

# Is PFI the procurement vehicle to stimulate economic activity?



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As many governments across the world look to boost economic activity through a programme of public investment in infrastructure projects, the question arises of where will the funding come from? Public indebtedness is already running at or near to an all-time high due to governments having pumped money into the banking system and other key industries to save them from failure. Can, should, even more debt be accumulated, even can it be found, to fund the proposed infrastructure projects which it is hoped will stimulate economic activity, produce jobs and leave a legacy of improved infrastructure.

Countries, including Australia, have been increasingly using the Private Finance Initiative (PFI) model to fund major infrastructure projects such as roads schools and hospitals. Although Australia has used PFI for some considerable time it is surprising that the number of projects that have actually made it to the contract stage is fairly low. Since 2000 only 40 projects reached financial close, far less than in many other adopters of PFI. However, on the 3rd February 2009 the Australian Government announced a \$42bn stimulus package. Does the PFI model look increasingly attractive to Australia as a way of increasing the number of stimulus projects through the use of private sector capital?

### **Sustainable projects and PFI**

What type of infrastructure projects might be particularly appropriate at the present time? There is a strong lobby for funding to be used on projects that are seen as sustainable. A powerful argument exists that in times of economic weakness investment should be made in projects that will reduce reliance on power, reduce wastage and reduce costs. In fact arguably those countries and companies who have already invested in sustainable technologies are in a stronger position to ride out the current economic climate, and subsequently prosper when the economic upturn begins. Examples of sustainable projects that are being promoted include renewable energy sources, waste management projects and water provision.

### **PFI in action**

In October 2008 it was reported in the publication "PPP Bulletin" that Australia had a pipeline of PFI projects worth \$10bn at various stages of procurement. Additionally it was estimated that Australia had a further \$30bn of projects expected to reach the market by 2010. Projects include a \$3.1bn desalination plant in Victoria, a \$3bn Northern Link Toll in Queensland and a \$6bn light railway in New South Wales. It will be interesting to see whether there is an increase in the number of PFI projects as part of an economic stimulus package.

### **Is PFI the procurement vehicle to stimulate economic activity?**

Whilst for proponents of PFI this all sounds encouraging news they do have concerns regarding what they see as a rather variable enthusiasm for PFI across the country. It is also argued that there is a lack of political will and a need for greater cohesion between state and central government to enable PFI projects to become a reality. The launch of Infrastructure Australia (IA), a 12 strong advisory body headed by Sir Rod Eddington, may have a positive impact on the use of PFI to deliver project. The remit of the IA is to "develop a strategic blueprint for easing bottlenecks and addressing the nation's long term infrastructure needs".

### **Why is this important to Procurement Professionals?**

PFI and other forms of Public Private Partnership are likely to be a significant procurement vehicle for the foreseeable future. With the scale of Procurement spend on PFI's it is essential that Procurement is involved at all stages of the process. Even if no further PFI projects are started, with existing operational contracts having a typical contract life of 20 years plus, they will require effective contract management throughout their life to ensure that their objectives are met.

To maximise their impact on PFI procurements it is essential that early engagement with key stakeholders is made. The initial "shaping" of the project can be difficult to influence later on given the scale of the project and the fact that rather like an oil tanker they are difficult to turn once in motion. Recognition of Procurement's role in the PFI project management and governance structure should be aimed for at the outset of the project to establish Procurement's "right" to input.

### **Further information**

A Knowledge Summary giving background information on the PFI process can be found in the Knowledge section of the CIPS website.

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