IMPLEMENTATION OF VFM STAGES 2 AND 3 IN WASTE PFI AND PRIVATE SECTOR BID COSTS

This letter is to advise local authorities (LAs) preparing an outline business case (OBC) for a PFI project implementing a vfm stage 2 assessment as part of the OBC. It is also being shared with LAs currently in procurement in order to make them aware of the stage 3 assessment. A copy of this guidance letter may be found on the Defra web site at:

http://defraweb/environment/waste/localauth/funding/pfi/index.htm

Please ensure that this letter is forwarded to the relevant colleagues in you organisation.

In August 2004 the Treasury finalised its guidance on assessing the vfm of PFI at programme and project level. This guidance, which can be found at http://www.hm-treasury.gov.uk/documents/public_private_partnerships/key_documents/ppp_keydocs_vfm.cfm, introduced a standardised model for the assessment which incorporates a spreadsheet model for calculating an indicative vfm figure and a questionnaire which allows departments and LAs to test the qualitative and quantitative aspects of their proposed programmes/projects. The actual model is available directly from Defra. This standardised approach allows ready comparison of projects within and across sectors and provides a common approach for assessing the appropriateness of PFI to a programme or project at the earliest possible opportunity.

Departments were required to complete a stage 1, programme level assessment as part of the spending review process and are expected to carry out such an assessment for any like investment decisions taken between spending reviews. The next stage is to roll out project level assessments at stage 2, i.e. submission of OBC. The guidance also refers to a stage 3 vfm assessment. This is not intended to form part of any approvals process as is not intended to be used at any specific point in the procurement process.
Rather, it is intended for project teams to further assess whether or not PFI continues to be vfm route for delivering a project.

Section 7 of the guidance sets out the key stages in the procurement process at which stage 3 issues should be considered. Defra will keep under review the extent to which we may wish to make use of the stage 3 assessment as part of the procurement monitoring process in the future.

The Treasury has now advised departments that the Project Review Group (PRG) will require the stage 2 assessment to form part of the OBC for any projects submitted for review starting from the 18 January 2005 PRG meeting. For stage 2 projects we intend to pilot this prior to full roll out, in order to fully assess the impact and to produce any additional guidance that may be required to support LAs in implementing this assessment. I will be contacting one or two authorities shortly to discuss running the pilot and will write again with further details once the pilot work has been completed, early in the new year.

Should you wish to discuss this further, please contact in the first instance either Simon Mander on 020 7082 8846 or Oluwole Ajibola on 020 7082 8100.

Yours Sincerely,

Sent via e-mail

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