conventional public sector expenditure. In the short term, there are problems in determining which projects qualify and how approval is to be given.

The Opportunities

The PFI may provide the following opportunities:

- Greater scale, and perhaps quality, in infrastructure assets and services
- Increasing the funding ability of the public sector
- Proceeding with large scale projects may have spin off benefits for: construction industry, financial sector and professional services
- Delivery of better/cheaper assets and services

The Problems

The PFI would have a range of problems associated with it, including:

- How to define which projects are eligible for PFI funding
- Public sector officials understanding how the PFI operates
- The sharing of risks and returns between the public and private sector partners. A formula to assist this process is required.
- Formulas are also required in order to determine scale thresholds and operating components.
- A system of tendering for PFI projects would need to be developed and adopted widely.
- Those providing PFI finance should have a limit imposed on the amount of finance they can provide in total to the range of projects they may be involved in.

Summary

The PFI is a new and intricate proposal. It is not compulsory for local authorities to become involved, although it may be worthwhile considering.

This report has been produced on the basis of a consultative paper from SCDI. In order to make more informed decisions much more information will be required from a range of sources. The EDU will continue to monitor the situation and produce future reports as and when appropriate.

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Recommendation

That the Committee note the contents of this report and the actions being taken in this respect.



Stanley C Cook
Director of Planning and Development