

# Treasury's Value for Money Assessment for PFI

*Guidance for NHS build schemes*

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Prepared by Finance and Operations Directorate

November 2008

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# Executive summary

In August 2004 Treasury introduced new guidance on assessing the value for money of procuring a given service requirement through PFI compared with conventional funding. This represented a significant change from previous practice.

The new requirements include:

- bringing forward more of the value for money assessment from Full Business Case stage to Outline Business Case stage,
- introducing a new qualitative value for money assessment as well as a quantitative assessment;
- the use of Treasury standardised templates.

This DH guidance sets how Trusts developing build schemes should undertake Treasury's value for money assessments, and also provides guidance on best practice. This guidance includes revisions to Treasury's own guidance in November 2006 and March 2007.

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# Introduction

1. In August 2004 the Treasury introduced a new approach to appraising the value for money of procurement through the Private Finance Initiative (PFI) compared with Conventional Procurement. The new approach was initially outlined in Treasury's 'PFI: Meeting the Investment Challenge' (July 2003) and it replaces, but is also broader in scope than, the 'Treasury Taskforce Private Finance Technical Note 5: How to Construct a Public Sector Comparator'.
2. The new approach represents a major change in the way value for money of procurement route is assessed between PFI and conventional public funding.
3. Individual NHS build schemes are required to follow Treasury's guidance on the new approach to assessing value for money of the PFI procurement route. This involves undertaking qualitative and quantitative value for money assessments at Outline Business Case (OBC) stage, and also a new qualitative value for money assessment between OBC and Final (Confirming) Business Case (F(C)BC) stage. The new approach requires less quantitative work on assessing value for money at F(C)BC stage than previously.
4. The main body of this guidance provides a general overview of the application of Treasury's new approach to assessing value for money of PFI by individual NHS build schemes. This is set out in three chapters covering scope and transition arrangements; the value for money assessment at OBC stage; and the value for money assessment between OBC and F(C)BC stages. Further guidance on specific aspects is included in the Annexes, intended for those undertaking the detailed work to carry out the assessments.
5. This guidance is concerned only with setting out the specific vfm tests in the Treasury guidance cited below. It does not cover other aspects of achieving vfm nor describe from first principles the concepts of option appraisal, economic costs, discounting and risk analysis, which are all covered elsewhere<sup>1</sup>.
6. It is intended that this guidance is self-standing, but those running the assessments may wish also to consult Treasury's own guidance on the new approach. Treasury's own guidance is titled 'Value for Money Assessment Guidance' and associated 'Quantitative Assessment User Guide'<sup>2</sup>.
7. This guidance has been revised from and replaces that issued by DH in September 2005 in order to incorporate the changes in Treasury's own guidance published in November 2006 and March 2007. The changes in Treasury's own guidance between August 2004 and the revisions in November 2006 and March 2007 involve detailed changes in the qualitative assessment, while the quantitative assessment remains fundamentally unchanged although there are changes in format and presentation.

## Scope and transition arrangements

8. The new value for money assessment is a mandatory Treasury requirement for all schemes where there is a prima facie case for considering PFI on value for money grounds. For NHS build schemes this means the new approach needs to be applied to all schemes with a capital cost of £20m or more (the minimum threshold introduced by Treasury for PFI schemes). IM&T schemes are no longer procured through PFI as set out in Treasury's 'PFI: Meeting the Investment Challenge'<sup>3</sup>.
9. The new approach is concerned only with the value for money of procurement routes. There are no changes to the requirements at OBC to assess the value for money of different service/estate options, such as the balance between new build and refurbishment, different potential sites for the facilities, the appropriate size of the facilities (e.g. bed numbers) and the do minimum. The preferred option arising from the latter analysis is input into the new vfm model to test the vfm of procuring the preferred option through PFI compared with conventional funding.
10. The transition arrangements are as set out below.
  - i) All build schemes with a capital cost of £20m or more which formally submit their OBC to SHAs from 1 April 2005 must follow the new approach to assessing value for money of procurement route at both OBC stage and, where PFI is demonstrated as the preferred procurement route at OBC, also between OBC stage and up to F(C)BC stage. A quantified assessment at Appointment of Preferred Bidder Business Case (ABC) and F(C)BC between PFI and the Public Sector Comparator (PSC) using the Generic Economic Model (GEM) is no longer required.
  - ii) Schemes which formally submitted their OBC prior to 1 April 2005 and which are following the PFI procurement route must:
    - a) assess value for money of procurement through PFI versus the PSC at ABC and F(C)BC stages using the approach as set out in the Capital Investment Manual and the Generic Economic Model (GEM); and also
    - b) apply that part of the new qualitative value for money assessment that covers the period between OBC and F(C)BC stages.
  - iii) Version of new vfm guidance: this updated version of this guidance should be used from publication in November 2008. Schemes that already had their OBC approved by November 2008 do not need to re-run their OBC vfm assessment to reflect the changes in this updated guidance.
11. The methodology after OBC stage for assessing value for money for schemes which are to be conventionally funded is unchanged from existing guidance in e.g. the Capital Investment Manual. However, as stated above, all schemes with a capital cost of £20m or more must be subjected to the Treasury vfm test at OBC, in order to assess whether PFI or conventional procurement offers the best vfm.

# Value for money assessment at OBC stage

12. The main aims of the value for money assessment at OBC stage are to:
  - provide an assessment of whether procurement through PFI is likely to provide value for money compared with conventional procurement;
  - test the competitive interest in the project and the market capacity to bid and deliver the project effectively.
13. One of the key changes under the new approach to appraising vfm is that the quantified economic vfm comparison between PFI and the Public Sector Comparator (PSC) is now carried out earlier, at OBC stage, and should no longer be undertaken at ABC and F(C)BC stage.
14. The value for money assessment at OBC stage has both a qualitative assessment and quantitative assessment. Each of these is described in turn.

## Qualitative assessment at OBC

15. In the qualitative assessment at OBC stage, Trusts need to assess the viability, desirability and achievability of PFI when assessed against alternative procurement routes. In summary, viability, desirability and achievability are as follows.
  - **Viability:** can the service requirements be stated in clear output based terms and can the effectiveness of service delivery be measured and monitored? Can operational flexibility be maintained over the lifetime of the contract at an acceptable cost?
  - **Desirability:** is PFI likely to involve better risk management, significant risk transfer and better incentives for delivery on time and to cost? Is PFI likely to involve greater innovation?
  - **Achievability:** is there evidence that the private sector is capable of delivering the required outcome? Is there likely to be sufficient market appetite for the project? Is there/will there be sufficient client-side capability to manage the procurement process and appraise on-going performance against agreed outputs?
16. The qualitative assessment involves answering each of a series of set questions which address viability, desirability and achievability, and also an extended set of questions about the vfm of whether or not to include soft services (the additional questions on soft FM were first introduced in Treasury's November 2006 updated guidance). The questions are set out in Annex A, and follow Treasury's own guidance (Tables 4.1 and 4.2). The questions were developed by Treasury to cover all parts of the public sector, and some questions may therefore seem to be less applicable to NHS build schemes than others, and some may seem to be at least partially self-evident given past experience of PFI for build

schemes and standardised documentation. Responses must be provided to all the questions nevertheless.

17. It would be expected that the answers to each of the questions in Annex A are fairly concise, covering, say, 2-3 short paragraphs, and citing evidence wherever possible. The answers should focus on factors that have a different effect when procurement is through PFI compared with conventional procurement. Some suggested source material for the qualitative assessment is also included in Annex C.

### Quantitative assessment at OBC

18. In undertaking the quantitative assessment at OBC stage, Trusts need to populate and run the Value for Money model in Excel developed by Treasury and Partnerships UK.
19. The outputs from the value for money model provide a comparison between the risk adjusted Net Present Cost (NPC) of the Public Sector Comparator (PSC) and the risk adjusted NPC of the PFI option, as estimated at OBC stage. The outcome of the comparison is shown in the model as the percentage difference between the PFI NPC and PSC NPC. A positive percentage means PFI has a lower NPC and is thus vfm, as long as the qualitative assessment and sensitivity tests are also favourable to PFI. A negative percentage means on the basis of the quantitative assessment, PFI is not likely to be vfm.
20. The model involves a number of simplifications, reflecting the inherent uncertainty surrounding some of the input values and therefore does not include some aspects one would normally expect to see in a PSC or PFI deal. Nor is it likely that the model will be able to be fine tuned to reflect every detailed circumstance of each individual scheme. The model is intended to provide a good, high level, estimate of the relative value for money of PFI versus conventional procurement.
21. In order to produce the estimated NPCs, Trusts are required to enter into the 'input assumptions' sheet of the model estimates of:
  - the whole life costs of the PSC, including capital, lifecycle and operating costs;
  - the whole life costs that would be borne by a PFI provider, including capital, lifecycle and operating costs;
  - the interest rates, bank margins etc that impact on the PFI company's funding costs;
  - optimism bias;
  - risk transfer;
  - transaction costs.
22. The estimated NPC for the PFI option is derived within the model from the PSC costs, risk transfer, and PFI funding costs etc; it is not based on a market sounding for the individual scheme in question.

## Treasury's value for money assessment for PFI

23. As noted above, the new value for money assessment is focussed on the value for money of the PFI procurement route. The need to assess the value for money of different service/estates solutions at OBC stage to determine the preferred estates option is unchanged. It is the vfm of procuring the preferred estates option through PFI that is tested through the new vfm model.
24. The preferred estates option at OBC stage identified from the short list of service and estates solutions forms the Public Sector Comparator to be used in the vfm analysis of procurement route. It is therefore important that there are robust estimates of the whole life costs of the PSC at OBC stage, including robust estimates of lifecycle and operating costs. 'The Design Brief Framework for PFI Public Sector Comparators at OBC Stage'<sup>4</sup> provides guidance on design requirements of the PSC at this stage.
25. It should be noted that the unitary payment generated by Treasury's value for money model cannot be used to assess affordability due to differences in methodology and coverage. For example there are differences in economic costs included in the vfm model and financial costs needed to assess affordability.
26. Further guidance on running the quantitative model is provided in Annex B.

## Overall assessment combining the qualitative and quantitative assessments

27. The assessment of the value for money of PFI cannot normally be reflected in a single quantified figure. The qualitative assessment should thus inform the confidence placed on the quantitative results. A 'positive' value for money outcome from the quantitative analysis alone cannot be seen as sufficient justification for proceeding with PFI, particularly if the value for money margin is small or there is uncertainty surrounding the assumptions used in the quantitative model. A positive qualitative assessment is also required. It is important that the outputs from the quantitative and qualitative assessment should not be considered in isolation, but instead are taken in conjunction in making the overall assessment.

## Reporting the outcome of the value for money assessment in the OBC

28. The outcomes from both the qualitative and quantitative value for money assessments must be reported in the OBC, along with the conclusions from combining the qualitative and quantitative assessments. The OBC must include reports of:
  - the assessments of viability, desirability and achievability from the qualitative assessment;
  - the qualitative assessment of the vfm of including soft services;
  - a full, working copy of the Excel quantitative model, along with the source and justification for the chosen input values;
  - a summary of the results from the quantitative assessment, including the results of the sensitivity analyses carried out using the value for money model.

# Value for money assessment between OBC and F(C)BC Stages

29. The emphasis of the value for money assessment between the OBC stage and through to financial close is on demonstrating that a competitive price has been achieved from the preferred PFI bidder selected. This assessment is more continuous and needs to be undertaken at key stages as the project develops, including pre-OJEU notice, pre-qualification, ITPD (Invitation to Participate in a Competitive Dialogue), ITFB (Invitation to Submit Final Bids) and selection of preferred bidder.
30. The assessment should focus on:
- there being a competitive procurement for the scheme, avoiding a lack of competition as a result of a single bidder or perhaps two bidders where only one is credible;
  - the bid offered, e.g. after the selection of preferred bidder, in broad terms not being substantially above that for other similar PFI projects nor the risk profile substantially worse.
31. This assessment needs to be documented in the ABC and F(C)BC, and should focus on the quality of competition, the success achieved in transferring to the private sector an appropriate level of risk, and the reasonableness of costs emerging from the competition following an efficient procurement process. A list of issues to consider as part of the continuous assessment between OBC and F(C)BC is included in Annex A (which itself follows Table 5.1 of Treasury's own guidance). The ABC and F(C)BC need also to document a summary of the qualitative and quantitative value for money assessments made at OBC stage.
32. One of the key changes under Treasury's new guidance is that the quantified economic vfm comparison between PFI and the PSC is now made at OBC stage and should no longer be undertaken at ABC or F(C)BC stage. Treasury's guidance says 'If cost estimates at OBC differ significantly from the price at Full Business Case or financial close, questions should be asked whether there are legitimate external reasons which could not be foreseen and, if not, why this escalation was not captured by the optimism bias estimates. This analysis should be incorporated into future optimism bias estimates for forthcoming projects. This is not however a reason at this stage to halt or revisit the procurement [route] decision. This information should be used to inform future procurements (Treasury's 'Value for Money Assessment Guidance', November 2006, page 44). The same principle applies at Appointment of Preferred Bidder Business Case Stage.
33. This means no further adjustments should be made to the quantitative assessment after the OBC is approved. The exception to this is if there is a very significant change in the scope or size of the project, in which case both the quantitative and qualitative vfm assessments will need to be re-run. Consideration of what constitutes significant change should be undertaken at OBC stage.

34. The new approach to assessing the value for money of procurement route does not detract from the need for robust bid evaluation. While there is no requirement to estimate the risk adjusted NPCs of the PSC and PFI at ABC and F(C)BC stages, there may be merits in maintaining and developing the PSC after OBC stage for the purposes of evaluating bids for the scheme under PFI. Maintaining and developing the PSC after OBC stage is not mandatory, though schemes will still need to demonstrate that an effective and robust procurement has been conducted.
35. It is important also to keep clear records as the project develops of, for example, changes in costs and the final level of risk transfer achieved up to F(C)BC. Carrying out robust post-project evaluation will also continue to be important and mandatory.

# Annex A: Qualitative vfm assessment

The questions to be assessed in the qualitative assessment are set out in the three tables below, as follows.

Table A1: OBC qualitative assessment – overall questions

Table A2: OBC qualitative assessment – extended questions on soft services

Table A3: Issues to consider as part of the continuous assessment between OBC and F(C)BC

**Table A1: OBC qualitative assessment – main questions**

Issue	Question
<b>VIABILITY</b>	
For PFI to be viable the investment objectives and desired outcomes need to be translatable into outputs that can form the basis of a contract and a sound payment mechanism; for example the quality and quantity of the outputs need to be ones that can be measured. Many services areas can be described in contractual terms, but some areas will be inherently 'non-contractible' as outputs.	
<b>Project level outputs</b>	<p>Is the project delivery team satisfied that a long term contract can be constructed for this project? Can the contractual outputs be framed so that they can be objectively measured?</p> <p>Is the requirement deliverable as a service and as a long term arrangement? Can the contract describe the requirements in clear, objective, output-based terms?</p> <p>Can the quality of the service be objectively and independently assessed?</p> <p>Is there a good fit between needs and contractible outcomes?</p> <p>Can the contract be drafted to avoid perverse incentives and to deliver quality services?</p> <p>Does the project require significant levels of investment in new capital assets?</p> <p>Are there fundamental issues relating to staff transfer? Would any transfer be free from causing any loss of core skills that have strategic and/or long term importance to the procuring authority?</p> <p>Is service certification likely to be straightforward in terms of agreeing measurable criteria and satisfying the interest of stakeholders?</p> <p>Does the project have clear boundaries (especially with respect to areas of procuring authority control)? If there are interfaces with other projects are they clear and manageable?</p>

Issue	Question
	<p>Can the service be provided without the essential involvement of authority personnel? To what extent does any involvement negate the risk transfer that is needed for VfM?</p> <p>Is the contractor able or likely to have control/ownership of the intellectual property rights associated with the performance/design/development of the assets for the new service?</p> <p>Will existing or planned elements within the scope of the project – or interfacing vitally with it – be complete before the start of the new service?</p>
<p><b>Operational flexibility</b></p>	<p>Is there a practical balance between the degree of operational flexibility that is desired and long term contracting based on up-front capital investment?</p> <p>What is the likelihood of large contract variations being necessary during the life of the contract?</p> <p>Can the service be implemented without constraining the delivery of future operational objectives?</p> <p>Is there confidence that operational flexibility is likely to be maintained over the lifetime of the contract, at an acceptable cost?</p>
<p><b>Equity, efficiency and accountability</b></p>	<p>Are there public equity, efficiency or accountability reasons for providing the service directly, rather than through a PFI contract?</p> <p>Does the scope of the service lend itself to providing the contractor with “end-to-end” control of the relevant functional processes? Does the service have clear boundaries?</p> <p>Are there regulatory or legal restrictions that require services to be provided directly?</p> <p>Is the private sector able to exploit economies of scale through the provision, operation or maintenance of other similar services to other customers (not necessarily utilising the same assets)?</p> <p>Does the private sector have greater experience/expertise than the procuring authority in the delivery of this service? Are the services non-core to the procuring authority?</p> <p>Is a PFI procurement for this project likely to deliver improved value for money to the health service as a whole, considering its impact on other projects?</p>
<p><b>OVERALL VIABILITY</b></p>	<p><b>Overall, in considering with PFI, is the Trust satisfied that a suitable long term contract can be constructed, and that strategic and regulatory issues can be overcome?</b></p>
<p><b>DESIRABILITY</b></p> <p>PFI can provide better risk management and produce incentives to develop innovative</p>	

Issue	Question
	<p>approaches to output delivery. Consistent high quality services can be incentivised through performance and payment mechanisms. However, risk transfer is priced into the contract. The purpose of these questions is to consider whether the benefits of PFI are likely to outweigh any additional costs and disadvantages.</p>
<p><b>Risk management</b></p>	<p>Bearing in mind the relevant risks that need to be managed for the project, what is the ability of the private sector to price and manage these risks?</p> <p>Can the payment mechanism and contract terms incentivise good risk management?</p>
<p><b>Innovation</b></p>	<p>Is there scope for innovation in either the design of the solution or in the provision of the services?</p> <p>Does some degree of flexibility remain in the nature of the technical solution/service and/or the scope of the project?</p> <p>Does a preliminary assessment indicate that there is likely to be scope for innovation?</p> <p>Could the private sector improve the level of utilisation of the assets underpinning the project (e.g. through selling, licensing, commercially developing for third party usage etc)?</p>
<p><b>Contract duration and residual value</b></p>	<p>How far into the future can service demand be reasonably predicted? What is the expected life of the assets? What are the disadvantages of a long contract length?</p> <p>Are there constraints on the status of the assets after the contract end?</p> <p>Given the possibility of changes to the requirement, the assets and the operating environment, is it possible to sustain value for money over the life of the contract utilising as appropriate, mechanisms such as benchmarking and technology re-refresh?</p> <p>See also para 2.5 below.</p>
<p><b>Incentives and monitoring</b></p>	<p>Can the outcomes or outputs of the investment programme be described in contractual terms, which would be unambiguous and measurable?</p> <p>Can the service be assessed independently against an agreed standard?</p> <p>Would incentives on service levels be enhanced through a PFI payment mechanism?</p>
<p><b>Lifecycle costs</b></p>	<p>Is it possible to integrate the design, build and operation of the project?</p> <p>Are there significant ongoing operating costs and maintenance requirement? Are these likely to be sensitive to the type of construction?</p>
<p><b>OVERALL DESIRABILITY</b></p>	<p><b>Overall, is the Trust satisfied that PFI would bring sufficient benefits that would outweigh the expected</b></p>

Issue	Question
	<b>higher cost of capital and other disadvantages?</b>
<b>ACHIEVABILITY</b>	
<p>While PFI may allow a more efficient and effective combination of public and private sector skills, determining the rules that will govern the relationship between the two sectors does involve significant transaction costs. In particular, the procurement process can be complex and involve significant resources, including senior management time which may be required for project development and the ongoing monitoring of service delivery. Client capacity and capability, together with private sector deliverability, will have direct consequences for procurement times and the level and quality of market interest. PFI needs a robust competitive process to deliver fully its benefits and so the choice of procurement route should be informed by an assessment of the likely market appetite.</p>	
<b>Market Interest</b>	<p>Is there evidence that the private sector is capable of delivering the required outcome?</p> <p>Does a significant market with sufficient capacity for these services exist in the private sector?</p> <p>Is there likely to be sufficient market appetite for the project?</p> <p>Has this been tested robustly? Is there any evidence of lack of market competition for similar projects?</p> <p>Have similar projects been tendered to market? Has the procuring authority's commitment to a PFI solution for this type of project been demonstrated?</p> <p>Does the nature of the project suggest it will be seen by the market as a profitable venture?</p> <p>Are the risks associated with design, development and implementation manageable bearing in mind the likely solutions to the project?</p>
<b>Other issues</b>	<p>Is the procurement feasible within the required timescale? Is there sufficient time for: resolution of key Authority issues; production/approval of procurement documentation; staged down-selection and evaluation of bidders, negotiation, approvals and due diligence?</p> <p>Is the overall value of the project significant and proportionate to justify the transaction costs?</p> <p>Does the nature of the deal and/or the strategic importance of the work and/or the prospect for further business suggest that it will be seen by the market as a potentially profitable venture?</p> <p>Does the Authority have the skills and resources to define, deliver and support the service throughout the procurement and the subsequent delivery period?</p>
<b>OVERALL ACHIEVABILITY</b>	<b>Overall, is the Trust satisfied that a PFI procurement programme is achievable, given client side capability and the attractiveness of the proposals to the market?</b>

In addressing the questions concerning contract duration and residual value under 'Desirability', Treasury's own guidance notes also:

"Preparatory work undertaken by the public sector should identify contract lengths before going to market. The length of loan periods available in the debt capital markets must not be a material factor in dictating the contract length. Factors that may influence the duration of the contractual relationship between the contractor and the procuring authority may, amongst others, include:

- Duration of the requirement, particularly the ability to forecast quality and quantity outputs in the longer term;
- Life of the assets underpinning the service, including the timing of major maintenance and renewals. For instance, a second major refurbishment cycle within the contract will involve a trade-off between certainty of service provision and a pricing risk premium to account for costs 20-30 years in the future being highly unpredictable;
- Importance of continuity in the delivery of the service including the degree of transition difficulties and inefficiencies that might be caused by changing contractors and the extent to which the incentives on the incumbent in run up to change of contractor will be weakened and can be mitigated;
- Ability and importance of maintaining performance incentives over time, for example what would the consequences be of the contractor performing at a level just above default for poor performance over a long period of time;
- Viability of re-competing the contract regularly including consideration of private sector capacity, bidders likely willingness to bid against the incumbent, and the bid and process costs involved;
- Ability of the contractor to accurately forecast its cost base, including the link between indexation mechanisms, market-testing and demonstrating VfM for long term fixed priced contracts."

**Table A2: OBC qualitative assessment – extended questions on soft services**

<b>Issue</b>	<b>Question</b>
<b>Design Integration</b>	<p>How will the soft FM providers be bought into the design process? How early will this happen? What mechanisms can be used to ensure this?</p> <p>Will different PFI structures affect the incentives for the inclusion of important providers in the design stage in different ways?</p> <p>To what extent does design integration impact on VfM? If considerable, then is it possible to ensure that correct incentives are included in the project? (e.g. if this is fundamental to delivering VfM then can it be included in the tender assessment criteria?).</p>
<b>Whole life costs</b>	<p>What and where is the scope for whole life savings? How material are the maintenance costs?</p> <p>Do these have any environmental/other externalities (e.g. more energy efficient buildings)?</p> <p>Do the proposed risk transfers incentivise the correct behaviour by the bidders?</p>
<b>Lower interface issues and a single point of contact</b>	<p>Which mechanisms will be used to ensure that the benefits will be delivered? Are they achievable and measurable (e.g. interface key performance indicators (KPIs))?</p> <p>What is the consequence if this does not happen?</p> <p>Would a single point of contact provide VfM? What form would be most appropriate for the project (e.g. general manager or helpdesk)? Is this feasible?</p> <p>Is there sufficient contract management expertise on both sides?</p>
<b>Effective management of Resources</b>	<p>Will inclusion under PFI allow providers opportunity to exploit bargaining power in the supply chain?</p> <p>Will the soft service provider be able to cost inputs more cheaply due to bulk buying to cover all other projects they are working on, and how much is this saving valued at?</p> <p>Is there potential for shared overhead costs, provision of spares where combined holding is reduced and distribution costs shared, or bulk buying savings? How big is the potential?</p> <p>Is it possible to incentivise desired behaviour in PFI context e.g. can management KPIs be used?</p> <p>Are differences in training incentives likely and how will affect workforce incentives (e.g. private sector likely to offer accredited training scheme)?</p>
<b>Interim Services</b>	<p>What are the benefits of including interim services? When will</p>

Issue	Question
	<p>interim services be considered? Will they be part of the bid criteria?</p> <p>Are there any issues which make providing interim services harder within the PFI contract (e.g. will the authority be able to account for transitional costs which are not covered in existing service budget such as one-off costs necessary to implement interim services)?</p> <p>Has proper account been taken of differences in quality/ quantity provision for cost comparisons?</p> <p>Which services are most important to the operation of the asset? What are the risks to the delivery of soft FM in the steady state stage if interim services are not provided?</p> <ul style="list-style-type: none"> <li>• Procuring authorities must weigh the balance of additional costs against benefits provided and not use interim services provision as a way to manage short-term affordability issues. Rather than assuming that the existing service budget is sufficient for interim services, an assessment is needed of the difference in service standards and quality covered by existing and interim soft FM.</li> <li>• Interim services will add value where they have been specified early and budgeted for correctly. Analysis of the benefits and risks must be made in the context of a budget which accurately reflects the difference between existing services and interim service provision.</li> </ul>
<b>Flexibility requirements</b>	<p>Do the cost estimations take account of flexibility issues which may arise for particular services in the future, and what level of contingencies will be included for these?</p> <p>Is it possible to include specified re-assessment or break periods in the contract to take account of changes in service needs?</p>
<b>Financial Incentivisation</b>	<p>Will it be possible to test the suitability of the performance regime (e.g. re-checking minimum thresholds after a certain period, and/or the suitability of the monitoring system)?</p> <p>Is there experience with similar live projects to compare that performance mechanisms are properly calibrated and that monitoring (e.g. self-monitoring versus user feedback) drives the right incentives?</p> <p>Does benchmarking and market testing provide a sound way of managing the risks associated with pricing and ensuring continuing quality of soft services?</p>
<b>Overall</b>	<b>Do the benefits of including soft services in PFI outweigh any additional costs and constraints from inclusion?</b>

**Table A3: Issues to consider as part of the continuous assessment between OBC and F(C)BC**

<b>QUALITY OF COMPETITION</b>	
PFI needs a robust competitive process to deliver fully its benefits. Delivering the long term outcomes at a good price relies on competitive tension during the procurement phase.	
<b>Issue</b>	<b>Question</b>
<b>Market abuse or failure</b>	<p>Is there any evidence from similar projects (in scope or location) to suggest that there will be a shortage of good quality financially robust bidders?</p> <p>Is the bid offered by the preferred bidder, in broad terms, not substantially above that for other similar PFI projects nor the risk profile substantially worse?</p>
<b>Procurement issues</b>	<p>Was there a good response to the PIN/OJEU notice?</p> <p>How many potential bidders passed the PQQ criteria? Are the financial robustness and capacity of the bidders sufficient?</p> <p>Is there evidence of good competitive tension in pricing of risks etc?</p>
<b>OVERALL</b>	Overall, in considering this procurement, is the project team satisfied that there is a sound competition?
<b>EFFICIENT PROCUREMENT PROCESS</b>	
A good procurement is important to sustain market interest.	
<b>Issue</b>	<b>Question</b>
<b>Efficient Procurement</b>	<p>Is there a realistic project plan, and has this been adhered to without undue delays?</p> <p>Are bid costs likely to be proportionate to the contract value?</p> <p>Will any aspect of the procurement impact adversely on market interest?</p> <p>Are there any problems emerging with the way the procurement is structured?</p>
<b>Authority Resources</b>	<p>Does the procuring authority have the necessary resources to conduct a good procurement?</p> <p>Are sound project governance arrangements in place?</p>
<b>OVERALL</b>	Overall, is the way that the procurement process is proceeding likely to have an adverse impact on the delivery of VfM?
<b>RISK TRANSFER</b>	
The decision to proceed with PFI is dependant on the market appetite for the project	
<b>Issue</b>	<b>Question</b>
<b>Wider issues</b>	<p>Is the competition delivering the proposed risk transfer?</p> <p>Does the Authority confirm that the nature of the deal and/or the strategic importance of the work still make it suitable for delivery through PFI?</p>

## Treasury's value for money assessment for PFI

	Is there still confidence that all the key VfM drivers will be preserved.
<b>OVERALL</b>	Overall, is the risk transfer achievable, given an assessment of the competition, and the procuring authority's constraints?

# Annex B: The quantitative vfm model

1. Annex B covers the following.
  - An introduction to using the model.
  - Running the model.
  - Guidance on the values to be input into the model.
  - Further descriptions of some of the inputs to the model.
  - Outputs from the model.

## Introduction to using the model

2. Treasury's guidance (Para A.7 of the Quantitative Assessment User Guide) notes that 'The watchword in developing this tool has been simplicity. The user will, therefore, not find many aspects that they would have expected to see in a conventional public sector comparator. Whilst greater complexity could have been introduced, the simplicity reflects the level of inherent uncertainty to which any quantitative spreadsheet is subject to at an early stage of project development, in this case investment and project assessment stages. Equally, it highlights the fact that the quantitative analysis is only one element of the vfm assessment and should be used only in conjunction with the qualitative assessment which is completed in parallel.
3. An example of a simplification in the model is that the construction period can be entered only in whole years. The model has introduced simplifications on the PFI option too, e.g. in relation to funding costs.
4. The vfm model is intended to provide a high level, good assessment of procurement route for the new build scheme as a whole. As such, it is unlikely to be detailed enough to be used to assess the vfm of including or excluding potential 'add-on' elements to a PFI deal, e.g. a managed equipment service, or Project Co taking responsibility for Hard FM/lifecycle for existing buildings that will remain in operational use after the PFI facilities become operational.

## Running the model

5. To run the Excel model, relevant costs of the PSC and PFI options are entered in the 'input assumptions' sheet. From these inputs, the model derives estimates of the NPC of the PSC, the unitary payment under PFI and the NPC of the PFI option, and presents as the main result the percentage difference between the PFI NPC and PSC NPC.
6. Once all the input data have been entered into the 'input assumption' sheet in the model, the steps to operate the model to produce the results in the 'output indifference' sheet should be fairly self-explanatory. In short, the model is run by clicking the relevant 'Pre Tax Target IRR' switch (which represents the internal rate of return on equity in the Special Purpose Vehicle under the PFI option) at the top right of the 'output indifference' sheet. There is also a 'stashed scenarios' switch, which when clicked stores the results in the 'output-stashed scenarios' sheet.

7. In addition, the following should also be noted.

- All input values, and any changes made, should be entered into the 'input assumptions' sheet, as it is from this sheet the model does its calculations. These values then feed through automatically to the 'input summary' sheet. It may be necessary to press the F9 key to update the 'Input summary' sheet to reflect changes to the 'Input assumptions' sheet. It is important to check the values in both the sheets are the same before running the model for accurate record keeping. The 'Input summary' sheet accompanying this guidance is protected to prevent direct data entry into that sheet, though this sheet may not be protected in copies of the model from other sources.
- If an input value is changed, it should be done so through the 'input assumptions' sheet as otherwise the model will fail to recalculate the results in the 'output-indifference' sheet. In addition following a change in an input value the results in the 'output indifference' sheet will not always be correct unless the model is re-run by clicking the relevant 'Pre Tax Target IRR' switch.
- It is important to complete fully the 'input assumptions' sheet with plausible figures before the model is run, otherwise there is a risk the model, which works iteratively, will not converge to a solution.
- It is important that cells H50, H51 and H52 in the 'output indifference' sheet all display 'TRUE' otherwise the model has not run correctly. Running the model again by clicking on one of the relevant 'Pre Tax Target IRR' switches may resolve this, as may clicking the 'stabiliser' cell, otherwise refer to Treasury's 'Quantitative Assessment User Guide' March 2007 for the solution to this.
- Treasury's 'Quantitative Assessment User Guide' provides advice if, for example, error messages occur and on how to run different scenarios in the model, including sensitivity tests.
- The results of different sensitivity analyses and scenarios can be stored in the 'output – stashed scenarios' sheet. However, the 'output – stashed scenarios' sheet does not automatically record all the details of the particular scenario, for example, which input assumptions have been changed. It may, therefore be useful to enter manually onto the 'Output – Stashed Scenarios' a record of the changes in the scenario from the base case.

### Values to input into the value for money model

8. The value for money model in Excel has an 'input assumptions' and an 'input summary' sheet as well as an 'output-indifference' sheet and an 'output-stashed scenarios' sheet. It can be seen on the 'input assumptions' sheet, by their lemon colour, which cells require values to be input by the user. Some cells that do not appear in the 'input assumptions' sheet but do appear as light purple in the 'input summary' sheet are cells that have values already input and pre-determined by the Treasury. They must not be changed by the user.
9. The cells which require the user to input values are set out in Table B1 below. Table B1 includes also some guidance on definitions (a further explanation of some of the inputs is provided in paragraphs 22-26).
10. The following should also be noted in relation to the values to be input into the model.

- For most of the cells requiring input values, it is for each individual scheme to determine the appropriate values;
  - Table B1 includes for some inputs guidance on likely plausible values. Schemes should deviate from these where they have good cause and evidence that alternative values are more appropriate - otherwise it would be expected the values in Table B1 would be used.
  - Those inputs which have values pre-determined by Treasury and should not be changed by the user are listed for information further below in paragraph 32, and nearly all are excluded from Table B1.
  - Some inputs to the model must have the values set by DH, and these are highlighted in Table B1 in light turquoise. They are cells E17, E19, F16-F19, F69, F71 and F72 of the 'input assumptions' sheet of the model.
11. There are a number of important general points on inputs as follows.
  12. Only costs that would no longer be borne by the Trust (or the wider public sector) under PFI should be included in the model. Any costs that would be retained by the Trust (or the wider public sector) under PFI should not be entered, for example clinical costs or publicly funded equipment, under either the PSC or PFI options. Those familiar with the Generic Economic Model (GEM) will note this is a significantly different approach to the GEM which aims to record all costs for all options, including retained costs under the PFI option.
  13. All cost data should be in a common price base year before inputting into the model, e.g. all in 2007-08 prices or 2008-09 prices. Inflation indices are entered separately; they are needed as the internal workings of the model are in nominal terms in order to estimate required nominal funding costs under PFI.
  14. The model automatically applies the Treasury discount rate to give NPCs, so all values are entered undiscounted (with one exception of 'Indirect vfm factors' as noted in Table B1).
  15. The inputs must be economic values. Thus transfer payments such as VAT, cost of capital charges, depreciation charges and redundancy payments should be excluded. The same definitions of economic values are used as in the GEM and Capital Investment Manual<sup>1</sup>.
  16. The model by default assumes opportunity costs (e.g. land) and residual values are the same between the PSC and PFI options. If they seem likely to vary significantly, an adjustment should be made by the user through use of the input cell 'Indirect vfm factors'.
  17. The first year in the Treasury model is labelled year 1. Those familiar with the Generic Economic Model will note this is a different approach to the GEM which labels the first year as year zero.
  18. Guidance on the inputs is provided also in Treasury's guidance and in addition 'dialogue boxes' appear when the cursor clicks on many input cells in the model itself. The dialogue boxes refer to Treasury's own guidance rather than this DH guidance which has been tailored to NHS build schemes.
  19. It may be found helpful to have the value for money model open when reviewing Table B1. The ordering of input values in Table B1 is based closely on the order in which they appear in the vfm model 'input assumptions' sheet. Where indicative input values are

recommended in Table B1, these have been taken from reviews of recent schemes that have reached financial close and from Treasury's own guidance. Where there may be, on a rare occasion, a difference in the advice on the values of inputs between this guide and Treasury's, those in table B1 should be used. This is on the basis that Treasury requested that Departments develop advice on input values that are specific to their sector, which is the basis for the guidance in Table B1.

**Table B1: Cells in the vfm model requiring input values to be entered by each individual scheme.**

Name of input cell in input assumptions sheet	Cell reference in input assumptions sheet	Definition and guidance on values
<b>Timings</b>		
Contract period	F11	Length of contract period (i.e. concession period) in years inclusive of the construction period. Restriction in model imposed by Treasury that only allowed to be in whole years, between 6 and 40, i.e. cannot include part years. In the absence of scheme specific information, this should be the construction period plus 30 years.
Initial CapEx period (= length of construction period)	F12	Length of initial capital expenditure period (i.e. construction period) in years. Restriction in model imposed by Treasury that only allowed to be in whole years, between 1 and 7, i.e. cannot include part years.
Year when OpEx is first incurred (OpEx = operating expenditure)	F13	The year when operating expenditure is first incurred would normally be entered in the model as the year after the year in which construction is completed. For example, if construction lasts 3 years (which will be represented by years 1 to 3 in the model), the year when operational expenditure is first incurred is normally entered as year 4. If it is a phased scheme and operational expenditure is first incurred during e.g. the last year of construction, enter year 3. Note that in the latter example, the way the model is set up means that a full year's operational expenditure in year 3 is automatically included in the PSC (which feeds into the NPC of the PSC).
Proportion of UC during initial CapEx period payment	F14	<p>The model allows for the situation where the unitary charge is first paid before the end of the construction period due to phasing of the start of operations. In this situation, the average percentage of the full year's unitary charge payable during the semi-operational period is entered in cell F14. If the start of operations is not phased and the unitary charge becomes payable only after the end of the construction period, this cell needs to be set to zero.</p> <p>The length of the semi-operational period (zero or otherwise) is determined by the years entered in cells F12 and F13.</p> <p>Using the example given for cell F13, the construction period is 3 years (cell F12=3). If operational expenditure is first incurred in year 3 (entry in cell F13=3), i.e. during the last year of construction, the model automatically deems that the unitary charge is first paid in year 3. The entry in cell F14 is the</p>

Name of input cell in input assumptions sheet	Cell reference in input assumptions sheet	Definition and guidance on values
		percentage of the full year's unitary charge paid in year 3. If operational expenditure is first incurred in year 4 (entry in cell F13=4), the model deems there is no semi-operational period and no unitary charge is paid until year 4 and zero is entered into cell F14.
<b>Cost inflation indices</b>		
CapEx escalator (= nominal inflation index applied in the internal workings of the model to initial capital costs during the construction period)	E16	<p>Annual rate of price inflation for initial capital expenditure, i.e. building cost inflation during the construction period.</p> <p>If the construction period is up to 2 years, the capital costs should be based on a Fixed Price MIPS, and zero is entered in E16.</p> <p>If the construction period is 3 or more years, the capital costs should be based on a Variation of Price MIPS, and the average annual increase in % points of the MIPS VoP index over the expected construction period is entered in cell E16. (For example, if construction is expected to be over the period 2008 to 2011, insert the average annual increase in % points of MIPS VoP index between 2008 and 2011).</p>
OpEx (non-employment) escalator (= nominal inflation index applied in the internal workings of the model to lifecycle and non-employment operational expenditure costs)	E17	<p>Annual rate of price inflation for operating expenditure and lifecycle costs, excluding employment costs of staff for whom Retention of Employment would apply under PFI. The unitary charge is also indexed, within the model internal workings by the OpEx (non-employment) escalator.</p> <p>The OpEx (non-employment) escalator needs to be set at 2.5%, in order to be consistent with the nominal discount rate fixed within the model of 6.09% yielding the Treasury required real discount rate of 3.5%.</p>
OpEx (employment) escalator (= nominal inflation index applied in the internal workings of the model to employment costs)	E18	Annual rate of wage increases per staff member for staff for whom Retention of Employment would apply under PFI. This figure should be set to at least 2.5% RPI. The figure should also be net of anticipated annual efficiency or productivity gains (irrespective of conventional funding or PFI). One-off efficiency gains with the commissioning of the new facilities are instead captured in cell F28 – OpEx (employee number).
Unitary charge escalator	E19	<p>The cell should be set to 100%, which is the proportion of the unitary charge which is indexed for inflation.</p> <p>In the model the unitary charge is automatically indexed by the OpEx (non-employment) escalator. However, the model allows for the possibility that only a proportion of the unitary charge is indexed. Entering e.g. 50% means half the unitary charge is indexed at the rate of the OpEx (non-employment) escalator, i.e. 2.5%, and the other half of the unitary charge is not indexed at all. While in some parts of the public sector only a proportion of the unitary payment is indexed, this is not the case for NHS schemes, and thus for all NHS schemes the value in this cell should be 100%.</p>
Base year	F16-F19	Set to unity (i.e. 1). This means escalation. i.e. inflation

Name of input cell in input assumptions sheet	Cell reference in input assumptions sheet	Definition and guidance on values
		indexing, is applied in the model's internal workings from the second year. For example, if costs are entered in 2007-08 prices, setting the base year to unity means inflation is applied within the model from 2008-09 onwards (= the second year). If the base year had been alternatively been set to zero, inflation would incorrectly have been applied in 2007-08 too.
<b>Costs PSC (in the model termed instead CP – conventional procurement)</b>		
Initial CapEx (£000s)	F24	<p>Initial capital expenditure in base year's prices, including equipment. This corresponds to the categories covered by lines 1 to 8 of the OB1 form but with the following adjustments:</p> <ul style="list-style-type: none"> <li>• exclude initial capital costs that are conventionally funded under both the PSC and PFI (e.g. any equipment or enabling works to be conventionally funded under PFI or land purchases that will remain in public ownership);</li> <li>• exclude planning contingencies and optimism bias as they are covered elsewhere in the model;</li> <li>• exclude VAT as it is a transfer payment;</li> <li>• the capital costs should be expressed in the MIPS index which corresponds to the expected start date of construction, but deflated back to the base year's prices. For example, if construction is expected to start in September 2010 and the MIPS index for this quarter is e.g. 570, then costs should be expressed at MIPS 570. If the common price base year is e.g. 2007-08, costs at MIPS 570 then need to be deflated by general inflation (=RPI) back from 2010-11 to 2007-08 prices. This method ensures differential inflation for construction costs over general inflation prior to the commencement of construction is captured;</li> <li>• include professional fees such as architects and surveyors, but exclude those fees for reaching contractual agreement, such as legal fees, which should instead be included in transaction costs in cell F37.</li> </ul>
Lifecycle costs at each LC date (£000s) (Lifecycle date is the same as lifecycle interval in cell F26)	F25	<p>See following row for 'lifecycle date/interval'. For comparability with PFI lifecycle costs, it is simplest if annual average lifecycle costs for the period between the end of the construction period and the end of the concession are entered in cell F25, and cell F26 is set to a value of 1. Lifecycle costs should be exclusive of VAT.</p> <p>Alternatively, schemes may wish to enter a profile for lifecycle costs that reflects peaks and troughs in lifecycle expenditure, e.g. assume lifecycle costs are incurred every X years. In this case, enter X in cell F26 and enter the average expenditure in each Xth year in cell F25.</p>

Name of input cell in input assumptions sheet	Cell reference in input assumptions sheet	Definition and guidance on values
Lifecycle intervals (years)	F26	This is the interval in years between lifecycle costs being incurred. If the interval is set to 1, annual lifecycle costs need to be entered in cell F25. If the interval on the other hand is, say, 10 years, this implies lifecycle costs are incurred only in every 10th year and the entry in cell F25 needs to reflect this.
OpEx (non-employment) (pa) (£000s) (OpEx = operating expenditure)	F27	All other relevant annual operating expenditure that is not covered by cells F28 and F29. Only PSC costs that would no longer be borne by the Trust (or the wider public sector) under PFI should be included in the model. Any costs that would be retained by the Trust (or wider public sector) under PFI should not be entered, e.g. clinical costs and publicly funded equipment. Only economic costs should be included, and thus transfer payments such as VAT, capital charges, depreciation and redundancy payments should be excluded.
OpEx (employment per person) (pa) (£000s)	F28	Employment costs per person per annum for those who would be seconded under Retention of Employment under PFI. The model takes these annual employment costs per employee to be the same under PFI as the PSC – an in-built feature that should not be changed by the user. The model has employment costs as a separate input value to reflect that vfm should not be pursued at the expense of staff terms and conditions (Treasury's Value for Money Assessment Guidance, November 2006, paragraph 1.14).
OpEx (employee number)	F29	The number of employees who would be seconded under Retention of Employment under PFI. The model allows the number to be different for the PFI than PSC option, but a justification for this would be required.
Transaction costs PSC (borne by public sector in £000s)	F37	<p>These represent the costs to public sector of reaching contractual agreement under conventional funding.</p> <p>It is recommended 2.0% of initial capital costs for the PSC (=cell F24) is used. This is the same figure as for public sector transaction costs under the PFI option. Although the contract for construction under conventional funding may be simpler to negotiate, lowering transaction costs, there will also be separate contracts to negotiate for equipment, lifecycle, maintenance and soft FM which increase transaction costs.</p> <p>The model's internal workings impose a minimum value for PSC transaction costs of £750,000.</p>
<b>Costs PFI</b>		
Initial CapEx (£000s)	F31	<p>This is the initial capital expenditure costs borne by the PFI partner. The coverage of capital costs should be the same as for the PSC.</p> <p>The transactions costs of a PFI deal borne by the PFI partner (such as bid costs, legal fees, due diligence fees, bank fees etc), should not be included in cell F31. They are covered instead in cell F38 and in input summary sheet cells L12 and L13.</p>

Name of input cell in input assumptions sheet	Cell reference in input assumptions sheet	Definition and guidance on values
		<p>PFI capital costs are likely to be higher than PSC capital costs as they include the cost of bearing more risk than under the PSC, and there is an incentive to the PFI company to improve design and build quality in order to reduce subsequent lifecycle and FM costs. This tendency may be partly offset by more innovation in design which is cost saving.</p> <p>Based on a review of past schemes, it is recommended that PFI capital costs are input as being 4% higher than PSC capital costs.</p>
Lifecycle costs at each LC date (£000s)	F32	The model requires annual average lifecycle costs to be entered. Based on a review of past schemes, it is recommended that they are taken to be 85% of those for the PSC per annum.
OpEx (non-employment) (pa) (£000s)	F33	Based on a review of past schemes, it is recommended operating costs are taken to be 97.5% of those for the PSC per annum.
OpEx (employee number)	F34	Unless there is strong justification to the contrary, this should be the same number as for the PSC.
Transaction costs PFI (i.e. the public sector's transactions costs under PFI option (£000s)	F38	<p>It is recommended that 2% of initial capital costs for the PSC (=cell F24) is used to provide a reasonable relativity with the costs borne by the PFI company (see 'Transaction costs borne by private sector, cell G25, below).</p> <p>There is a restriction imposed in the model that these transaction costs cannot be less than £750,000.</p>
Transaction costs borne by private sector (£000s)	(G25 input summary sheet)	There is an assumption in-built into the model by Treasury that cannot be changed that transaction costs of the PFI Co are 1.5% of initial capital costs.
<b>Optimism Bias</b>		
Optimism bias pre-FBC - Initial CapEx (= same as 'Optimism bias' in DH's guidance on Treasury's new Green Book')	E46	Optimism bias pre-FBC for initial capital expenditure is the estimated increase in initial capital costs between OBC and FBC for the PSC. It should be expressed in % points and calculated using the guidance issued by DH on setting the upper bound and mitigation ('New Supplementary Guidance on Optimism Bias' <sup>5</sup> ). Pre-FBC Optimism Bias corresponds to what is simply called optimism bias in the DH guidance on optimism bias. The percentage figure entered should be after appropriate mitigation at OBC stage. It should be noted that the model will not accept an input value of 0% for any category of optimism bias (pre or post).
Optimism bias pre-FBC - Lifecycle costs at each LC date	E47	Optimism bias pre-FBC for lifecycle costs is the estimated increase in lifecycle costs between OBC and FBC for the PSC. Little information is currently available centrally on optimism bias for lifecycle costs. A starting assumption would be the same rate of optimism bias as used for initial capital costs.
Optimism bias pre-	E48	Optimism bias pre-FBC for operating costs is the estimated

Name of input cell in input assumptions sheet	Cell reference in input assumptions sheet	Definition and guidance on values
FBC - OpEx (non-employment)		increase in operating costs between OBC and FBC for the PSC. Little information is currently available centrally on optimism bias for operating costs. There is some evidence that if operating costs (essentially FM costs) are estimated rigorously at OBC stage, they increase by less than capital costs to FBC stage. A starting point is 75% of the pre-optimism bias estimate used for initial capital costs, but it is important that operating costs are estimated rigorously at OBC stage.
Optimism bias pre-FBC public sector transaction costs for the PSC	E50	It is recommended the same figure should be used as for pre-optimism bias for capital expenditure.
Optimism bias post-FBC - Initial CapEx (= the same as risk transfer for capital expenditure in DH's Public Private Partnerships in the National Health Service: The Private Finance Initiative')	F46	<p>Optimism bias post-FBC corresponds to the risk transferred to the private sector partner under PFI for design, construction and development, and planning approval. It is expressed as a percentage of the initial capital costs. The level of risk transfer is likely to vary between schemes and each scheme needs to make a realistic assessment of the level of risk transfer. The benchmark for risk transfer of 12% over capital, lifecycle and operating costs combined is a useful starting point.</p> <p>The 12% benchmark is for initial capital, lifecycle and operating costs combined. For some schemes in the past the ratio has been higher for capital costs than operating/lifecycle costs, and for some schemes it has been lower for initial capital costs than operating/lifecycle costs, depending on the characteristics of the scheme.</p> <p>Treasury's new Green Book suggested there may be some residual underestimation of capital cost risks at FBC stage which applies only to the PSC (named residual optimism bias in DH's guidance on the new Green Book) of 2%-4%. This suggests that in the model a risk transfer of 12% should be the starting point for operating/lifecycle risk and 14%-16% for capital costs.</p> <p>Individual schemes may vary from 12%/14%-16% to a small degree if there are robust scheme specific reasons which mean that risk transfer is very likely to be lower or higher than for the majority of PFI schemes.</p> <p>In calculating the NPCs, the model's internal workings add the percentage for optimism bias post-FBC to the PSC capital costs at OBC stage. However, risk transfers estimated for NHS schemes are based on the, typically, higher costs at FBC. This means that the optimism bias post-FBC percentage input to the model must be uplifted by the figure for optimism bias pre-FBC. For example, if pre-OB is 15% and the risk transfer benchmark of 12% is used, the figure for post-OB entered in the model needs to be <math>1.15 \times 12\% = 13.8\%</math>.</p>
Optimism bias post-FBC - Lifecycle costs at each LC interval	F47	Optimism bias post-FBC corresponds to the average annual risk transferred to the private sector partner under PFI for lifecycle costs. It is expressed as a percentage of average annual lifecycle costs. The level of risk transfer is likely to vary

Name of input cell in input assumptions sheet	Cell reference in input assumptions sheet	Definition and guidance on values
		<p>between schemes and each scheme needs to make a realistic assessment of the level of risk transfer. The benchmark for risk transfer of 12% over capital, lifecycle and operating costs combined is a useful starting point.</p> <p>The 12% benchmark is for initial capital, lifecycle and operating costs combined. For some schemes in the past the ratio has been higher for capital costs than operating/lifecycle costs, and for some schemes it has been lower for initial capital costs than operating/lifecycle costs, depending on the characteristics of the scheme.</p> <p>Individual schemes may vary from 12% to a small degree if there are robust scheme specific reasons which mean that risk transfer is very likely to be lower or higher than for the majority of PFI schemes.</p> <p>In calculating the NPCs, the model's internal workings add the percentage for optimism bias post-FBC to the PSC lifecycle costs at OBC stage. However, risk transfers estimated for NHS schemes are based on the, typically, higher costs at FBC. This means that the optimism bias post-FBC percentage input to the model must be uplifted by the figure for optimism bias pre-FBC. For example, if pre-OB is 15% and the risk transfer benchmark of 12% is used, the figure for post-OB entered in the model needs to be <math>1.15 \times 12\% = 13.8\%</math>.</p>
Optimism bias post-FBC - OpEx non-employment	F48	<p>Optimism bias post-FBC corresponds to the risk transferred to the private sector partner under PFI for performance risks, operating cost risks, variability of revenue risks, termination risks, technology and obsolescence risk, control risks (but excluding any risks relating to lifecycle costs). It is expressed as a percentage of operating (non-employment) expenditure. The level of risk transfer is likely to vary between schemes and each scheme needs to make a realistic assessment of the level of risk transfer. The benchmark for risk transfer of 12% over capital, lifecycle and operating costs combined is a useful starting point.</p> <p>The 12% benchmark is for initial capital, lifecycle and operating costs combined. For some schemes in the past the ratio has been higher for capital costs than operating/lifecycle costs, and for some schemes it has been lower for initial capital costs than operating/lifecycle costs, depending on the characteristics of the scheme.</p> <p>Individual schemes may vary from 12% to a small degree if there are robust scheme specific reasons which mean that risk transfer is very likely to be lower or higher than for the majority of PFI schemes.</p> <p>In calculating the NPCs, the model's internal workings add the percentage for optimism bias post-FBC to the PSC operating costs at OBC stage. However, risk transfers estimated for NHS schemes are based on the, typically, higher costs at FBC. This means that the optimism bias post-FBC percentage input to the</p>

Name of input cell in input assumptions sheet	Cell reference in input assumptions sheet	Definition and guidance on values
		model must be uplifted by the figure for optimism bias pre-FBC. For example, if pre-OB is 11% and the risk transfer benchmark of 12% is used, the figure for post-OB entered in the model needs to be $1.11 \times 12\% = 13.3\%$ .
OB Post - public sector transaction costs for the PSC)	F50	<p>This represents the likelihood that risks of contract management costs during construction under the PSC being higher than estimated, and that this risk is partially transferred to the PFI provider under the PFI option. Under the PSC the Trust has many contracts to manage, but only Project Co under PFI.</p> <p>It is recommended that the same figure is used as in cell F46 for optimism bias post-FBC – Initial CapEx.</p>
<b>Third party income</b>		
Income (£000s)	F41-F42, E52 and F52	<p>Cells F41 and F42 require the best estimate of third party income to the public sector under PSC and PFI. There is evidence this is sometimes a little higher under PFI for some types of schemes.</p> <p>Cell E52 requires an estimate of optimism bias pre-FBC which reflects the confidence in the estimate. Third party income for both the PSC and PFI is reduced by the percentage input in cell E52 for optimism bias pre-FBC in the model's internal workings.</p> <p>Cell F52 requires an estimate for optimism bias post-FBC (as a percentage of third party income) which reflects risk transfer of third party income under PFI compared with the PSC. In the model's internal workings, third party income under the PSC, but not under the PFI, is reduced by the percentage input for optimism bias post-FBC.</p>
<b>Flexibility</b>		
This is intended to model the anticipated different costs under PFI than under a PSC of accommodating a major change in scope during the contract period. Treasury's guidance recognises the difficulty of acquiring suitable data to test the flexibility proposition. It is recommended for NHS schemes that modelling of the flexibility is undertaken as a sensitivity analysis.		
Scope change year	F55	The year in which a major scope change is most likely. Treasury's guidance recommends the year half way through the concession.
Probability factor (%)	F56	The probability that such a scope change will occur. Treasury's guidance recommends a 50% probability.
Level of scope change (% of initial capital costs)	F57	The size of the potential scope change measured as the % of the initial capital expenditure. Treasury's guidance recommends 50%. However, it is unlikely that the scope of half a hospital will need in effect complete re-building during the concession period. 10% is a more balanced figure for this sensitivity.
Premium flexibility factor PFI option (%)	F59	Percentage by which a scope change is estimated to be more expensive under PFI. It is recommended that a range of figures is used as sensitivity tests.

## Treasury's value for money assessment for PFI

Name of input cell in input assumptions sheet	Cell reference in input assumptions sheet	Definition and guidance on values
<b>Indirect vfm factors</b>		
Amount NPV (£000s)	F62-F63	The indirect vfm value input should be in NPV terms computed externally to the model. The value should reflect other quantified factors which differ between the PSC and PFI. Typically, these cells would have no entries. An example of where an entry would be appropriate is when it could be expected that the opportunity cost of land differs significantly between the PSC and PFI options.
<b>Tax</b>		
PSC adjustment factor (%)	F66	Level of tax adjustment arising from additional corporation tax paid under PFI compared with the PSC. To be expressed in % points and calculated using Treasury's flowchart contained in their 'Supplementary Green Book Guidance: Taxation, PFI and the Public Sector Comparator' <sup>6</sup> . Treasury's new value for money guidance says the simplifying assumption should be made that each project is on revenue account for tax purposes. This allows the level of tax adjustment to be estimated from the nominal cost of facilities management relative to capital costs (stage 2 of Treasury's flowchart). It would normally be expected that in stage 4 of the flowchart the project sector is deemed not to be risky.
<b>PFI Funding</b>		
Gearing (%)	F69	The proportion of funding that is senior debt. The default assumption is 90% (and 10% equity or equity equivalent).
Sterling swap rate (%)	F70	<p>The sterling swap rate corresponds to the gilt rate plus a swap spread. The swap spread represents the cost of converting floating rate debt into a fixed rate. The assumed swap rate should be the one which corresponds closest to the tenor of the debt. The model assumes the senior debt is bank debt - see para 26 on bond financing.</p> <p>The latest prevailing swap rates should be used which are published in the 'Currencies, Bonds and Interest Rates' section of the Financial Times.</p>
Credit spread (bps)	F71	The credit spread represents the cost of improving the credit strength of the SPV company. A rate of 12 bps should normally be assumed.
Bank margin (bps)	F72	<p>The bank margin reflects banks' on-going fees, risk exposure and profit margin. A figure of 76bps is recommended which is broadly a weighted average of 85bps during the construction period and 75bps during the operational period. The model assumes the senior debt is bank debt - see para 26 on bond financing.</p> <p>However, as this funding term is sensitive to prevailing market conditions, advice should be sought from financial advisers as to the appropriate figure to be input at the time of running the model.</p>

Name of input cell in input assumptions sheet	Cell reference in input assumptions sheet	Definition and guidance on values
<b>Pre-tax Equity IRR</b>		
Pre-tax Equity IRR (= the blended internal rate of return on equity in the Special Purpose Vehicle under the PFI option)	Switches in 'output indifference' sheet	The IRR is in nominal terms and the model gives a choice between 13%, 15% or 18%. Recent build schemes have tended to be around 13%. It is recommended the model is run using both 13% and 15%.

## Further description of some of the model inputs

20. A brief further explanation is provided here of a few of the inputs to the value for money model. Information on many of the inputs, including definitions and rationale, is included also in Treasury's guidance on the value for money model.

### Optimism bias

21. As briefly described in Table B1, there is a distinction in the model between what are labelled as optimism bias pre-FBC (shortened to the label 'OB Pre' in parts of the model) and optimism bias post-FBC (shortened to the label 'OB Post' in parts of the model). Optimism bias pre-FBC is the estimated increase in costs between OBC and F(C)BC for the PSC. This reflects the consistent tendency in business cases for costs to be higher at F(C)BC than OBC after abstracting from increases due to price inflation. The estimate of optimism bias pre-FBC is intended to adjust for this cost drift in business cases. In November 2004 DH issued guidance on estimating optimism bias pre-FBC in New Supplementary Guidance on Optimism Bias. Optimism bias in that guidance corresponds to what is called optimism bias pre-FBC in the Treasury vfm model.
22. Treasury have assumed in the model that optimism bias pre-FBC is the same for the PFI option as the PSC option, an assumption that should not be altered in the model. Treasury have also assumed that optimism bias pre-FBC will be larger than zero; therefore, 0% will be rejected by the model if it is entered.
23. The input labelled in the model optimism bias post-FBC is the expected value of risks transferred to the private sector partner under PFI, expressed as percentages of the PSC capital, lifecycle and operating costs etc. There are potential risks of cost increases during the construction and operational phases under both the PSC and PFI options. Under the PFI option some risks are retained by the public sector (e.g. cost increases due to changes in NHS requirements) and some risks are transferred to the private sector partner. The model excludes from its scope those risks retained by the public sector under both options, i.e. it excludes those risks retained by the public sector under the PFI option and excludes those risks under the PSC that would be retained by the public sector under the PFI option. The entry for optimism bias post-FBC thus corresponds to the estimated value of risks transferred. As with optimism bias pre-FBC, Treasury have assumed that optimism bias post-FBC will be larger than zero; therefore, 0% is not a valid input value. DH's Public

Private Partnerships in the National Health Service: The Private Finance Initiative provides guidance on the categories of risk that are likely to be transferred under PFI.

### Lifecycle cost adjustments built into the model

24. The model has two in-built adjustments that increase the costs of the PSC should the user enter sub-optimal lifecycle costs for the PSC, reflected by lifecycle costs being lower for the PSC than the PFI option. These adjustments cannot be changed by the user and are intended to cover situations in which the lifecycle costs input for the PSC are too low through reflecting historical experience of shortfalls in maintenance/lifecycle expenditure. Neither of these adjustments would be operative if, as recommended in Table B1, PFI lifecycle costs are lower than those for the PSC.
25. The two in-built adjustments when lower lifecycle costs are entered in the model for the PSC than the PFI option are:
  - Adjustment one, representing the attritional effect that sub-optimal investment in lifecycle costs has on service quality, year on year. The model automatically increases the NPC of the PSC by 40% of the amount by which the NPC of PSC lifecycle costs are below the NPC of PFI lifecycle costs.
  - Adjustment two, the 'Residual cost' adjustment to represent the level of investment required at the end of the contract period to restore the facility to the standard required to enable the delivery of high quality services. There is no 'Residual cost' adjustment for the PFI option. The model automatically includes a 'Residual cost' adjustment for the PSC option in the last year of the contract period with the value of:
    - 70% of initial capital expenditure (including pre-optimism bias) if the NPC of the PSC lifecycle costs is less than 50% of the NPC of the PFI lifecycle costs.
    - 35% of initial capital expenditure (including pre-optimism bias) if the NPC of the PSC lifecycle costs is 50% or more (but less than 100%) of the NPC of PFI lifecycle costs.

### Bond funding

26. The value for money model assumes that senior debt is bank debt. Treasury's guidance says 'Whilst bonds remain an important source of senior lending for many PFI projects, particularly the very large, the impact that different senior debt structures will have on the vfm appraisal at this stage is likely to be marginal and should be dealt with through sensitivity analysis, if judged necessary, by reducing the cost of funding in the "PFI Funding" box and assuming a lower margin' (paragraph A.142). Potential partial EIB financing should be modelled similarly.

### Outputs from the model

27. The outputs from the model are in the 'output indifference' sheet. A key output is the 'Indicative PFI VFM' in cell H14. This shows the percentage by which the risk adjusted NPC for the PFI option is lower than the risk adjusted NPC for the PSC. A positive 'Indicative PFI VFM' shows the risk adjusted NPC for the PFI option is lower than that for

the PSC, suggesting PFI is value for money. A negative 'Indicative PFI VFM' shows the risk adjusted NPC for the PFI option is higher than that for the PSC, suggesting PFI is not value for money.

28. Value for money cannot be judged from a single 'Indicative PFI VFM' percentage. Sensitivity analysis needs to be undertaken within the quantitative model to assess how robust is the indicative vfm margin to changes in key input values. The quantitative assessment needs also to be combined with the separate qualitative value for money assessment to provide an overall assessment.
29. The model allows indifference points to be calculated which demonstrate the level of change required in the value of individual inputs to erode to zero the NPC difference between the PFI and PSC options. Indifference points can be estimated within the model for PSC initial capital costs, PSC operating costs, PSC transaction costs and the unitary payment under PFI by clicking on the relevant switches in the 'output indifference sheet'.
30. The model allows also a number of other sensitivity analyses to be run by entering percentage changes to individual costs in the 'PSC sensitivity multipliers' cells in the 'output indifference' sheet. Other sensitivity analyses may be run by changing key values in the 'input assumptions' sheet and re-running the model, such as for interest rates and risk transfer. The results from the different sensitivity scenarios can be saved by clicking the 'stash scenarios switch', which displays the results in the 'output- stashed scenarios' sheet.
31. An assessment needs to be made from the sensitivity analysis, including the indifference points, as to the robustness of the value for money margin from the range of likely assumptions.

### Value for Money Model input values pre-determined by Treasury, which the user cannot change

32. The parenthesis give the relevant paragraph of the Treasury's 'Quantitative Assessment User Guide' March 2007.
  - Construction costs are spread equally over each year of the construction period.
  - Lifecycle costs are first incurred the year after construction ends.
  - Private sector transaction costs of a PFI deal are 1.5% of initial capital costs (A.107).
  - Price inflation for lifecycle costs and third party income is at RPI (A.46).
  - Public sector transaction costs of a PFI deal have a minimum value of £750,000 (A.107).
  - Adjustments to PSC costs if PSC lifecycle costs are low – see paragraphs 24-25 above.
  - Dividends distributed equate to the free cash flow generated by the project throughout the Contract period (A.137).
  - No refinancing takes place (A.139).
  - Senior debt is bank debt (A.142).

- Initial facility size quantum and timing of drawdown cannot be changed by the user; they are determined internally within the model as a function of transaction costs and capital expenditure (table A1.7).
- The senior debt tenor (the period during which some or all of the original senior debt remains unpaid) is equal to the contract period less two years (table A1.7).
- Availability period: the maximum draw down period corresponds to the construction period (table A1.7).
- Grace period (the length of the period after the senior debt has been drawn down but before repayments of principal commence) is 12 months (table A1.7).
- Funding charges determined by sterling swap rate, credit spread, bank margin, upfront fee and commitment fee (table A1.7).
- Upfront fee, representing the initial fee charged by lenders for providing the senior debt, is 90 basis points of the opening level of senior debt (table A1.7).
- Commitment fee, representing the fee payable to lenders on the amount of senior debt they have committed to the project but which at any point in time has not been drawn down, is 50 basis points of the amount of senior debt not drawn down at the end of each year during the construction period (table A1.7).

# Annex C: Source material for the qualitative assessment at OBC stage

Possible source material for the qualitative assessment at OBC stage include the following:

Name of document	Sections from document	Publisher	Date	Link
<b>Annex A - Viability – Project level outputs; operational flexibility; equity, efficiency and accountability</b>				
Gateway Reviews	0 – Strategic Assessment 1 – Business justification 2 – Procurement strategy	OGC	2001	<a href="http://www.ogc.gov.uk/index.asp?id=1000840">http://www.ogc.gov.uk/index.asp?id=1000840</a>
'PFI: Construction Performance'	Part 1 – 'The hypothesis is that PFI will deliver price certainty for departments and timely delivery of good quality assets'	NAO	Feb 03	<a href="http://www.nao.org.uk/publications/nao_reports/02-03/0203371.pdf">http://www.nao.org.uk/publications/nao_reports/02-03/0203371.pdf</a>
'Darent Valley Hospital: The PFI contract in action'	Part 3 – 'There are mechanisms in place to check future value for money and to respond to changing health needs'	NAO	Feb 05	<a href="http://www.nao.org.uk/publications/nao_reports/04-05/0405209.pdf">http://www.nao.org.uk/publications/nao_reports/04-05/0405209.pdf</a>
'PFI: Meeting the Investment Challenge'	Chapters 2, 6 & 7	HM Treasury	July 03	<a href="http://www.hm-treasury.gov.uk./documents/enterprise_and_productivity/PFI.cfm">http://www.hm-treasury.gov.uk./documents/enterprise_and_productivity/PFI.cfm</a>
NHS PITN guidance for PFI projects	All	DH	Feb 03	<a href="http://www.dh.gov.uk/ProcurementAndProposals/PublicPrivatePartnership/PrivateFinanceInitiative/NewStandardPreliminaryInvitationNegotiate/fs/en">http://www.dh.gov.uk/ProcurementAndProposals/PublicPrivatePartnership/PrivateFinanceInitiative/NewStandardPreliminaryInvitationNegotiate/fs/en</a>
NHS Output Specifications for PFI projects	All	DH	April 07	Latest versions on DH website (copies available from DH PFU)
NHS Payment Mechanism for PFI projects	All	DH	April 07	Latest version on DH website (copies available from DH PFU)
'The PFI contract for the redevelopment of West Middlesex University Hospital'	Part 1 – 'This 35 year deal meets expected local needs with some flexibility to address inherent uncertainties in wider long-term NHS plans'	NAO	Nov 02	<a href="http://www.nao.org.uk/publications/nao_reports/02-03/020349.pdf">http://www.nao.org.uk/publications/nao_reports/02-03/020349.pdf</a>
'PFI: strengthening long-term partnerships'	Chapter 5 – Improving Operational Performance and Flexibility in PFI	HM Treasury	Mar 06	<a href="http://www.hm-treasury.gov.uk./media/1E1/33/bud06_pfi_618.pdf">http://www.hm-treasury.gov.uk./media/1E1/33/bud06_pfi_618.pdf</a>
'Making changes in operational PFI projects'	All	NAO	Jan 08	<a href="http://www.nao.org.uk/publications/nao_reports/07-08/0708205.pdf">http://www.nao.org.uk/publications/nao_reports/07-08/0708205.pdf</a>
Variations and small works in PFI schemes	Contractual and Business Case guidance prepared by Department of Health and shortly to be published	DH	2008	Available on request from Department of Health Private Finance Unit

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'Managing the relationship to secure a successful partnership in PFI projects'	Part 1 – 'A partnership approach is required supported by the right contract framework'	NAO	Nov 01	<a href="http://www.nao.org.uk/publications/nao_reports/01-02/0102375.pdf">http://www.nao.org.uk/publications/nao_reports/01-02/0102375.pdf</a>
"Plain English Summary" of the NHS Standard Form Contract for PFI schemes	All	DH	Aug 03	<a href="http://www.dh.gov.uk/ProcurementAndProposals/PublicPrivatePartnership/PrivateFinanceInitiative/StandardContract/StandardContractArticle/fs/en?CONTENT_ID=4072631&amp;chk=LzAU%2Bf">http://www.dh.gov.uk/ProcurementAndProposals/PublicPrivatePartnership/PrivateFinanceInitiative/StandardContract/StandardContractArticle/fs/en?CONTENT_ID=4072631&amp;chk=LzAU%2Bf</a>
<b>Annex A - Desirability – Risk management; Innovation; Contract duration and residual value; Incentives &amp; monitoring; Lifecycle costs</b>				
Gateway Review Pack	3 – Investment decision 4 - Readiness for service	OGC	2001	<a href="http://www.ogc.gov.uk/index.asp?id=1000840">http://www.ogc.gov.uk/index.asp?id=1000840</a>
'Managing the relationship to secure a successful partnership in PFI projects'	Paras 1.1 – 1.17	NAO	Nov 01	<a href="http://www.nao.org.uk/publications/nao_reports/01-02/0102375.pdf">http://www.nao.org.uk/publications/nao_reports/01-02/0102375.pdf</a>
'Darent Valley Hospital: The PFI contract in action'	Part 1 – 'The PFI contract as originally envisaged has been delivered so far'	NAO	Feb 05	<a href="http://www.nao.org.uk/publications/nao_reports/04-05/0405209.pdf">http://www.nao.org.uk/publications/nao_reports/04-05/0405209.pdf</a>
'Cost Over-runs, Funding Problems and Delays on Guy's Hospital Phase III development'	Part 3	NAO	June 98	Not available online
'PFI: Meeting the Investment Challenge'	Chapters 2 & 4	HM Treasury	July 03	<a href="http://www.hm-treasury.gov.uk./documents/enterprise_and_productivity/PFI.cfm">http://www.hm-treasury.gov.uk./documents/enterprise_and_productivity/PFI.cfm</a>
'The Design Brief Framework for PFI Public Sector Comparators at OBC stage'	All	DH	Oct 04	<a href="http://www.dh.gov.uk/ProcurementAndProposals/PublicPrivatePartnership/PrivateFinanceInitiative/InvestmentGuidanceRouteMap/InvestmentGuidanceArticle/fs/en?CONTENT_ID=4132892&amp;chk=/hJfBh">http://www.dh.gov.uk/ProcurementAndProposals/PublicPrivatePartnership/PrivateFinanceInitiative/InvestmentGuidanceRouteMap/InvestmentGuidanceArticle/fs/en?CONTENT_ID=4132892&amp;chk=/hJfBh</a>
'The Design Development Protocol for PFI schemes – Revision 1'	All	DH	Aug 04	<a href="http://www.dh.gov.uk/ProcurementAndProposals/PublicPrivatePartnership/PrivateFinanceInitiative/DesignDevelopmentProtocolPFI Schemes/fs/en">http://www.dh.gov.uk/ProcurementAndProposals/PublicPrivatePartnership/PrivateFinanceInitiative/DesignDevelopmentProtocolPFI Schemes/fs/en</a>
NHS PITN guidance for PFI projects	Section E – 'Approach to design and construction'	DH	Feb 03	<a href="http://www.dh.gov.uk/ProcurementAndProposals/PublicPrivatePartnership/PrivateFinanceInitiative/NewStandardPreliminaryInvitationNegotiate/fs/en">http://www.dh.gov.uk/ProcurementAndProposals/PublicPrivatePartnership/PrivateFinanceInitiative/NewStandardPreliminaryInvitationNegotiate/fs/en</a>
'PFI: Construction Performance'	Part 1 – 'The whole life cost approach under PFI encourages good quality design and construction'	NAO	Feb 03	<a href="http://www.nao.org.uk/publications/nao_reports/02-03/0203371.pdf">http://www.nao.org.uk/publications/nao_reports/02-03/0203371.pdf</a>
'Sustainability lessons from PFI and similar private initiatives'	All	DTI/BRE		<a href="http://projects.bre.co.uk/sustainabilitylessons/SustainabilityLessons.pdf">http://projects.bre.co.uk/sustainabilitylessons/SustainabilityLessons.pdf</a>

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'Constructing the best Government Client – Achieving sustainability in construction procurement – Sustainability Action Plan'	All	DEFRA	Mar 05	<a href="http://www.sustainable-development.gov.uk/publications/uk-strategy/uk-strategy-2005.htm">http://www.sustainable-development.gov.uk/publications/uk-strategy/uk-strategy-2005.htm</a>
<b>Annex A - Achievability – Market interest; Other issues</b>				
'The PFI contract for the redevelopment of West Middlesex University Hospital'	Part 2 – 'In getting the best possible deal the Trust applied common sense and learnt from experience'	NAO	Nov 02	<a href="http://www.nao.org.uk/publications/nao_reports/02-03/020349.pdf">http://www.nao.org.uk/publications/nao_reports/02-03/020349.pdf</a>
'The PFI Contract for the new Dartford & Gravesham Hospital'	Part 2 – 'Did the trust get a good deal?'	NAO	May 99	Not available online
'Improving the PFI tendering process'	All	NAO	June 07	<a href="http://www.nao.org.uk/publications/nao_reports/06-07/0607149.pdf">http://www.nao.org.uk/publications/nao_reports/06-07/0607149.pdf</a>
NHS PQQ Guidance	All	DH	Nov 02	<a href="http://www.dh.gov.uk/ProcurementAndProposals/PublicPrivatePartnership/PrivateFinanceInitiative/NewStandardPrequalificationQuestionnaire/NewStandardPrequalificationQuestionnaireArticle/fs/en?CONTENT_ID=4015958&amp;chk=x6DNvt">http://www.dh.gov.uk/ProcurementAndProposals/PublicPrivatePartnership/PrivateFinanceInitiative/NewStandardPrequalificationQuestionnaire/NewStandardPrequalificationQuestionnaireArticle/fs/en?CONTENT_ID=4015958&amp;chk=x6DNvt</a>
'PFI: Construction Performance'	Part 2 – 'Our census of projects generally supported the hypothesis that PFI will deliver price certainty for departments and timely delivery of good quality assets'	NAO	Feb 03	<a href="http://www.nao.org.uk/publications/nao_reports/02-03/0203371.pdf">http://www.nao.org.uk/publications/nao_reports/02-03/0203371.pdf</a>
<b>Annex B – Questions to be addressed on soft services in qualitative vfm assessment at OBC</b>				
'PFI: strengthening long-term partnerships'	Chapter 4 – PFI: Meeting Public Sector Requirements in Practice  Chapter 5 – Improving Operational Performance and Flexibility in PFI	HM Treasury	Mar 06	<a href="http://www.hm-treasury.gov.uk./media/1E1/33/bud06_pfi_618.pdf">http://www.hm-treasury.gov.uk./media/1E1/33/bud06_pfi_618.pdf</a>
NHS PFI guidance - 'Fair Treatment of Staff' and observing TUPE	All	DH	Jan 05	<a href="http://www.dh.gov.uk/ProcurementAndProposals/PublicPrivatePartnership/PrivateFinanceInitiative/PFIGuidance/PFIGuidanceArticle/fs/en?CONTENT_ID=4071530&amp;chk=WLFsWJ">http://www.dh.gov.uk/ProcurementAndProposals/PublicPrivatePartnership/PrivateFinanceInitiative/PFIGuidance/PFIGuidanceArticle/fs/en?CONTENT_ID=4071530&amp;chk=WLFsWJ</a>
NHS PFI guidance - 'Benchmarking and market testing in health PFI projects Code of Practice'	All	DH	July 06	<a href="http://www.dh.gov.uk/PublicationsAndStatistics/Publications/PublicationsPolicyAndGuidance/PublicationsPolicyAndGuidanceArticle/fs/en?CONTENT_ID=4137170&amp;chk=JCN2/">http://www.dh.gov.uk/PublicationsAndStatistics/Publications/PublicationsPolicyAndGuidance/PublicationsPolicyAndGuidanceArticle/fs/en?CONTENT_ID=4137170&amp;chk=JCN2/</a>

## Treasury's value for money assessment for PFI

Name of document	Sections from document	Publisher	Date	Link
<b>Other</b>				
Treasury Minute of first Dartford & Gravesham report	All	HM Treasury	June 99	Not available online
Treasury Minute of West Middlesex report	All	HM Treasury	Sept 03	<a href="http://www.official-documents.co.uk/document/cm59/5961/5961.pdf">http://www.official-documents.co.uk/document/cm59/5961/5961.pdf</a>
'Examining the value for money of deals under the Private Finance Initiative'	All	NAO	Aug 99	<a href="http://www.nao.org.uk/publications/nao_reports/9899739.pdf">http://www.nao.org.uk/publications/nao_reports/9899739.pdf</a>
The Government's response to the House of Commons Health Select Committee's first report on the role of the private sector in the NHS	Private Finance Initiative. Paras Q - CC	DH	July 02	<a href="http://www.dh.gov.uk/PublicationsAndStatistics/Publications/PublicationsPolicyAndGuidance/PublicationsPolicyAndGuidanceArticle/fs/en?CONTENT_ID=4006251&amp;chk=/ihJv%2B">http://www.dh.gov.uk/PublicationsAndStatistics/Publications/PublicationsPolicyAndGuidance/PublicationsPolicyAndGuidanceArticle/fs/en?CONTENT_ID=4006251&amp;chk=/ihJv%2B</a>
'Public Private Partnerships in the National Health Service: the Private Finance Initiative'	All	DH	Dec 99	<a href="http://www.dh.gov.uk/ProcurementAndProposals/PublicPrivatePartnership/PrivateFinanceInitiative/PFIGuidance/fs/en">http://www.dh.gov.uk/ProcurementAndProposals/PublicPrivatePartnership/PrivateFinanceInitiative/PFIGuidance/fs/en</a>
'PFI: Meeting the sustainability challenge'	All	Green Alliance	July 04	<a href="http://www.green-alliance.org.uk/publications/PFIMeetingTheSustainabilityChallenge/">http://www.green-alliance.org.uk/publications/PFIMeetingTheSustainabilityChallenge/</a>

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