

Operational Savings Guidance and Experience

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Introduction

- Infrastructure UK
 - Self-contained unit within HMT
 - Incorporates Operational Taskforce and PFI Policy teams, PUK transactors
 - Responsible for guidance

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Background to Savings

- July 2010: HM Treasury re-examines own PFI
- Sep 2010: Roundtable & bilaterals with private sector
- Oct 2010: Green Review drives 4 pilots (including 1 PFI)
- Nov 2010: Commercial Secretary speech to PPP Forum
- Dec 2010: Roundtable with PPP Forum's Asset Manager group
- Jan / Feb 2011: Draft guidance published & PFI pilot launched
- Current actions
 - Advice to Ministers following completion of pilot
 - Exploration of Voluntary Code of Conduct
 - Ministers will set future policy direction

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Draft Guidance - context

- Significant fiscal consolidation
 - PFI is not immune from the search for savings
- Start with sound contract and asset management
- VfM is the cornerstone of PFI
- Draft guidance includes
 - Areas to consider before changing the contract
 - Potential areas for savings
 - Information and support
 - Protecting VfM

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Draft Guidance - enabling measures

- Optimise contract management
 - Appropriate deductions
 - Insurance cost sharing
- Optimise asset management
- PFU roles
- Voluntary Code of Conduct
 - Cost transparency
 - Variations protocol
 - Others
- *Consider early on the costs and benefits of making a change*

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Draft Guidance - Potential Cost Savings

- Review service standards
- Rescoping / value testing
 - Cost visibility
 - Interface
 - Timing of value testing
- Change in law
 - Re-evaluate VfM
 - Structural considerations
- Optimise energy buying volumes

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Draft Guidance - Protecting Value for Money

- Avoid measures that
 - Are short term
 - Harm core project functions
 - Do not cover their costs
 - Represent an inefficient risk allocation
- Financial engineering unlikely to achieve PFI policy objectives
- Existing guidance (inc. Green Book) remains relevant
 - VfM in Refinancing (contract / debt tenor extensions)
 - Interest Rate & Inflation Risks in PFI Contracts (inflation)
 - SoPC4 (reprofiling / prepaying unitary charges)

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Experience to date

- Contract Management
- Asset Optimisation
- Insurance
- Value Testing
- Scope Changes

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Useful Addresses / numbers

- http://www.hm-treasury.gov.uk/d/iuk_making_savings.pdf
- Email operationaltaskforce@hmtreasury.gov.uk
- Phone operational taskforce on 020 7270 5511

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