

PUBLIC DOMAIN

PAUL BOATENG, THE CHIEF SECRETARY TO THE TREASURY, EXPLAINS HOW THE GOVERNMENT'S DRIVE TO IMPROVE PUBLIC PRIVATE PARTNERSHIPS IS ENHANCING INVESTMENT IN THE PUBLIC SECTOR AND PROVIDING BETTER SERVICES.

Public private partnerships (PPPs) nowadays enable us to enhance our investment to deliver more services. They ensure value for our money by binding in the private sector and offer the opportunity to key into private sector innovation so public services can take advantage of the opportunities that higher consumer expectations and sophisticated technology can offer.

In the past, Private Finance Initiative (PFI) failed because it sometimes simply replaced public investment and undermined public services. Public investment is forecast to rise to £44bn by 2005/06, the highest for 50 years. PPPs enhance investment, they are not a substitute for conventional investment. They mean delivery of more services, more facilities to more people, more quickly.

Today, with PPP over 200 projects are operational, 100 hospitals have been built or are planned – the biggest hospital building programme ever – and some 160 local authority projects and 550 schools have been built or refurbished.

We are using PFI to ensure that when we make that increased investment we get value for money and that the public interest and public services are properly protected.

Before PFI, private contractors had little or no ongoing responsibility for the quality of their work. The public sector met the costs and upkeep of building projects that had been built in the private sector.

We reformed PFI so that PFI contractors are bound into long-term maintenance contracts and shoulder responsibility to deliver on time and to budget, and for the quality of their work. We can manage risk better and avoid public money and time being wasted on costly overruns. Maintenance companies carry the burden of maintenance, so public services can concentrate on what they do best – delivering services.

PFI HAS COME A LONG WAY. Look at the development of the PFI market since the government came to office. It was originally a procurement tool for prisons and roads, now it embraces education, health, public transport and justice, and a variety of infrastructure projects. Contracting authorities are building up expertise from project to project. A range of stakeholders show ever-greater confidence in PFI and the decline in the cost of PFI debt demonstrates the banks' confidence.

The Treasury is working to improve the PFI process. The active

and successful market we currently have depends upon a high flow of deals. The government is determined to maintain this – both to strengthen our public services and to maintain an effective PFI market. PFI expenditure will be around £4bn a year for the foreseeable future – an important part of the government's investment programme but, as mentioned earlier, this is by no means the only part, it will constitute around a tenth of total investment.

The engagement of the private sector is vital if PFI is to succeed – it is, after all, a partnership. Our determination to continue improving the PFI process has been accompanied by extensive consultation over the Standardisation of PFI contracts and the revised Green Book, which appraises government projects.

This approach has been very successful, and nothing demonstrates this better than the new voluntary Code of Conduct



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for refinancing historic PFI deal. The public sector will now receive a 30% share of any windfall gains. There could be no better example of effective partnership in action.

FORGING AHEAD. There are continuing challenges and opportunities in terms of PFI bid times and costs. The revised Standardisation of PFI Contracts, published in July, recognised that there was potential to shorten and simplify the PFI bidding and negotiation processes. There were a number of areas that were not covered in the previous guidance, and both the private and public sectors recognised potential to improve the PFI process in these technical fields where there was a real opportunity to improve the PFI process – termination liabilities, insurance provisions and indemnities.

PFI and PPP have been a great success, but the government is determined to pursue further improvement and innovation to this model. Grouped schools have been a great success, and this model should prove useful in other sectors. The first batched procurement of three hospitals is now underway – having one deal where in the past there would have been three should yield bid cost savings by aggregating small projects. At the same time, the NHS LIFT model for GP's surgeries, uses the benefits of aggregation to use PPP in a field where it would not otherwise be possible, again saving bid costs.

AIMING FOR MORE TRANSPARENCY. The other side of the coin to an efficient procurement process is a transparent procurement process. We are determined to use PFI only where it clearly represents value for money, and we have made sure that the process to determine that is both accurate and transparent. It is in this spirit that we have revised the Green Book, breaking the discount rate into its component parts and assessing them more rigorously. So-called 'optimism bias' of cost overruns and analysis of taxation effects will not be included in project appraisal, a more transparent process than before, with better decision making. The case that PFI/PPP offers good value for money must be clearly set out if all the relevant stakeholders are to commit fully – the market, the staff and the consumers of public services.

The companion to this activity is the work of the Office of Government Commerce in raising the government's 'client capability' and making it more effective at procurement. PPP is an ambitious means of procurement, and the public sector needs to get it right, and that takes professionalism and skills. The Successful Delivery Skills programme, launched in September 2002 by Sir Andrew Turnbull, the Cabinet Secretary, is the government's first ever integrated programme of procurement skills. This is a vital element of improved delivery of public services in general and in PPPs in particular.

We are not complacent. We recognise that to get the best deal and the best services possible we must continue to improve PPPs, and this includes working with trade unions and employers to ensure that the rights and the conditions of staff are properly protected. New Best Value guidance for local government protects the rights of all contracted out workers. In the health service, a new Retention of Employment model is being piloted. As in other aspects of PPP, the way ahead will be varied and flexible, it is clear however that an erosion of workers' rights is not up for negotiation. Effective delivery requires a well-motivated workforce.

It is important to remember what all this activity is really about. Guidance and contracts and calculations do not exist in a vacuum. This is all about public services and facilities on the ground to serve the public. This is the real strength of PPP. Too many people seem to think that value for money can be expressed solely in mathematics, and it cannot always. For the customer, it is about quality of service, and that is where the strength of PPP really shines through. It is not just about more of the same, it is about better services responding to modern needs. Just look at the examples. The Great Western Hospital in Swindon has been completed four months ahead of schedule at the agreed price. It is a brand new state of the art facility that adds a fifth extra clinical space and 48 more beds than its predecessor, as well as consuming 30% less energy and emitting 35% less carbon dioxide than a typical hospital of this size.

PPPs mean the public sector can focus on outcomes and we can align public and private sector incentives, so public and private sectors work together for the common good.

Working Links is a PPP between the Employment Service and the private sector to help the long-term unemployed. It receives its main income only when somebody has been in work for 13 weeks – a genuine incentive to provide aftercare support to those settling back into employment.

In its first year, Working Links placed 400 long-term unemployed into work. Three months later, 85% were still in work – that is double the success of any comparable programme.

These are examples of innovation and effective delivery, on time and offering real value for money.

The government believes that high-quality public services are central to extending opportunity for all. By helping to deliver more services to more people than we can deliver alone, enhancing our record levels of investment and protecting that investment to ensure value for money, PPPs are helping us achieve what we were elected to deliver.

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