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FROM: RICHARD PENGELLY

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TO: FINANCE DIRECTORS

cc Permanent Secretaries

AMENDMENT TO APPROVAL REQUIREMENTS FOR PFI AND OTHER PPP PROJECTS

Purpose

This letter amends the requirements for the approval of PFI and PPP projects. Henceforth, the requirement for DFP approval at ABC and FBC stages will generally apply only to PFI projects and not to other PPP projects. However, DFP will reserve the right to require approval at ABC and FBC stages for individual PPP projects that it considers novel, contentious, repercussive or in some other sense significant.

Action Required

Departments should ensure that all relevant personnel are made aware of the new arrangements, including those in the Agencies and other bodies for which they are responsible.

Background – PFI and other types of PPP

A Private Finance Initiative (PFI) procurement is an arrangement whereby the public sector contracts to purchase services, usually derived from an investment in assets, from the private sector on a long term basis, often between 15 to 30 years. Typically, under the contract, the private sector will need to construct and maintain infrastructure in order to deliver the services

required, so there will usually be a construction phase followed by an operational phase. For example, the public sector may let a design, build, finance & operate (DBFO) contract to the private sector for the construction and whole life maintenance of an asset and/or associated service.

PFI is only one type of Public Private Partnership (PPP). There are many other forms of PPP arrangement, typified by some kind of joint working arrangement between the public and private sectors. These include, for example, outsourcing or contracting out of services, concession contracts, area maintenance & management, sale of Government services into wider markets, joint ventures and various other strategic alliances.

General guidance on PFI and other forms of PPP may be found at the [NIGEA PPP Projects and Procurement Issues page](#) and the [HM Treasury Public Private Partnerships page](#).

DFP Approval Requirements

Detailed guidance on approval requirements may be found at the [NIGEA Approval of Departmental Expenditure page](#).

In brief, the general requirements for DFP approval of procurement projects are as follows:

- 1) All 'major projects' require DFP approval at Strategic Outline Case (SOC) stage.
- 2) All proposals involving expenditure above delegation limits require DFP approval prior to commencement of procurement, based on submission of an Outline Business Case (OBC).
- 3) For most projects, no further DFP approval is required beyond OBC stage unless there is a breach of the conditions of OBC approval.

Up to the issue of this letter, DFP guidance also stated that all PFI and other PPP projects generally require DFP approval at two further stages:

1. prior to appointment of a Preferred Bidder, based on an Appointment Business Case (ABC) providing an update on key

developments since the OBC - including a detailed BAFO or final tender evaluation and an updated affordability assessment; and

2. prior to financial closure, based on submission of a Full Business Case (FBC).

However, in future, DFP approval at ABC and FBC stages will generally only be required for PFI cases.

Reason for Revised Guidance

The definition of a PPP is broad and can cover a very wide range of partnerships with the private sector, including anything from relatively straightforward outsourcing cases to major joint ventures.

DFP originally introduced the ABC and FBC approval requirements with major PFI cases in mind and did not intend them to be applied to every partnership with the private sector irrespective of scale or significance.

Therefore DFP has decided that the general requirement to obtain DFP approval at ABC and FBC stages will only apply to PFI projects in future.

However, DFP may occasionally require ABC and FBC approval of PPP cases where they are considered novel, contentious, repercussive or in some other sense significant. In such cases, DFP will indicate the requirement for ABC and FBC approval at the time when OBC approval is granted.

The relevant sections of DFP's NIGEAE guidance will be amended as indicated overleaf.



RICHARD PENGELLY

Approval of PPP/PFI projects: Proposed amendments to NIGEAE

1. Proposed amendment to para 5.3.1 at http://www.dfpni.gov.uk/index/finance/eag/eag-ppp/eag_dfp_approval_of_ppp_pfi_projects.htm

Many PPP/PFI projects will fall into the category of 'major projects' and will therefore require DFP approval at SOC stage.

Beyond SOC stage, all PPP/PFI projects require DFP approval prior to commencement of procurement, based on submission of an Outline Business Case (OBC).

In addition, all PFI projects (but not generally other PPP projects)* require DFP approval at the following stages:

1. prior to appointment of a Preferred Bidder, based on an Appointment Business Case (ABC) providing an update on key developments since the OBC - including a detailed BAFO or final tender evaluation and an updated affordability assessment; and
2. prior to financial closure, based on submission of a Full Business Case (FBC).

* However, DFP reserves the right to require approval at ABC and FBC stages for individual non-PFI PPP cases. This may occur, for example, where the PPP is considered novel, contentious, repercussive or in some other sense significant.

2. Proposed amendment to para 8.6.2 at http://www.dfpni.gov.uk/index/finance/eag/eag-business-cases/eag_ppp_pfi_project_business_cases.htm

All PPP (including PFI) projects normally require DFP approval at the following stages:

- 1) at SOC stage, in the case of major projects and high profile cases as defined above;
- 2) prior to commencement of procurement, based on submission of an OBC;

In addition, all PFI projects (but not generally other PPP projects)* require DFP approval at the following stages:

- 3) prior to appointment of a Preferred Bidder, based on an 'Appointment Business Case' providing an update on key developments since the OBC and including a detailed BAFO or final tender evaluation and an updated affordability assessment; and
- 4) prior to financial closure, based on submission of a FBC.

* However DFP reserves the right to require approval at ABC and FBC stages for individual non-PFI PPP cases. This may occur, for example, where the PPP is considered novel, contentious, repercussive or in some other sense significant.