



Operational PPP/PFI Savings

There are currently around 700 operational PPP/PFI projects in England with a remaining revenue commitment of just under £200bn and a lifespan of up to 30 years. In many cases these represent a significant proportion of organisations' annual expenditure. In the current climate, with continued pressure on budgets, it is right that there should be a sustained focus on maximising efficiency savings from operational projects.

In 2011 the government committed to reduce the future bill by at least £1.5bn through a centrally co-ordinated savings programme. This figure was exceeded in December 2012 and the NAO has positively reviewed the reported figures.¹

Many of the early savings came from central government projects. But across the whole portfolio these are outnumbered by local government projects by around 4 to 1.

Some of the largest reductions have come from the very biggest projects but significant savings are also being delivered across a wide spectrum of types and scale of contract.

The Department for Communities and Local Government and the Treasury commissioned Local Partnerships to look at a number of local authority projects to identify savings and gather evidence and learning that could be applied across the wider public sector. This work, in conjunction with other initiatives promoted by sponsoring departments such as the Home Office, Defra and the Department of Transport, has given a real insight into the potential categories and volumes of savings opportunities. Examples of this include (a) increasing occupancy of office accommodation/joint service centre projects, (b) reducing the frequency of non essential services where the original specification was higher than required, (c) utility savings by introducing new technologies in waste, street lighting, office accommodation, leisure centres, and libraries, (d) removing contractors' obligations to provide furniture, fixtures and equipment to release lifecycle provisions, and (e) negotiating lower margins on variations, just to name a few.

Preliminary findings of this work support a view that in many cases average savings of over 5% are possible: £50k per annum of saving for every £1m of unitary charge. Savings opportunities will be higher in projects with year-round use, high support services volume or significant levels of technology, as these are the elements of contract pricing offering greatest potential for efficiencies.

¹ NAO report 'Savings from operational PFI contracts':
www.nao.org.uk/report/savings-from-operational-pfi-contracts

Savings negotiated from these contracts represent real cost reductions from changes which do not have a materially detrimental effect on end user services. The savings will continue to be delivered each year for the remainder of the contract at a constant level without additional cost.

The Treasury and sponsoring central government departments have developed standard procedures to support the identification and delivery of savings by local government. Recognising that not all projects are the same, the process is not one-size-fits-all. The amount of effort and cost required will reflect the necessary activity and the potential scale of savings on a case by case basis.

Not every local authority will have all of the skills or capacity to deliver a full efficiency review of their contracts, but the reviews that Local Partnerships has done show that the costs of external support need not be exorbitant and are proportionate to the likely benefits. Contract review costs are generally repaid from savings within the first full year of the changes. The average savings to cost ratio in the pilot contract reviews is around £4 pounds every year for the rest of the contract for each £1 spent in the review.

In most cases where there is a longer payback period this is because the authority has chosen to invest capital to deliver higher savings in the medium term in areas such as energy efficiency.

Sponsoring central government departments may also be willing to support early adopters by contributing to fund pilot contract reviews or through a short term funding of review costs to be repaid from savings achieved allowing the support to be recycled to fund reviews by other organisations.

The private sector partner market understands that the public sector needs to achieve efficiency savings from PPP/PFI contracts. There is general recognition that it is necessary to support a long term relationship by working together with public sector partners to identify and deliver real cost reductions. This has been reflected in the high number of private sector parties who have signed the Voluntary Code of Conduct.²

Given the potential savings that can be delivered and the financial pressures facing the whole public sector it makes sense for organisations to explore the potential to make savings from PPP/PFI contracts now.

For more information please contact your sponsoring department PFI officer or email OSP@hmtreasury.gsi.gov.uk.

² Code of conduct for operational PFI/PPP contracts:
www.gov.uk/government/publications/code-of-conduct-for-operational-pfipp-contracs