



From the Private Finance Initiative to Outsourcing

Introduction of Long-Term Duty Consignments to Manage Existing Facilities

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Summary

1. Since the formulation of the Extraordinary Measures to Promote Maintenance of Public Facilities Utilizing Capabilities of Private Businesses (commonly known as the PFI), the introduction of the Private Finance Initiative into public works projects has been accelerating. To fully utilize the capabilities of the private sector, autonomous regional entities throughout Japan have been reviewing their procurement policies and changing from the conventional methods, which had involved divided consignment, specification-based ordering and single-year contracts, to comprehensive consignments, performance-based ordering, and multi-year contracts. Local governments in rural areas, among others, have been promoting new methods of commissioning services from the private sector, including the Design-Build-Operate (DBO) method, which applies the PFI concept extensively, as well as the long-term duty consignment method.

2. The PFI Law requires the (1) utilization of fund-raising, management skills, and technical capabilities of private sector businesses and (2) establishment, maintenance, management and operation of facilities. In the majority of cases, however, the fund-raising efforts of private sector companies are accompanied by a disadvantage in terms of interest cost, compared to those of local governments that issue public bonds. The DBO method, in which facilities are built using the better fund-raising capabilities of local governments and are maintained, managed, and operated by private sector businesses on consignment, is preferable from the aspect of Value For Money (VFM), as long as the local government concerned has the reserve capacity to issue bonds. A certain local government is already enjoying the benefits of the DBO method in its waste processing project, where it is achieving a lifecycle cost reduction of about 30%, compared to its previously implemented method in which the building and management were carried out solely by the public sector.

3. The application of the PFI Law is possible only for local governments that are planning to build

new facilities, not to those with completed facilities. On the other hand, the maintenance, management and operation of existing facilities is a heavy financial burden for many local governments, and this has resulted in heightened awareness of the need to streamline operating activities. Some governments are making efforts to reduce the costs of commissioning services, but the effects are in fact far from satisfactory since the conventional methods of divided consignments, specification-based ordering, and single-year contracts are being used. As such, the long-term duty consignment method has been increasing in popularity. This method involves operating existing facilities in a way that resembles PFI to encourage a risk-taking attitude and innovation among private sector companies. The long-term duty consignment method is based upon the general concept of PFI, and the maintenance, management and operation of facilities are commissioned to private sector companies and involves comprehensive, multiple-year contracts and performance-based ordering. Local governments are free to take advantage of this particular method under the existing legal system. The actual introduction of this method for waste disposal services has already proved to be as beneficial as PFI.

4. In light of this situation, JRI conducted a questionnaire survey of local governments concerning the introduction status of PFI and long-term duty consignments, and the governments' requirements. The findings showed that about 70% of those surveyed believed that the introduction of PFI and/or long-term duty consignment would contribute to "the increased efficiency of operations." They expect PFI to "enable them to reduce costs." However, they worry about their "lack of knowledge as there are so many things to consider and review before actually introducing PFI." Regarding their perceptions of long-term duty consignments, they hope to "reduce labor costs related to operations," but are concerned about "the difficulty of identifying the cause if troubles occur." In order to efficiently introduce PFI and/or long-term duty consignments, they also think it is desirable to "establish a support system consisting of private sector advisors," "reach a consensus within the government," and "obtain the understanding of the head officials and the assembly."

5. To promote the widespread adoption of the long-term duty consignment method, JRI is

actively engaged in its Engineering Support Service (ESS) business which provides the following services to local governments: (1) feasibility assessment, (2) evaluation of existing facilities, (3) support in project review and order placement, (4) monitoring of operations, and (5) management of contracts. The Smart Community Consortium, which involves 32 private sector companies, is considering the establishment of an Engineering Support Service Company (ESSC) that will extensively utilize engineering resources, including engineers who have retired from manufacturing companies.